

CHAPTER THREE

BUSINESS MODEL CANVAS AND PLAN DEVELOPMENT

3.1 BUSINESS CANVAS TO DEVELOP BUSINESS MODEL

A **business model** is the conceptual structure supporting the viability of a **business**, including its purpose, its goals and its ongoing plans for achieving them. ...

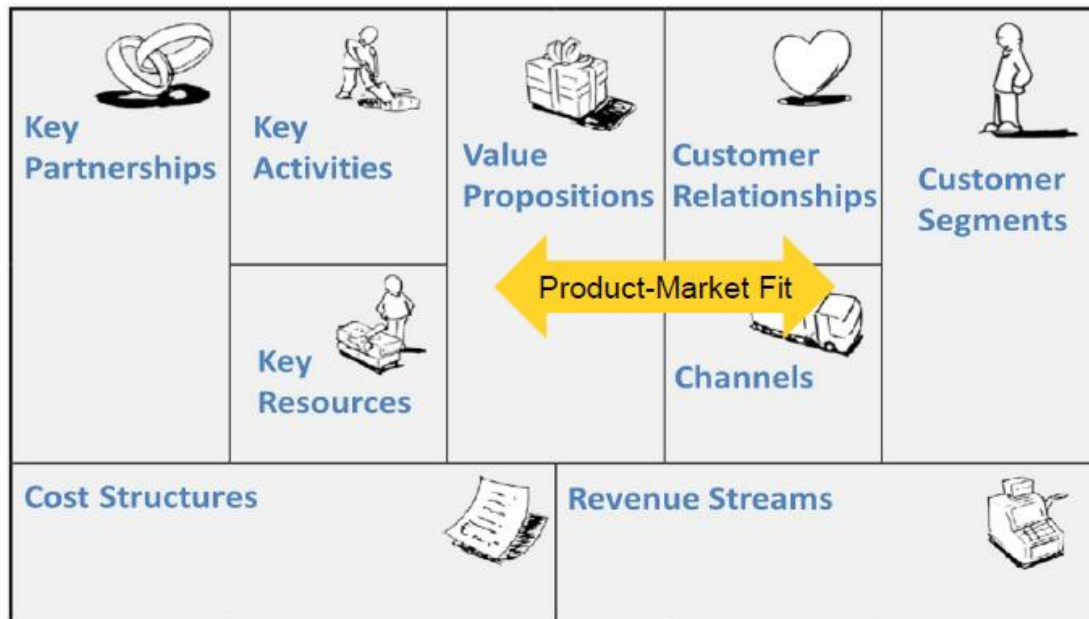
A representation of a company's **business model** can be incorporated into public relations (PR) material and is useful to share with customers and partners.

A business model:

- It is the way a company organizes and manages itself to deliver useful products and/or services for customers in exchange for economic value.
- It is the conceptual structure supporting the viability of a **business**, including its purpose, its goals and its ongoing plans for achieving them.
- A plan for the successful operation of a business, identifying sources of revenue, the intended customer base, products, and details of financing.



The Business Model Canvas



(Source: [Business Model Generation](#) by Osterwalder & Pigneur)

Business Model Canvas At-A-Glance

(source: www.businessmodelgeneration.com)

