

# **Business and Entrepreneurship**

## **Class XII**



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## Foreword

Entrepreneurship is a process of generating new business ideas, gathering economic resources and establishing business ventures. A person who carries out such activities and willing to bear risks and enjoy profit as a reward is known as an entrepreneur. Entrepreneurs play a critical role in the economic development of a country. They mobilise resources from the entrepreneurial ecosystem and add value to create new goods and services required in the society, generate employment opportunities and become revenue contributors to the government in the form of taxes besides other contributions.

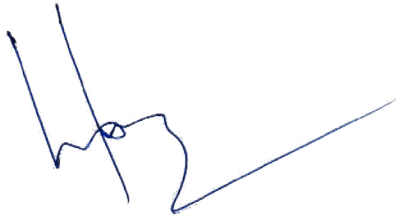
Entrepreneurship education has become one of the indispensable learning areas in any education system. It enhances entrepreneurial competencies such as creativity, innovation, calculated risk-taking and problem-solving skills which in turn, help in generating business ideas, establishing and managing businesses to address socio-economic challenges. Entrepreneurship education has become crucial for Bhutan owing to the emerging issues such as youth unemployment, trade deficit and soaring national debt. Further, Bhutan is exposed to the global market where ethical issues such as product adulteration, exorbitant prices, integrity and trust, customer rights, breach of moral and ethical duty prevail, posing grave concerns in a small society. Therefore, it is important to make learners aware of such emerging issues and prepare them to overcome or address it through the entrepreneurship education.

The new business and entrepreneurship curriculum developed by Department of Curriculum and Professional Development (DCPD) intends to enable learners to develop foundational knowledge and competencies in generating and pitching business ideas, developing business proposals, and mobilising finance to pursue entrepreneurship as a career. The curriculum will also provide a solid foundation for higher studies in entrepreneurship and business management. To that extent, the curriculum has incorporated up-to-date contents and pedagogy which are relevant to the current business world, and particularly applicable to the Bhutanese business ecosystem. Further, the new textbook is rooted in Bhutanese values and development paradigm of Gross National Happiness to ensure that the learners

are well-grounded on national goals and aspirations.

It is my sincere belief, therefore, that learners will reap immense benefits by acquiring knowledge, skills, competencies and values in launching entrepreneurial ventures. This would ensure gainful employment after their schooling and contribute in addressing the unemployment and related issues in the country. I am also optimistic that the new curriculum will help our learners to fulfill His Majesty's vision of nurturing SMART (Sincere, Mindful, Astute, Resilient, and Timeless) citizens and help them to become nationally rooted and globally competent.

Tashi Delek!

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Kinga Dakpa  
Director General

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# CHAPTER 1

# Innovation and Entrepreneurship

## *Learning Objectives*

- ✧ Discuss the concepts of imagination, creativity, innovation and entrepreneurship
- ✧ Explain the interrelationship amongst imagination, creativity, innovation and entrepreneurship
- ✧ Use contemporary methods of creative problem solving

## 1.1 Concepts of Imagination, Creativity, Innovation and Entrepreneurship

Imagination refers to envisioning new ideas, images or concepts that were not perceived or explored before. Creativity refers to the ability to develop new ideas or discover new ways of looking at problems and opportunities. It is the actual usage of imagination to address or solve various challenges such as social, economic, environmental and technological.

Innovation is the action or process of innovating. It is the process of making changes in something already established by introducing new methods, ideas or products. In other words, innovation is the application of creativity to generate new solutions to problems and create opportunities for enhancing lives and enriching the society. According to Keeley et al., (2013), innovation is the creation of a viable new offering. This implies the innovator must have a deep understanding of customer needs. The innovation must also have the ability to create value for which customers are willing to pay and generate revenue for the business.

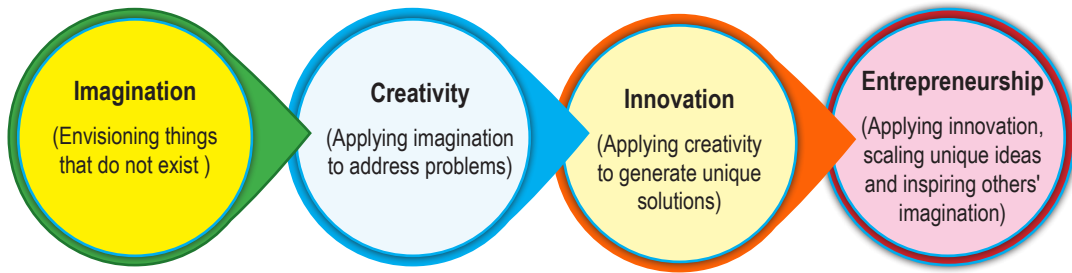
According to Venkataraman and Shane (2000) “Entrepreneurship is defined as an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes and raw materials through organizing efforts that previously had not existed.”

Timmons (1999) defines entrepreneurship as “a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced for the purpose of value creation and capture.”

A more elaborative definition of entrepreneurship was given by Kuratko and Rao (2012) who defined entrepreneurship as “a dynamic process of vision, change and creation. It requires an application of energy and passion towards creation and implementation of new ideas and creative solutions. The process of innovation and new venture creation accomplished through four major dimensions: Individual, organizational, environmental and process aided by collaborative networks in government, education and institutions.”

In general entrepreneurship is the application of innovation, scaling unique ideas for creating a new enterprise with a willingness to bear any of the associated risk so as to make profit and generate social benefits.

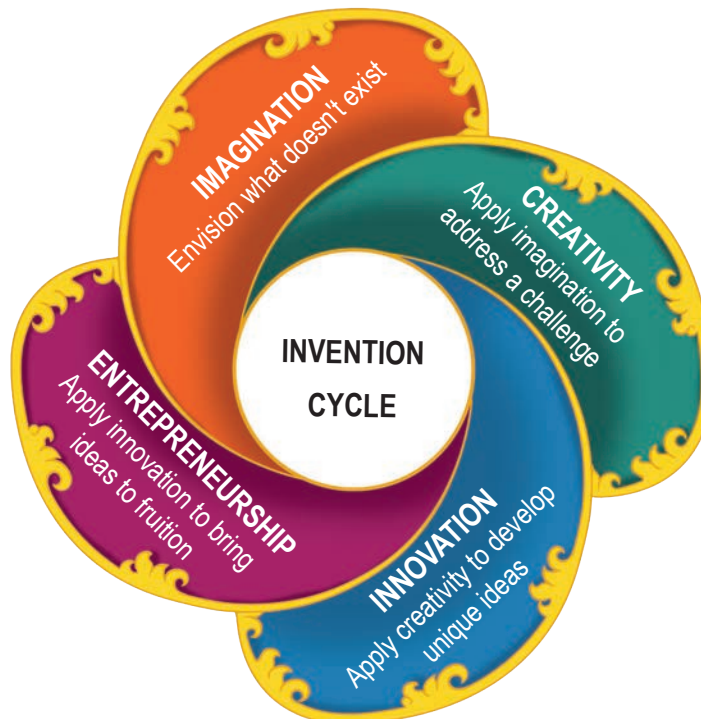
The relationship amongst imagination, creativity, innovation and entrepreneurship is as illustrated in Figure 1.1.



*Figure 1.1: Relationship amongst imagination, creativity, innovation & entrepreneurship*

Entrepreneurship is said to be the function of imagination, creativity and innovation – successful entrepreneurs always capitalise on their ability to discover new ideas and implement what they have discovered.

Tina Seelig, a Professor at Stanford University, refers to the relationship amongst imagination, creativity, innovation and entrepreneurship as the ‘Invention Cycle’.



*Figure 1.2: Invention Cycle*

According to Seelig (2017), the invention cycle starts with imagination and leads to entrepreneurship through creativity and innovation in a cyclic form. Each stage of the invention cycle is briefly discussed as follows:

### ***1.1.1 Imagination***

Imagination is envisioning things that do not exist. It is the ability to conceive ideas in one's mind. It is mostly influenced by real and fictional experiences a person has been through. For example, a person could imagine manufacturing a solar powered car owing to the problems or experiences associated with current automotive systems. Engagement and envisioning are essential components and skills used in imagination stage of the invention cycle. In order to come up with good results of imagination, one must get actively immersed in the object, phenomenon or the situation. Having immersed actively and made observations of the problems and opportunities, it is time for envisioning on how to address these problems and seize the opportunities.

#### **Learning Activity 1.1**

This activity aims to engage learners into the practice of imagination.

##### ***Instructions:***

- a. Silently observe a place or an object in your school or home or anywhere for 30 minutes.
- b. Make as many observations as possible and consider how these observations impact you and your environment.
- c. Contemplate on the opportunities of improving what you have observed. Also, envision improvements you would like to make.

***Task:*** Share your reflection with the class.

### ***1.1.2 Creativity***

The application of imagination is referred to as creativity. For example, after imagining to build a solar car, the design, functionalities and features of the car must be experimented and well developed. Getting these things done in a unique way can be termed as creativity.

One of the essential components of creativity is to have the motivation to make improvements and changes in the environment. Another essential component is experimentation. For example, understanding what motivates an individual to build a solar car and trying to build it through experiments are important parts of creativity.

### Learning Activity 1.2

This activity will facilitate learners to engage in creativity exercise.

**Instructions:** Engage yourself into motivation and experimentation exercises.

**Task:** Complete the following tasks and share your reflection to the class.

- a. Based on the opportunities you have identified in the Learning Activity 1.1, note down what motivates you to pursue the opportunities.
- b. Conduct an experiment of what you have envisioned to improve in the Learning Activity 1.1.

### 1.1.3 Innovation

The application of creativity to generate unique solutions to the problems is termed as innovation.

This stage of invention cycle requires focus and reframing of brain. Focus is also called as mindfulness – focus of mind on the problems, opportunities and environment. Reframing the brain refers to retraining the brain by questioning assumptions, seeing challenges as opportunities and being able to shift one's perspective. This helps in unlocking innovative ideas that are new to the world. For example, after having a defined motivation to build a solar car and experiments being conducted, it is then essential to focus on developing the car. While developing, it is paramount to think outside-the-box in terms of its features and performance.

### Learning Activity 1.3

This activity intends to help learners enhance mindfulness and flexibility.

**Instructions:** Complete the given tasks.

**Task:** Complete the given tasks.

- a. Choose a quiet place and focus on a task you wish to accomplish. See how long you can focus on the task. Try to eliminate distractions if any and attempt to enhance your mindfulness.
- b. Use your non-dominant hand to either eat, write, brush your teeth, etc., and reflect how flexible you are. Repeat the exercise till you attain the desired level of flexibility.

#### 1.1.4 Entrepreneurship

The word entrepreneur is derived from French word ‘entreprendre’ which means to ‘undertake’. Entrepreneur is the person who undertakes a business venture. Entrepreneurship is defined as application of innovation to bring ideas to fruition. At this stage of the invention cycle, Seelig (2017), states that one must be persistent to bring ideas to life. The goals must be set and one must focus on the task for extended period of time and push through obstacles along the way. All of these require persistence. Successful and impactful entrepreneurial ventures are grounded on the concerted efforts put in by the partners and stakeholders. Therefore, another important component of this stage of the invention cycle is inspiration. Inspiration relates to the ability of the entrepreneur to inspire and bring on board family, friends, investors, suppliers, employees, customers, etc.

### Learning Activity 1.4

This activity aims to expose learners to the concept of entrepreneurship, traits of successful entrepreneurs, and the charms and challenges of being an entrepreneur.

**Instructions:** Read the story ‘YiGa Chocolates’ and complete the tasks.

## YiGa Chocolates

Kinley Pelden is the founder and Chief Executive Officer of Yiga Chocolates, a firm which manufactures artisanal premium chocolates using unique Bhutanese flavours such as chillies, quinoa, ginger, gooseberries and mountain blueberries. Yiga chocolates are not just infused with naturally grown Bhutanese superfoods but also uses a handcrafted process, design and packaging. Yiga carries forth



the spirit of health and happiness. The product was launched in the market in August 2018 and retailed, as of March 2021, in five Dzongkhags through 13 shops including BHR Café and Bhutan Essence at the departure lounge at Paro International Airport. The chocolates have also been promoted at international festivals in various countries such as Japan, South Korea, Germany, US, Singapore, India and Australia besides

the in-country promotions by family and friends.