Key Partners Reasons for partnerships: •Cost / flexibility •Acquisition of key resources or activities •Reduction of risk and uncertainty •Who are key suppliers? •Who are key partners? •Which key resources will we acquire from partners? •Which key activities will partners perform for us?	Key Activities •What are the most important activities we must do well to deliver our value proposition to our chosen segment(s)? Key Resources •What are the most important resources we must own/manage directly to deliver our value proposition to our chosen segment(s)?	Value Proposition •What problem(s) are we helping our target customers solve? •What unique / differentiated value can we deliver relative to others? •What bundle of products and/or services will we need to offer? •Which customer needs are we satisfying? •Performance/newness •Getting the job done •Price/cost reduction •Convenience/accessibility •Design •Customization •Risk reduction •Brand status •Other?	Customer Relationships •What type of relationship do our customers expect? What will they not accept? •Which relationships are they comfortable with now? •Which are most cost effective? Channels •How do our customers want to be reached? •Which channels work best? •Which are most cost effective? •How are we integrating our various channels to optimize the customer experience AND cost?	Customer Segments •Who are our most important customers? Why? •What are the key characteristics of our target segment(s)? •What jobs are they trying to get done? What are their pains and desired gains? •Which segment(s) will we NOT target initially? Why? •Is this segment(s) viable and attractive for growth? •Are our customers and consumers the same or different?
Cost Structure •Is our business model more cost or value driven? •What are the important costs that must be incurred to deliver our value proposition well? •How we can maintain a strong variable/fixed cost ratio? •What levers can we pull to keep costs as low as possible?		Revenue Streams •For what value are our target customers willing to pay? •What do they currently pay? •How do they currently pay? How do they prefer to pay? •How does our pricing compare to alternatives or substitutes? •What is the relative contribution of our various revenue stream options?		

The **nine** components of the Business Model Canvas version here:

i. Key partnerships

Note the other businesses or services you'll work with to run your business. Think about suppliers, manufacturers, subcontractors and similar strategic partners.

ii. Key activities

List the ways your business will gain a competitive advantage. Highlight things like selling direct to consumers, or using technology to tap into the sharing economy.

iii. Key resources

List any resource you'll leverage to create value for your customer. Your most important assets could include staff, capital, or intellectual property.

iv. Value proposition

Make a clear and compelling statement about the unique value your company brings to the market.

v. Customer relationships

Describe how customers will interact with your business. Is it automated or personal? In person or online? Think through the customer experience from start to finish.

vi. Customer segments

Be specific when you name your target market. Your business won't be for everybody, so it's important to have a clear sense of who your business will serve.

vii. Channels

List the most important ways you'll talk to your customers. Most businesses use a mix of channels and optimize them over time.

viii. Cost structure

Will your company focus on reducing cost or maximizing value? Define your strategy, then list the most significant costs you'll face pursuing it.

ix. Revenue streams

Explain how your company will actually make money. Some examples are direct sales, membership's fees, and selling advertising space. If your company has multiple revenue streams, list them all.

3.2.THE CONCEPT OF BUSINESS PLAN

A **business plan** can be defined as a written document prepared by the entrepreneur that describes all relevant external and internal elements involved in starting a new venture. In other words, a business plan is a document that helps the entrepreneur analyze the market and plan the business strategy. It is often an integration of functional plans such as marketing, finance, manufacturing/operations, and human resources. It addresses both short term and long term decision making for the first three years of operation. A business plan is often prepared by an existing company to ensure that future growth is properly managed. If the plan is prepared for a start up, it helps the entrepreneur avoid costly mistakes. Thus the business plan – or as it is sometimes referred to, the game plan, the venture plan, a loan proposal, an investment prospects or the deal- answers the questions: Where am I now? Where am I going? How will I get there?

3.2.1 WHY A BUSINESS PLAN?

Although not mandatory, preparing a formal written business plan is very important for a number of reasons:

- ❖ The entire business planning process forces the entrepreneur to analyze all aspects of the venture and to prepare an effective strategy to deal with the uncertainties that arise. Thus, a business plan may help an entrepreneur avoid a project doomed to failure.
- ❖ The time, effort, and research needed to put together a formal business plan force the entrepreneur to view the venture critically and objectively.
- ❖ The competitive, economic, and financial analyses included in the business plan subject the entrepreneur to close scrutiny of his assumptions about the venture's success.
- ❖ Since all aspect of the business venture must be addressed in the business plan, the entrepreneur develops and examines operating strategies and expected results for outside evaluators.
- ❖ The business plan quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results.
- ❖ The completed business plan provides the entrepreneur with a communication tool for outside financial sources as well as an operational tool for guiding the venture towards success.