It all started with a 6-minute cake recipe that Kinley Pelden designed as a need for healthy snack for her little girls then in 2014. The recipe is so easy that her 11-year-old daughter then took to it. From the basic recipe, she started making many variations for the family and friends, who were happy to eat anything sweet and moreish. In her wave of culinary curiosity, she asked her mother how to make chocolate. They concocted a gooey mix of cocoa powder, milk and sugar. Not satisfied, they googled and learnt how to mould compound chocolate together. While the children moved on dabbling into other interests, Kinley's interest in chocolate making grew and Yiga chocolate came into existence.

Sensing opportunity in chocolate business, she shared the idea and encouraged many to give chocolate business a shot. Finding no Bhutanese chocolate in the market even by 2017, she test-drove the idea at Loden Foundation. Loden went on to support with collateral and interest free loan, mentors and network – all conditions necessary for a





new startup. Under the comprehensive entrepreneurship ecosystem provided, she was able to fine tune the brand and clearly define the market segment.

Some friends asked if she regretted not starting the business earlier in her life. “There is no regret and it was just timing and conditions coming together over time. It is the sense of gratitude and diligence that worked. I realised that one need not be in hurry to find the niche. If we give our best in the present moment and responsibility at hand, that will somehow build us and our course of life. Little did I know then that, in holding my children’s hands to explore their interest and passion, it would set me on this delightful journey,” said Kinley.

### The importance of small steps



Alongside the chocolate startup, Kinley provides mentoring to entrepreneurs in agriculture and product development ventures by listening and sharing information and network necessary for launching and scaling up their startups. Kinley reflects that one thing led to another in a beautiful way throughout her entrepreneurial journey, thus far. She believes that entrepreneurship is not necessarily being in business. One can be enterprising in any role we are in or at any task at hand. It is the unique quest for effectiveness and efficiency in getting things done.

Being mindful and observant even with everyday mundane tasks are what she believes to have helped in ideation of her business. She shares that one must be aware of personal interests, strengths and weaknesses, and then what opportunities and threats lie in the business environment. For Kinley, every day is a new day with new challenges and new solutions for pursuing personal and professional growth.

Being mindful of who and what influences your decisions; knowing the fine line between tragedy of commons and wisdom of the crowd when it comes to choices and decisions; being humble to be able to learn and grow in life; and starting small and dreaming big are some of her urges for the young aspiring entrepreneurs.



**Task:** Complete the given tasks.

- Present your views on who is an entrepreneur.
- Discuss essential traits of a successful entrepreneur.
- Describe the charms and challenges of being an entrepreneur.
- Explore the differences between a businessman and an entrepreneur.

## 1.2 Contemporary Entrepreneurial Methods

There are many methods the entrepreneurs adopt to start, build and sustain their enterprises. Some of the popular entrepreneurial methods include design thinking, lean startup and effectuation. Each of these methods are briefly discussed as follows:

### 1.2.1 Design Thinking

Design thinking is a method used widely in problem solving. Developed by Brown (2008), design thinking is a methodology that uses designer's sensibility to match customer needs and the value that a business can offer. It is also described as a human centric approach to problem solving.

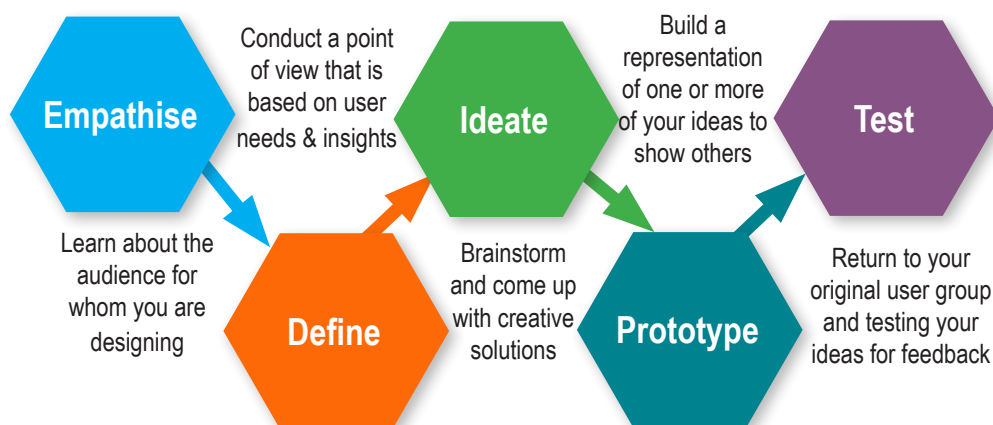


Figure 1.3:  
Design thinking methodology

The stages of design thinking methodology are:

### **a. Empathy**

The design thinking process starts with empathy. The design thinker or the entrepreneur learns about the target group for whom the product or service is being designed. Since design thinking is a human centric approach, empathy is the centerpiece because problems that entrepreneurs are trying to address are of other people, generally the customers and rarely their own. In empathy stage, it is important to observe, engage, watch and listen to the target group. These will enable the entrepreneurs to understand the needs of the target group.

### **Problem definition**

Having empathised, the next stage is to define an actionable and meaningful problem statement. The problems faced by the target group must be properly defined so that actual problems are identified. A problem statement is a point of view that will guide the problem-solving process. Using data and information from empathy stage is essential to define the problem correctly.

### **b. Ideation**

After the problem definition stage, ideation begins. Ideation is the process of generating and choosing creative ideas which addresses the defined problem. Brainstorming, brainwriting and SCAMPER method are some of the techniques used for ideation. These techniques are further discussed in Chapter 2.

### **c. Prototype**

It is essential to have a product or service that would address the problems of the target group. Developing a product or service with primary functionalities and basic features is called prototyping. Prototype is a representation of ideas shown to others towards reaching a possible solution. It is a Minimum Viable Product (MVP – smallest form of product with just the basic functionalities) that would address the key problems. Low-fidelity prototyping and storyboard are a few commonly used prototyping techniques.

Low-fidelity prototyping is creating a sketch or drawing as the draft version of the final product that you want to design based on the idea that you have chosen before one starts to invest time and resources to create the product.

Storyboard is a series of images that presents the key elements of your design chronologically so that the main idea can be conveyed like a story through the snapshots.

#### d. Test

Following the prototype development, testing of the prototype is necessary. It is an opportunity to learn whether the solution developed for the target group addresses their problems or not. Prototype is used for gathering feedback from early adopters. The feedback is further used for reconfirming and iterating empathy, problem definition, ideation and prototype development.