3.2.3 WHO SHOULD PREPARE THE BUSINESS PLAN

The business plan should be prepared by the entrepreneur; however, he/she may consult with many other sources in its preparation. Lawyers, accountants, marketing consultants, and engineers are useful in the preparation of the plan. If and when external help is sought in preparing the business plan, the entrepreneur must remain the driving force behind the plan. Seeking the advice and assistance of outside professionals is always wise, but entrepreneurs need to understand every aspect of the business plan, since it is they who come under the scrutiny of financial sources. Thus, the business plan stands as the entrepreneur's description and prediction for his or her venture, and it must be defended by the entrepreneur- simply put, it is the entrepreneur's responsibility.

3.2.4 WHO READS THE BUSINESS PLAN?

The business plan may be read by employees, bankers, venture capitalists, suppliers, customers, advisors, and consultants. Whoever is expected to read the business plan, can often affect its actual content and focus. Since each of these groups reads the business plan for different purposes, the entrepreneur must be prepared to address all their issues and concerns. However, there are probably three perspectives that should be considered when preparing the plan:

The perspective of the entrepreneur: The entrepreneur understands better than anyone else the creativity and technology involved in the new venture. The entrepreneur must be able to clearly articulate what the venture is all about.

The marketing perspective: Too often the entrepreneur would consider only the product or the technology and not whether or not someone would buy it. But more important than high technology or creative flair is the marketability of a new venture. Referred to as 'market-driven,' this type of enterprise convincingly demonstrates the benefits to users-the particular group of customers it is aiming for- and the existence of a substantial market.

The investor's perspective: This is concentrated with the financial forecast. Sound financial projections are necessary if investors are to evaluate the worth of their investment. This is not to say that the entrepreneur should fill the business plan with spreadsheets of figures.

In fact, many venture-capital firms employ a ‘projection discount factor,’ which merely represents the belief of venture capitalists that successful new ventures usually reach approximately 50% of their projected financial goals. However, a three to five-year financial projection is essential for investors to use in making their judgment of the venture’s future success.

3.3 GUIDELINES IN PREPARING A BUSINESS PLAN

Below is a list of recommendations about how to prepare a successful business plan given by experts in venture capital and new venture development. Entrepreneurs need to adhere to these guide lines in order to make the business plan successful in satisfying the needs of various people who read the business plan:

- i. **Keep the plan respectably short:** Readers of business plans are important people who refuse to waste their time. Therefore, entrepreneurs must be able to explain the venture not only carefully and clearly but also concisely.
- ii. **Organize and package the plan appropriately:** A table of contents, an executive summary, an appendix, exhibits, graphs, proper grammar, a logical arrangement of segments, and overall neatness are critical elements to the effective presentation of the business plan.
- iii. **Orient the plan towards the future:** Entrepreneurs should create an air of excitement in the plan by developing trends and forecasts that describe what the venture intends to do and what the opportunities are for the product or service.
- iv. **Avoid exaggeration:** Sales potentials, revenue estimates, and the venture’s potential growth should not be inflated. Many times, a best-case, worst-case, and probable-case scenario should be developed for the plan. Documentation and research are vital for the credibility of the plan.
- v. **Highlight critical risks:** The critical risks segment of the business plan is important in that it demonstrates the entrepreneur’s ability to identify potential problems and develop alternative course of action.
- vi. **Give an evidence of an effective entrepreneurial team:** The management segment of the business plan should clearly identify the skills of each key person as well as demonstrate how all such persons can effectively work together as a team in managing the venture.

- vii. Do not over diversify:** Focus the attention of the plan on one main opportunity for the venture. A new business should not attempt to create multiple markets nor pursue multiple ventures until it has successfully developed one main strength.
- viii. Identify the target market:** Substantiate the marketability of the venture's product or service by identifying the particular customer niche being sought. This segment of the business plan is pivotal to the success of the other parts. Market research has to be included to demonstrate how this market segment has been identified.
- ix. Keep the plan written in the third person:** Rather than continually stating "I," "we," or "us," the entrepreneur should phrase everything as "he," "they," or "them." In other words, avoid personalizing the plan, and keep the plan objective.
- x. Capture the reader's interest:** Because of the numerous business plan submitted to investors and the small percentage of plans funded, entrepreneurs need to capture the reader's interest right away by starting with the uniqueness of the venture. Use the title page and the executive summary as key tools for capturing the reader's attention and creating a desire to read more.

Commentary: The business plan is important for the entrepreneur in that the document serves as a communication tool, roadmap and standard to measure actual performance.

3.4 CONTENTS AND STRUCTURE OF A BUSINESS PLAN

A detailed business plan usually has ten sections. The ideal length of a plan is 50 pages, although depending on the need for detail, the overall plan can range from 40 to more than 100 pages (including the appendix). Below is the detail discussion of the ten elements of a business plan.

1. Introductory page: This is the title or cover page that provides a brief summary of the business plan's contents. The introductory page should contain the following:

- The name and address of the company
- The name of the entrepreneur(s), telephone number, fax number, e-mail address and website address if available
- A paragraph describing the company and the nature of the business
- The amount of financing needed. The entrepreneur may offer a package, that is, stock, debt, and so on. However, many venture capitalists prefer to structure this package in their own way.

- A statement of the confidentiality of the report. This is for security purposes and is important for entrepreneur.

2. Executive summary: This section of the business plan is prepared after the total plan is written. About 2-3 pages in length, the executive summary should stimulate the interest of the potential investor. This is a very important section of the business plan and should not be taken lightly by the entrepreneur since the investor uses the summary to determine if the entire business plan is worth reading. Thus, it would highlight in a concise and convincing manner the key points in the business plan. Although determining what is important in any executive summary would be difficult since every business plan is different, there are a number of significant issues that should be addressed:

- The entrepreneur should briefly describe the business concept.
- Any data that support the opportunity for this venture should be briefly stated.
- After establishing the reality of the opportunity the executive summary should then state how this opportunity will be pursued.
- Next the executive summary should highlight some of the key financial results that can be achieved from the implemented marketing strategy.
- Important experience of entrepreneur(s), any important contracts or other legal documents that are in place, and any other information that is felt can assist in selling the business venture to a potential investor should also be mentioned

3. Environmental and industry analysis: It is important to put the new venture in proper context by first conducting environmental analysis to identify trends and changes occurring on a national and international level that may impact the new venture. Examples of these environmental factors include:

Economy: The entrepreneur should consider trends in the GNP, unemployment, disposable income, and so on.

Culture: An evaluation of cultural changes may consider shifts in the population by demographics, shifts in attitudes, or trends in safety, health, and nutrition as well as concern for the environment.

Technology: Advances in technology are difficult to predict. However, the entrepreneur should consider potential technological developments determined from resources committed by major industries or the government. Being in a market that is rapidly changing due to technological developments will require the entrepreneur to make careful short-term marketing decisions as well as to be prepared contingency plans given any new technologic developments that may affect his/her product or service.

Legal concerns: There are many important legal issues in starting a new business. The entrepreneur must pay attention to any future legislation that might affect the product or service, channel of distribution, price or promotion strategy. The deregulation of prices, restriction on advertising, and safety regulations affecting the product or packaging are examples of legal restriction that can affect any marketing program.

All the above external factors are generally uncontrollable. However, an awareness and assessment of these factors using various sources can provide strong support for the opportunity and can be invaluable in developing the appropriate marketing strategy.

Once environmental scanning has been completed, the entrepreneur should conduct an industry analysis that will focus on specific industry trends. And this includes:

Industry demand: Knowledge of whether the market is growing or declining, the number of new competitors and possible changes in consumer needs are important issues in trying to ascertain the potential business that might be achieved by the new venture.

Competition: The entrepreneur should be aware of who the major competitors are and what their strengths and weaknesses are so that an effective marketing strategy can be implemented.

4. Description of the venture: In this section, the entrepreneur must ascertain the size and scope of the business. It should begin with the mission statement. This statement basically describes the nature of the business and what the entrepreneur hopes to accomplish with the business.

Other issues that must be discussed in this section include:

- The product or service
- The location and size of the business
- The personnel and office equipment that will be needed
- The back ground of the entrepreneur(s) and the history of the venture

5. Marketing Plan: this section of the business plan describes how the product(s) or service(s) will be distributed, priced, and promoted. Marketing research evidence to support any of the critical marketing decision strategies as well as to forecast sales should be described in this section. The specific forecasts for product(s) or service(s) are indicated in order to project profitability of the venture.