Although design thinking has been depicted as a linear process in the Figure 1.3, it is important to note that it can take a non-linear and iterative process – design thinking team may choose to move from one stage to another in any direction based on the need and circumstances. Today, design thinking is widely used for addressing not just business and economic problems but also social issues. Refer Annexure 1 for understanding how Singapore is using design thinking.

### Learning Activity 1.5

This activity aims to facilitate learners to get a hands-on experience of applying design thinking methodology.

**Instructions:** Choose an activity or area of work from your school or home. It can be the service of your school canteen, mess, hostel, stationery store or any other and complete the following tasks.

**Task:**

- a. Observe how services are provided currently.
- b. Identify the pain points of the service recipients.
- c. Define their problem.
- d. Ideate how the problems faced by the service recipients could be addressed.
- e. Develop a prototype of the service you would like to enhance in order to enhance the experience of the service recipients.
- f. Test the service prototype by incorporating it in actual operation of the

chosen service area.

- g. Incorporate the feedback of the service recipients and make necessary iterations in the service delivery.
- h. Maintain a proper journal for each stage of design thinking exercise and present a matchbook collection.

### 1.2.2 *Lean Startup*

A startup or an existing firm is susceptible to the risk of spending huge amount of money and time in building a product or service which may ultimately be of little or no use or value to the customers. Lean Startup methodology helps in reducing such risks. Lean Startup is an entrepreneurial method for launching a new product or service by a startup or an existing firm with lesser investment both in terms of money and time. It is a process that turns ideas into commercial ventures using rapid experimentation through customer feedback and iterations in the product or service to improve product development.

Lean startup is founded on following principles:

- **Entrepreneurs are everywhere** – anyone who works on a product or service development under the condition of extreme uncertainty is an entrepreneur. This means entrepreneurs are everywhere and lean startup methodology can work in organisation of any size and nature.
- **Entrepreneurship is management** – a startup is an institution not just a product. Therefore, it requires a new management geared towards working in the context of extreme uncertainty.
- **Validated learning** – startups exist not only to make products, earn money and serve customers but also to learn how to make grow a sustainable business. The learnings can be validated scientifically through frequent experiments.
- **Build-Measure-Learn** – the primary activity of a startup is to turn ideas into products or services, measure how customers respond, and then learn whether to pivot (change) or persevere (continue).
- **Innovation accounting** – there is a need for new accounting approach designed for improving entrepreneurial outcomes and hold innovators accountable. This requires clarity on the metrics or conditions of measuring startup progress, setting up milestones and prioritising activities.

Figure 1.4 Depicts how lean startup methodology works.

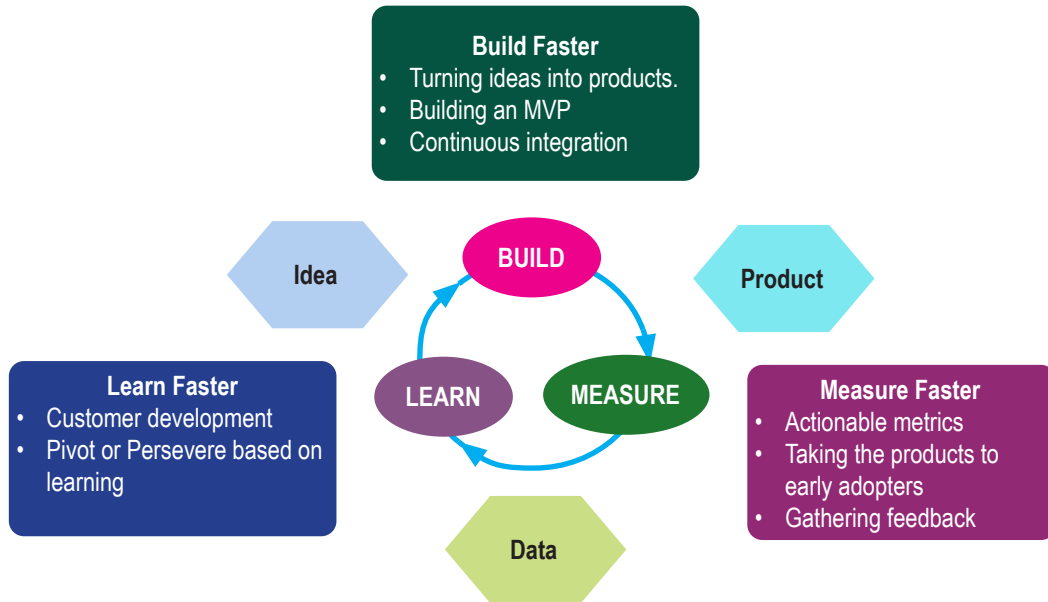


Figure 1.4 Lean startup methodology

According to Ries (2011), every entrepreneur begins with some untested hypotheses. They succeed by building an MVP, testing it with early adopters, measuring the success using metrics, learning through feedback and making necessary iterations to the MVP based on the learning.

The first phase of the Lean Startup methodology is to turn the ideas into an MVP. Then, the MVP is taken to the early adopters who would buy it. In this stage, measuring the progress of the product is essential. It is important to have actionable metrics in place. For example, actionable metrics for a startup developing a mobile application could be number of downloads, number of active users, retention rate, churn rate, net promoter score, etc. The data gathered through the metrics and feedback received from the early adopters help in learning faster. Learning faster enables to decide whether to pivot or persevere with the project. Customer development, which involves understanding the customers' needs and problems, is the key focus of learning. Further, what has been learned must be continuously integrated into the product.

Unlike traditional approaches of building a product which may lead to wastage of resources and time in building a product and getting it delivered to the customers, lean startup methodology helps in building, measuring and learning faster. This enables the entrepreneur to succeed faster and persevere with the project or fail faster and pivot to another project without wasting much resources.

### 1.2.3 *Effectuation*

Effectuation is another entrepreneurial method used for starting entrepreneurial ventures. The term was coined by Dr. Saras Sarasvathy. It refers to a logic of thinking that uniquely serves entrepreneurs in starting businesses by first taking an inward look which involves taking an inventory of the resources that an entrepreneur has at his or her disposal and then setting a business goal. This then facilitates the entrepreneur to interact with stakeholders to garner commitment for co-creating the venture. Managerial thinking is usually guided by predetermined goals and managers gather resources and support to attain these goals. Unlike managerial thinking, effectual thinking starts with determining means or resources available to an entrepreneur. Based on the available resources, entrepreneur determines the goals to be achieved. It provides a way to control future that is inherently unpredictable. Effectuation helps in advancing ideas towards sellable products and services with proven customers.

The effectual logic is grounded on following principles:

- **Bird-in-hand** – it fundamentally refers to starting a business with the means (resources) one has at his or her disposal. The means are determined by who the entrepreneur is, what the entrepreneur knows and whom the entrepreneur knows.
- **Affordable loss** – it relates to limiting the risk by understanding what the entrepreneur could afford to lose while conducting business. The loss could be related to business aspects such as finance, reputation and network.
- **Lemonade** – entrepreneurs make lemonade out of lemon which means they transform problems into opportunities.
- **Patchwork quilt** – entrepreneurs seek commitments from stakeholders in order to co-create the enterprise and new markets.
- **Pilot-in-the-plane** – it is a belief that the future is created and not predicted. Entrepreneurs focus on the activities within their control and understand the desired outcomes.

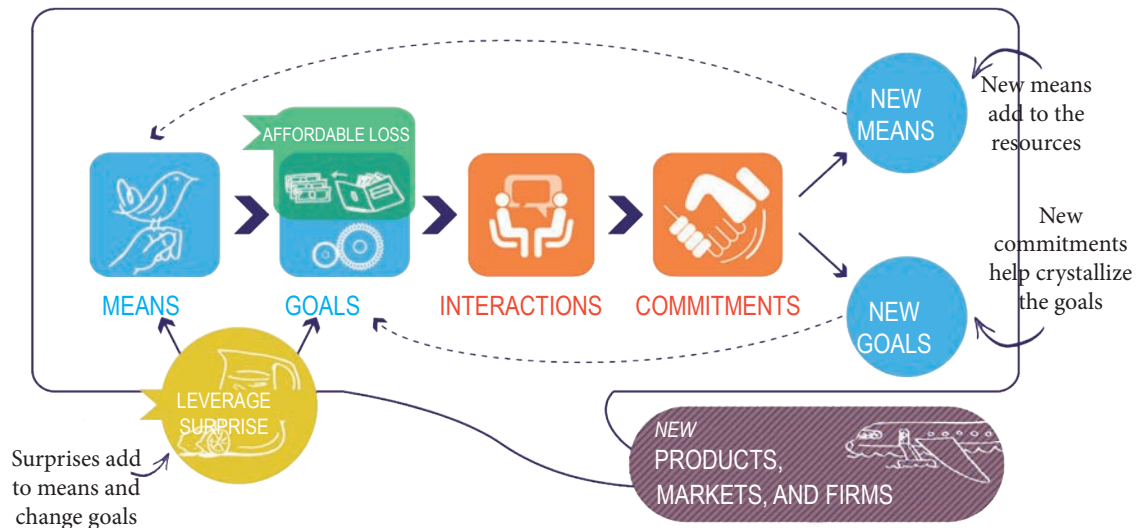


Figure 1.5: Effectual cycle

The entrepreneur begins with the stock of means at his or her disposal. Based on the available means, the goals are set. The entrepreneur also ensures that the set goals are within the affordable loss. Then, the entrepreneur engages in interaction with stakeholders to garner commitments. The commitment from stakeholders helps in pooling new means and add to the overall resources available to the business. The stakeholders commit their resources with certain goals in mind. Therefore, necessary adjustments to refine the overall goals of the business must be made. The entrepreneur then co-creates the new venture in collaboration with the committed stakeholders. This is how the cycle continues through transformation of surprises and challenges into opportunities. Thus, the effectual cycle helps in creating new products, new market and new ventures.

### Chapter Review Questions

1. Discuss the relationship amongst imagination, creativity, innovation and entrepreneurship.
2. Explain invention cycle in your own words.
3. Discuss the application of design thinking for generating innovation.
4. Explore the uses of design thinking in addressing the grassroots problems in Bhutan.
5. Evaluate the significance of lean startup methodology in the context of entrepreneurship.
6. Assess the uses of effectual cycle in entrepreneurship.



# CHAPTER 2

## Business Opportunity Identification and Selection



### *Learning Objectives*

- ✧ Discuss the meaning of business idea and opportunity
- ✧ Explain business opportunity identification process
- ✧ Generate business ideas using various methods of idea generation
- ✧ Undertake business idea screening and selection
- ✧ Explain the need for intellectual property system

## 2.1 Meaning of Business Idea and Business Opportunity

Business idea and business opportunity are two terms which are often used interchangeably but they are actually different. Business idea refers to a business concept that can address an issue which may result in profit and other benefits if it is converted to a tangible product or service. It can stimulate to lead to business opportunity. Business opportunity, on the other hand, can be an idea or a situation which has the potential to be converted into a viable business with commercial value. This implies a business opportunity has to lead to generation of profit.

Good business ideas form the basis for potential business opportunities but not every idea translates into viable business opportunity. A person may have many business ideas but the commercial value and benefits of all the ideas cannot be guaranteed. Therefore, there is a need for a proper and rigorous process of business idea generation, screening and selecting the right business opportunity and finally taking action on that opportunity through execution.

## 2.2 Business Opportunity Identification Process

Business opportunity identification process typically consists of three broad stages namely idea generation, screening and selection. The aims and methods used in different stages are presented in the Figure 2.1.