What is included in the marketing Section?

The executive summary that you have developed briefly describes the products or services that the company will offer. The marketing section of the business plan provides a detailed description of how the company will compete in the market place as it sells those products and services. The marketing section includes:

- A more detailed description of the products and services
- An analysis of the competition
- An examination of the pricing structure
- An explanation of the company's credit policy
- An explanation of the competitive advantage
- A profile of the target market
- A promotional plan

What is Your Product or Service?

A detailed description of the company's products and services is important for two reasons. First, it helps you thoroughly developed the concept, requiring you to move from the idea stage to something more tangible. Second, it helps the reader of your business plan to better understand your business. If you plan to sell a product, the description should include the size weight, shape, packaging, quality and so forth. If you to sell a service describe all of the services you will offer and explain the typical procedures that you will follow.

Who are Your Competitors?

Almost every small business faces competition from both large and small companies. It is important to know the competition thoroughly in order to develop your competitive strategy. An analysis of the competition can be completed by determining their strengths and weaknesses and examining specific aspects of their operation.

Do they have large product line? Do they have poor service? Are they strong or weak financially? Do they have a stable workforce or is there a high turnover?

It is important to consider both direct and indirect competition since many entrepreneurs underestimate their competition. For example, if an entrepreneur plans to start a Chinese restaurant, he or she often only considers the number of Chinese restaurant in the area. However, other full-service restaurants are direct competitors, even if they sell Italian food or Ethiopian food. Indirect competitors include any business which sells prepared food including fast food restaurants and grocery stores with take-out menus.

What is Your Pricing Objectives?

It is important to determine what you want to accomplish with your pricing structure. The goals to be achieved with your pricing structure are known as your pricing objectives. Typical pricing objectives may be:

- to achieve a specific dollar amount of profit.
- to achieve a profit level as a percentage of sales.
- to capture a specific share of the market.
- to reach a certain level of sales volume.

Pricing objective should be specific and quantifiable so that at the end of the year, it can be determined if the goals were met.

What are Your Pricing Policies?

Once pricing objectives have been established, you should then determine your pricing policies. Pricing policies are general pricing guidelines that you will follow to achieve your goals. Typical pricing policies might include the following:

- Will you run sales to take advantages of the different seasons or to eliminate seasonal merchandises?
- Will you try to match competitors' prices?
- Will you give employees discounts on merchandise they purchase?
- Will you use coupons to attract customers?

How Will You Determine Your Prices?

Entrepreneurs often use a very simplified approach to pricing without realizing that pricing is a very important part of the marketing strategy. There are many factors that must be considered before prices are established. Some of the considerations are as follows:

- **Cost:** The pricing structure must cover all costs and provide an acceptable profit margin. If you are selling a product, you must consider your costs to purchase the product from your suppliers. If you provide a service, you must determine the labor costs. The costs to purchase the product and the cost of wages to perform a service are known as direct costs. All other costs incurred in running the business such as rent, utilities, other wages, supplies and so forth must be considered. These are known as your indirect costs. The pricing structure must be designed to cover the direct and indirect costs and provide profit.
- **Competitors' Price:** The competitors' price cannot be ignored, since customers will consider prices when making their purchase decision. In the previous section of the marketing plan, we provided a method to analyze the competitors. When setting prices, this analysis must be considered. If your competition has poor service, a smaller product selection, and so on, you will be justified in charging a higher price than the competitor. Conversely, If the competition has many advantages compared to your business, you may have to offer a low price in order to compete effectively.
- **Effect on Demand:** The demand for a product is often affected by the price. If consumers demand less as the price increases and demand more as the price decreases, this is known as an elastic demand. For some products and services, however, the demand does not change much if the prices change. This is known as an inelastic demand. So when setting price policies it is a must to consider the price elasticity of demand.
- **Image:** For many products, a higher price actually results in higher sales, since customers often equate quality and price. If you want customers to perceive your product or service as a high quality item, a higher price is best. One self-employed photographer found that demand for his services increased after he raised his prices. When his prices were too low, consumers assumed that the quality of his work was equally poor.