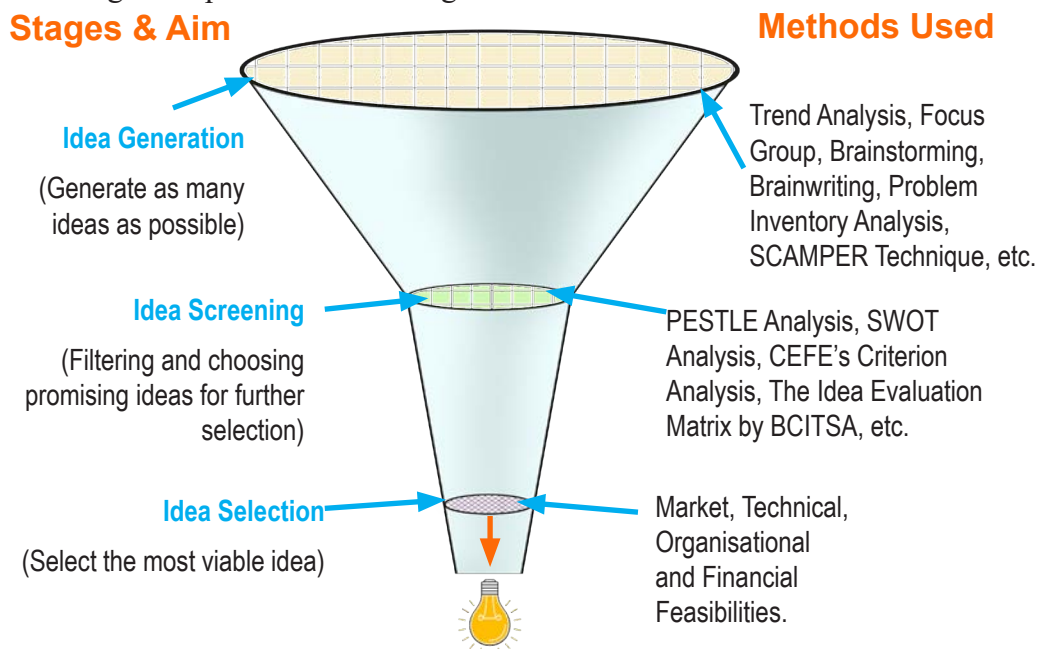


Figure 2.1: Business idea generation, screening and selection

### 2.2.1 Business idea generation

It refers to the generation of abstract ideas which may or may not have market and economic potentials. The abstract ideas can be generated using several methods. Some of the popular business idea generation methods are:

#### a. Trend Analysis

This involves generation of ideas by checking the trends in the past so as to be able to generate potential business ideas. The global megatrends are increasingly becoming a reality. While there are harmful effects of these megatrends, entrepreneurs can see it as an opportunity for realising their entrepreneurial dreams as they contribute to address the issues. Notable global megatrends are:

- **Shift in Global Economic Power** – this shift from west to east (from USA to China & India) is evident of how businesses today should be readjusting their focus.
- **Climate Change & Resource Scarcity** – crop failure, widespread flooding, destroyed habitats and energy shortages are some of the noted effects.
- **Demographic and Social Change** – in general, it is predicted that the world's population would have increased by 1 billion in 2030, and by 2050, over one third of world's total population would be above 60 years of age. Further the demographic changes are aggravated by declining birth rate in some of the countries. Consequently, notable issues such as labour shortage, increased demand for healthcare and educational services and changing consumer demands are bound to happen.
- **Technological Breakthrough** – as machines are predicted to learn faster than humans, more occupations and services are expected to be automated.
- **Rapid Urbanisation** – it is predicted that over two third of world's population will live in urban areas by 2050.

Having been exposed to the global megatrends, it is important to contemplate and act on generating business ideas that can address the problems likely to be caused by the megatrends.

In addition to the global megatrends, other trends in the market or economy often are great sources of business ideas which have the potential to be converted into business opportunities, especially when the entrepreneur is able to identify impactful market

trends which last for considerable period of time. Some of the common trends in which entrepreneurs have spotted their business opportunities are:

- **Green Trend** – a trend wherein consumers are very conscious about the environmental impact and willing to pay premium price for green products thereby making them conscious of their spending habit. Green construction products, eco-friendly printing, products manufactured using waste, etc., are some common examples.
- **Clean Energy Trend** – entrepreneurs around the world have capitalised on clean energy from solar, wind, hydro and geothermal sources to make their business value proposition unique.
- **Organic Trend** – as people continue to become increasingly health conscious, the organic trend, especially in the food sector continues to gain an important place in their lives.
- **Social Trend** – social network platforms such as Facebook, YouTube, Telegram, MySpace, LinkedIn, WhatsApp and WeChat have transformed how people communicate and network across the world.
- **Health Trend** – as the aging population continues to increase in many countries, health care products and services are seen as opportunities for entrepreneurs.

### **b. Focus Group**

In focus group discussion, group of individuals led by a moderator engages in an open and in-depth discussion by way of providing information in a structured way. Focus group discussions are used as a means to generate business ideas.

### **c. Brainstorming**

It is a group method for obtaining new ideas and solutions through spontaneous discussion and ideation. It is important to make sure that no criticisms are made, freewheeling is encouraged, preference is given to the quantity of ideas over quality and compliments must be encouraged in a brainstorming exercise.

### **d. Reverse Brainstorming**

It is similar to brainstorming but criticisms are allowed in reverse brainstorming. This method is based on finding faults or drawbacks in the proposed ideas. As this

method focuses on finding the negative aspects of the ideas or products, utmost care must be given to maintain the group's morale. After the negative aspects are fully noted, it is followed by discussion on how the problems could be addressed. As this method focuses on finding the negative aspects of the ideas or products, an utmost care must be given to maintain the group's morale. After the negative aspects are fully noted, it is followed by discussion on how the problems could be addressed.

### e. Brainwriting

Brainwriting is popularly referred as written brainstorming. Each member in the group is given a card or form where they write the ideas and circulate to other members for writing their ideas.

### f. Problem Inventory Analysis

It is similar to focus group discussion for generating new ideas. The customers are provided with a list (inventory) of problems in a general product category. They are then asked to identify and discuss about the problems they have in the given product category. The key element, in this technique, becomes the list of problems based on which ideas are invited from the customers to improvise or create a new product. Thus, a proper compilation and analysis of the listed problems are often helpful in developing new products or improving the existing ones.

### g. SCAMPER Technique

SCAMPER is an acronym for Substitute, Combine, Adapt, Modify or Magnify, Purpose or Put to another use, Eliminate or Minimise and Rearrange or Reverse. It is a team brainstorming technique used to generate ideas to develop or improve products or services. A product or service is chosen and the discussion revolves around:

- **Substitute:** What can be replaced or substituted? For example, components, materials, people or a step in a service.
- **Combine:** What can be combined? For example, components, devices, steps in service, etc.
- **Adapt:** What can be added? For example, adding new elements or functions.
- **Modify or Magnify or Maximise or Minimise:** What can be modified? For example, change the size, shape, colour or other attributes of the product or service.

- **Put to other use (Purpose):** Can the product be put to a different use or use it in another industry? For example, PET bottle used for storing water, worn out tyres used as flower pots, etc.
- **Eliminate:** What can be removed for simplification? For example, self-serve kiosk in place of food being served by waiters, elimination of keypad from mobile phone, doing away of clutch by introducing auto gear system in automobile, etc.
- **Reverse or Reengineer or Rearrange:** Can the production process be reversed? What can be swapped or flipped? For example, autocratic decision-making being democratised, manual steering to power steering, etc.