What Type of Promotion Will You Use?

Promotion may take many forms including the following:

- Direct marketing: Direct marketing includes direct mail, mail-order catalogs, direct selling, telemarketing, direct-response ads through mail, broadcast, and print media.
- Advertising: Advertising consists of non-personal messages directed at a large number of people. Advertising is carried out through media such as radio, television, newspapers, and so forth.
- Sales promotion: sales promotion consists of marketing activities that provide extra value or incentives to the sales force, distributors, or the ultimate consumer. Sales promotions are developed to increase sales.
- Publicity and public relations: Publicity is company information released as news on radio, television, or in newspapers. Publicity is designed to create an awareness of the company and its products. Public relation consists of community activities of a company designed to create a favorable impression with the public.

6. Production Plan or Operational Plan If the new venture is a manufacturing operation, a production plan is necessary. This plan should describe the complete manufacturing process. If some or all of the manufacturing process is to be subcontracted, the plan should describe the subcontractor(s), including location, reason for selection, costs, and any contracts that have been completed. If the manufacturing is to be carried out in whole or in part by the entrepreneur, he or she will need to describe the physical plant layout; the machinery and equipment needed to perform the manufacturing operations; raw materials and suppliers' names, addresses, and terms; costs of manufacturing; and any future capital equipment needs. If the venture is not a manufacturing operation but retail store, service, or some other type of non-manufacturing business, this section would be titled operational plan and the entrepreneur would then need to describe the chronological steps in completing a business transaction.

7. Organizational plan The organization plan is part of the plan that describes the venture's form of ownership-that is, proprietorship, partnership, or corporation. If the venture is a partnership, the terms of the partnership should be included. If the venture is a corporation, it is important to detail the shares of stock authorized, share options, as well as the names, addresses, and resumes of the directors and officers of the organization.

It is also useful to provide an organization chart indicating the line of authority and the responsibilities of the members of the organization.

8. Assessment of Risk Every new venture will be faced with some potential hazards, given the particular industry and competitive environment. It is important that the entrepreneur makes an assessment of risk in the following manner:

- ✓ The entrepreneur should indicate the potential risks to the new venture.
- ✓ Then, the entrepreneur should discuss what might happen if these risks become reality- meaning, the impact of each risk on the new venture if it materializes.
- ✓ Finally, the entrepreneur should talk about the strategy that will be employed to prevent, minimize, or respond to the risks should they occur.

Major risks for a new venture could result from a competitor's reaction; weaknesses in the marketing, production, or management team; and new advances in technology that might render the new product obsolete. Even if these factors present no risks to the new venture the entrepreneur should discuss why that is the case.

9. Financial Plan The financial plan determines the potential investment commitment needed for the new venture and indicates whether or not the business is financially feasible. Generally, three financial areas are discussed in this section of the plan:

- ✓ The start-up costs
- ✓ How the business will be financed
- ✓ The second major area of information needed is cash flow figures for three years, with the first year's projection provided monthly. Since bills have to be paid at different times of the year, it is important to determine the demand on cash in a monthly basis, especially for the first year. Remember that sales may be irregular; receipts from customers may also be spread out, thus necessitating the borrowing of short-term capital to meet fixed expenses such as salaries and utilities.
- ✓ The entrepreneur should summarize the forecasted sales and the appropriate expenses at least for the first three years, with the first year's projections provided monthly.

- ✓ The last financial item needed in this section of the business plan is the projected balance sheet. This shows the financial conditions of the business at a specific time. It summarizes the assets of the business, its liabilities (what is owed), the investment of the entrepreneur and any partners, and retained earnings (or cumulative losses).

1. Start-up Costs

Start-up costs are costs that are necessary to open the business. Most of these costs will be incurred prior to the time the company opens for business. Start-up costs for business vary by industry, but the following categories are common for most businesses.

- **Inventory:** Inventory consists of any item you will buy and resell to customers. Estimates of inventory costs can be obtained from companies that will be your suppliers.
- **Furniture and Fixtures:** Furniture and fixtures include office desks and chairs, shelving, counters, display cases, and so forth. Estimates of costs can be obtained from retailers of these items.
- **Machinery and equipment:** This category includes computers, cash registers, copiers, fax machines, as well as a special industry items such as manufacturing equipment, construction equipment, and the forth. Entrepreneurs should identify the companies from which they would purchase the machinery and equipment and obtain the costs for each item.
- **Prepaid Expenses:** It is often necessary to pay for services before the company is open for business. These prepaid expenses may include legal fees, insurance for the first six months of operation, grand opening advertising and so forth. Determine what expenses must be paid before the company opens and obtain an estimate for each.
- **Training costs for employees:** When the door opens for business, the employees must know how to perform their jobs efficiently. For this reason, it is usually necessary to hire and train employees before the first day of operation. If they are hired a week or two before opening, they may receive a paycheck before any sale is generated
- **Deposits:** Many entrepreneurs forget to include deposits in their start-up costs only to find that this amounts thousands of Birr.

- Renovations and/or building purchase: Unless the business operates at home, there will be costs associated with the site. If a location is leased renovations may be required. Renovations to leased property are called leasehold improvements. If the facility is purchased, the sales price is start-up cost and renovation may be added.
- Working Capital: For most businesses, it takes at least several months to develop a good customer base. During this time, the sales volume is not usually sufficient to pay all of the bills. Working capital is a cash reserve to cover monthly expenses until the cash coming into the company every month is equal to or greater than the amount of bills that need to be paid. In general, the working capital amount should cover at least six months' expenses.

2. How Will The Business Be Financed?

The financing section of the business plan should identify the type of financing that will be used because this may have a financial impact on you and your company. For example, If a large amount of money is borrowed, the company will have substantial loan payments every month which could be burden for a new company. If you use personal assets as collateral for a loan, you could lose them if the business does not succeed. Money that is borrowed, known as debt financing, must be repaid with interest, this is at the same time a burden for a new business. On the other hand, if you plan to obtain private investors, or if friends and relatives will provide funds, you must consider how they will compensate for their investment. Some investors and partners only want financial return, whereas others want to take an active role in making company decisions. So, before you make decisions on how to finance a new venture you need to consider all the alternatives.

The business plan must also state how debt financing will be repaid and what will be given in exchange for equity funds. For loans, the plan should state the number of years over which the loan will be repaid and the interest rate. For equity, the percentage ownership must be stated along with other payments. It is common to reward investors with dividends, which are periodic payments based on the net profit the company. The business plan should therefore state both percentage of ownership for investors and dividends that will be paid.

3. Projected Financial Statement

The projected financial statements that are included in the business plan are the projected balance sheet statement, the projected income statements, and the projected cash flow statements. The following section discusses these statements.

i. Projected Balance Sheet Statement

The balance sheet compares the possessions of a company and the debts that it owes on a specific day. Therefore, while the income statement records profit or loss over a period of time, the balance sheet only shows the financial situation on a certain day.

Asset: A company's possessions, called asset, may be tangible items such as machinery and equipment, or they may be intangible assets such as patent or goodwill. On the balance sheet, assets are divided into several categories- current, fixed and other.

Current Asset: are those that are easily converted into cash and include the following:

- Cash: All cash on hand in the business and in the business checking and savings accounts is recorded.
- Account Receivable: If a company extends credit and consumers owe for purchases, this is a company asset because it is money that will be received in the future.
- Inventory: All items available for resale are current assets. In a manufacturing firm, the inventory may be separated into two categories- raw materials and finished goods.
- Supplies: All supplies such as shop supplies, office supplies, bags and boxes for customers' packages, and so forth would be included.
- Prepaid expenses: The prepaid expenses listed in start-up costs are considered as a current asset.

Fixed assets are items that are more permanent in nature and are used in business. These include:

- Machinery, equipment, furniture, fixtures: All items listed in your start-up costs in these categories would be fixed assets.
- Land and building: If you purchase land and a building or if you construct a building, this would be shown in the amount of the price paid or the construction costs.