In addition to the aforementioned methods, the learners may also explore other business idea generation methods such as checklist, free association, forced relationships, collective notebook, attribute listing, big-dream approach, parameter analysis, Delphi technique, scenario analysis, cost-effect analysis and morphological analysis.

### Learning Activity 2.1

This activity aims to help learners to generate business ideas using the business idea generation method(s) discussed earlier.

**Instruction:** In group recapitulate the business idea generation methods discussed in the class and complete the given task.

**Note:** *Formation of group is very important as learners are suggested to continue to work in the same group until the completion of business plan.*

**Task:**

Using the business idea generation methods, list as many business ideas as possible and make a presentation to the class.

### 2.2.2 Business idea screening

It is not possible and recommendable to implement all the business ideas generated through Learning Activity 2.1. Pursuing all the ideas generated may require distribution of efforts and resources which will result in inefficiency, ineffectiveness and failure, especially when skills and resources are scarce. Therefore, impractical

ideas must be eliminated and promising ideas must be chosen for further pursuit. Some of the commonly used methods for screening the business ideas PESTLE Analysis are:

#### a. PESTLE Analysis

PESTLE analysis describes a framework for assessing macro-environmental factors that influence an organisation. It is an acronym for Political, Economic, Social, Technological, Legal and Environmental factors that influence an organisation from the perspective of external business environment. An analysis of PESTLE factors is necessary for making a strategic decision and screening business ideas. Ascertaining the favourability of the PESTLE factors is important for pursuing the business ideas. Each of the factors is briefly described here:



Figure 2.2: PESTLE analysis

##### i. Political factors

The political factors include any changes in government, policies and regulations and stability of the political environment that influence the business operations and determine success or failure of the business to a large extent.

*ii. Economic factors*

Since the businesses sell its products and services to the customers, it is important to consider the purchasing power of the target market as it will determine the demand for the products and the services. For this, understanding the level of disposable income, unemployment rate, inflation rate, tax rates, etc., are important.

*iii. Social factors*

The factors that relate to customer taste and preferences, lifestyles, buying patterns, cultural values, societal norms and, religious beliefs, etc., that affect customers' taste and preferences, lifestyles and buying patterns must be properly studied.

*iv. Technological factors*

The innovation and technological dynamics impact operations of businesses. Therefore, the favourability of the technological environment such as the availability of technology to be used in the business, its future usability, compatibility with new development, cost of switching, etc., must be studied before investing in any business.

*v. Legal factors*

Operation of business in accordance with the legal framework is basic requirement for a business to stay afloat. Businesses must be familiar with the provisions of different laws of the state such as Labour and Employment Act, Consumer Protection Act, Environmental Act and Companies Act and ensure compliance to avoid any unwanted legal consequences.

*vi. Environmental factors*

It is also known as the ecological factors. It relates to the relationship of the business with factors in the natural environment. Importance must be placed on how the practices such as use of raw materials, technology and energy sources impact the environment. Other environmental concerns such as water, noise, air and soil pollutions that the business might cause must be taken care of. On the other hand, the impact of natural disasters such floods or earthquakes or any changes in the natural environment on business operations must also be accounted for.

Above all, at the business idea stage, it is essential that the PESTLE analysis is conducted to see how each of the factors is favourable for pursuing a specific idea. If the factors are found to be unfavourable, pursuing the business idea will lead to negative consequences.



## **b. SWOT Analysis**

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Analysis of SWOT helps to understand the business's strengths and weaknesses which could be used to seize opportunities and counteract threats.

### *i. Strengths*

Strengths are within the control of the entrepreneur and they occur at present moment. Strengths must be capitalised and harnessed to render the weaknesses insignificant. Some examples of strengths could be having managerial experience, good network and relationship with banker, family support for pursuing the business idea, accessibility to market, having technical knowledge and expertise, availability of land, adequate knowledge about the product or service and good reputation of the entrepreneur.

### *ii. Weaknesses*

Like strengths, weaknesses are also within the control of the entrepreneur. They also occur at present moment. Weaknesses are usually linked with what the entrepreneur or business lacks – absence of favourable conditions and resources and other internal weak points of the business. Weaknesses must be eliminated as far as possible. Lack of business experience, poor knowledge about the product or service, bad history of personal finance and financial knowledge, inability to conduct market research, shortage of capital and poor network and relationship with stakeholders are some examples of weaknesses.

### *iii. Opportunities*

Opportunities are favourable factors in the external environment. The entrepreneur must take advantage of opportunities as it makes the business idea potentially viable. However, opportunities are mostly beyond the control of the entrepreneur. They are different from strengths. While strengths are positive internal factors of the business, opportunities are positive conditions in the external business environment. Few and instable competitors, growing demand for the products and services, availability of cheaper raw materials, availability of skilled workforce and supportive government policies are some of the examples of opportunities.

### *iv. Threats*

Threats are unfavourable factors in the external environment. Like opportunities, these are normally beyond the control of the entrepreneur. If threats are not

counteracted properly, they will affect the business adversely. Although both threats and weaknesses have negative impact on the business, threats differ from weaknesses as it is beyond the control of the entrepreneur. A proper analysis of threats must result in effective ways of hedging and counterbalancing actions for reducing the negative impacts. Some of the examples of threats are rising interest rates, poor infrastructural facilities, economic instability, political unrest, unfavourable exchange rates, rising material costs, rising labour costs and ease of entrance for competitors.

Generally, for the purpose of screening business ideas, the ideas with maximum strengths and opportunities, and minimum weaknesses and threats must be chosen for further pursuit.

### c. Criterion Analysis

As every idea is not relevant and doable, criterion analysis uses certain criteria against which each of the ideas are evaluated and promising ones are chosen. Although criteria or evaluation matrix can be developed on case-by-case basis, following are two examples of criterion analysis which can be used for evaluating the goodness of an idea.

#### i. The Idea Evaluation Matrix by BCITSA

The Idea Evaluation Matrix by British Columbia Institute of Technology Student Association (BCITSA) is a screening process, a filter and a qualitative decision-making tool used to evaluate and prioritise business ideas. This tool is used to identify potential ideas from a massive list of ideas. The matrix evaluates the ideas by assessing whether the ideas are different or better; capable of delivering value; doable or practical and weighs its cost and benefit. However, other criteria can be added to customise the matrix for making it suitable for one's need.