- Renovations: If you spend money for renovations to leased property, this is considered a business asset even though you do not own the property.
- Vehicles: This includes all company cars, trucks, and so on.

A company may have assets that do not fall in the above categories. For example, if you are required to pay deposits for lease or utilities, the money is often held for several years before it is returned. For this reason, it is not considered a current asset and is therefore placed in a category called “other assets.” Similarly, a company may have intangible assets such as goodwill or patents; these are included in “other assets.”

Liabilities: The liabilities section of the balance sheet includes all debts that the company owes. As with the assets, the liabilities are categorized as current and long term liabilities.

Current liabilities are those liabilities that must be paid within 12 months and include the following:

- Account payable: All bills due for inventory and supplies are included in this category.
- Accrued expenses: Bills due for utilities and other miscellaneous expenses are considered accrued expenses. Also, if employees are paid every two weeks and wages are owed to them when the balance sheet is prepared, these would be included.
- Notes payable: Any short term loans that are due within 12 months from the date of the balance sheet are considered as current liability. Loan payments include both principal (loan repayment) and interest. Only the principal is recorded on the balance sheet.
- Current portion of long-term debt: Even if loan is to be repaid over several years, a portion of the loan is due within the next year. That principal portion due within the next 12 months is considered the current portion of long-term debt. For example, if a loan principal of Birr 10,000 is due over a five year period, and Birr 3,000 of that amount is due within the next year, the Birr 3,000 is considered the current portion of the long-term debt.

Long-term liabilities are those debts or portions of debts that are due more than 12 months from the date of the balance sheet.

Equity: Another category in the balance sheet is called equity, net worth, or capital account. This account represents the difference between the assets and liabilities. Total asset minus total liabilities must equal net worth or equity. The equity includes all the money the entrepreneur has invested from personal funds as well as retained earnings.

Retained earnings is an accumulation of all profits and losses of the company from the day it began until the day the balance sheet is prepared. If the company makes profit, retained earnings increases; if the company loses money, retained earnings decrease. Although the total equity figure does not necessarily represent the market value of the company, it is an important figure because financial institutions often compare the total liabilities to the total equity if the company applies for loan.

ii. Projected Income statement

The income statement is completed on a periodic basis and records sales, cost of goods sold, expenses and profit or loss.

- **Sale:** On the income statement, the sales of a company may be listed as “sales,” “income,” or “revenue,” depending on the type of a company. If the statements are completed on an accrual basis, this represents the sales that have been generated, not necessarily those for which payment has been received.
- **Cost of Goods Sold:** cost of goods sold includes any costs for products, material, or labor that are directly related to sale. In a retail firm, cost of goods sold is the costs paid to suppliers for inventory. In service firms such as housecleaning or maid service businesses, the product cost is very small but labor is the major part of the cost of goods sold.
- **Gross Margin:** is the difference between sales and costs of goods sold. It shows the markup on the sales or activity of the company.
- **Operating Expenses:** Include ongoing expenditures that occur in the process of selling and managing the company. As a company grows, the operating expenses may have subcategories such as “selling expenses,” general and administrative expenses,” and so forth.
- **Net Profit:** Net profit is equal to gross margin minus operating expenses. The full amount is not available to the entrepreneur, however, since income taxes and other cash outlays must be deducted from this sum.

iii. Projected Cash Flow Statement

In new – venture creation, the cash flow statement may be the most important document since it sets forth the amount and timing of expected cash inflows and outflows. This section of the business plan should be carefully constructed.

10. Appendix: The appendix of the business plan contains any backup material that is not necessary in the text of the document. Reference to any of the documents in the appendix should be made in the plan itself. Information that should be given in the appendix might include:

- ✓ Letters from customers, distributor, or subcontractors
- ✓ Any documentation of information- that is, secondary data or primary research data used to support the decisions made in the plan
- ✓ Leases, contracts or any other types of agreements that have been initiated
- ✓ Price list from suppliers and competitors ... etc.

***Commentary:** There are three major financial statements which should be included in the business plan. These are forecasted income statement, balance sheet statement and cash flow statement. With your explanation you need consider the components of each financial statement.*