Table 2.1: Idea Evaluation Matrix by BCITSA

BCITSA Idea Evaluation Matrix							
IDEAS	Scoring	CRITERIA					
	1=Low 2=Moderate 3=High	Different or Better	Delivers Value	Doable or Practical	Cost / Benefit	Other?	TOTAL SCORE

High priority criteria are briefly explained here:

- *Different or Better:* The idea must be innovative (improvement over existing) or inventive (something new) and be different from what already exists. It must have an added value over and above what the target market is currently using to solve the problems they are experiencing.
- *Delivers Value or Solves a Problem:* The idea must address a specific problem that is faced by the customers. It must deliver value for which the customers are ready to pay. Attention must be paid to needs versus wants of the customers – if your idea is what they need, they will not mind paying for it, however, if it is what your customers want then the willingness to pay for it will be weaker.
- *Doable or Practical:* The idea may be remarkable but if it is beyond the capability of current technologies or is on the bleeding edge of technology development, it will be difficult to develop the product and convince the target market. Most ideas require proven technologies. Thus, this criterion is about the feasibility of implementing the idea.
- *Cost or Benefit:* The essence of the idea is to provide value to customers for solving their problems. A higher score must be assigned to those ideas with more benefits than the cost of delivering the value.

Once the criteria are confirmed, the ideas can be listed in the first column of the matrix. Then, each idea must be assessed against the pre-determined criteria. The scoring can be done by assigning 1 for indicating a low score, 2 for a moderate and 3 for a high score. The ideas with the higher total score can then be chosen for further pursual. (Source: Adapted from BCITSA Entrepreneurial Services)

## ii. CEFE's Criterion Analysis

Another popular template for criterion analysis is the one developed by Competency-based Economies through Formation of Enterprise (CEFE).

The business ideas are listed on the left-hand side of the given template. These ideas are then evaluated based on some predetermined criteria. For every criterion, an appropriate rating from 1 to 5 is assigned. Weight must be assigned based on the importance of each criterion for every idea. Total weighted scores are then calculated for every idea and typically, the ideas with the highest weighted scores are chosen for further selection. The Critical Success Factors which do not form a part of evaluation criteria are also noted so that due attention is paid for these factors as well.

Table 2.2: CEFE's Criterion Analysis

Business Ideas	Criterion A			Criterion B			Criterion C			Criterion D			Criterion E			Total Weighted Score	Critical Success Factor (CSF)
	R	W	WS	R	W	WS	R	W	WS	R	W	WS	R	W	WS		
1																	
2																	
3																	
4																	
5																	
6																	

**Legend**

R - Rating

W - Weight

WS - Weighted score

**Rating**

5 - Excellent

4 - Very satisfactory

3 - Satisfactory

2 - Fair

1 - Poor

**Criterion**

A - Market availability

B - Raw material availability

C - Technology availability

D - Skills availability

E - Ease of implementation.

**Notes:**

1. Total of the weights of the criteria used in rating one project must equal 100% or 1.
2. It is advised to assign weight for the criteria considering the level of importance (criticality) of the criteria to pursue the idea. This can be done using a forced ranking system to compute the weights.
3. Weights are computed as follows:

	Market Availability	Raw Material Availability	Technological Availability	Skills Availability	Ease of Implementation	Total
Force Rank	1	2	3	4	5	
Force Rank Points	5	4	3	2	1	15
Weight (W)	0.33	0.27	0.20	0.13	0.07	1
Rating (R)	5	4	3	2	1	
Weighted Score (WS)	1.67	1.07	0.60	0.27	0.07	3.67

- Force rank must be assigned based on criticality of the criteria for pursuing the business idea.
  - Based on the assigned force ranks, the criteria with force rank 1 must be given highest force rank point (5). Rest of the criteria should receive force rank points accordingly.
  - Next, weights for each criterion must be calculated. Divide force rank points of each criterion by the total force rank points to compute weights.
4. The criteria must also be rated based on the current situation of the criteria on a scale of 1 to 5 (1 means poor..., and 5 means excellent).
  5. Then, weighted score (WS) must be computed by multiplying the rating (R) by corresponding weights (W) of each criterion.
  6. The possible highest total weighted score is 5. The ideas with the higher total weighted score must be chosen for further selection. Due attention must be paid to the critical success factors, if any, for each idea. CEFE's criterion analysis is based on a ranking scale of 1 to 5 and weights for 5 criteria. Although the criteria may be customised, not every criterion deemed to be essential for evaluating each idea can be accommodated. Therefore, if such factors are there, they must be noted in the critical success factor column.

(Source: Adapted from CEFE course pack)

## Learning Activity 2.2

This activity intends to help learners to conduct screening of business ideas using the business idea screening method(s) discussed earlier.

**Instruction:** In the group already formed, study the business idea screening methods and complete the given tasks.

### **Task:**

- a. Using appropriate business idea screening methods discussed in the class, conduct screening of business ideas from the list of ideas generated in Learning Activity 2.1.
- b. Share the results with the class and explain how the screening of ideas was done.

### 2.2.3 Business idea selection

Having generated and screened the business ideas, now it is time for selecting the most feasible idea.

The PESTLE analysis conducted earlier has looked into the suitability of macro-economic factors for pursuing the ideas. Likewise, SWOT analysis checked on the strengths, weaknesses, opportunities and threats surrounding the ideas. Further, criterion analysis helped in the screening ideas. Now, it is time to pay additional attention to select the right idea. This can be done through four broad feasibility studies namely market, technical, organisational and financial feasibility studies. The detailed feasibility studies will be conducted when the entire business plan is prepared in the subsequent units. At this stage, putting the ideas through a qualitative feasibility checklist in four broad areas is sufficient.

#### a. Market feasibility checklist

This checklist helps in understanding whether there is a need for the proposed business idea in the market, intensity of competition that is likely to be faced, adequacy of revenue, preparedness with marketing strategies and extent of marketing expenses and noncurrent assets required for marketing purposes. The entrepreneur can use the following checklist:

Table 2.3: Market feasibility checklist

SL No.	Key Checklist	YES	NO
1	There is need for the proposed product or service.		
2	There are no or lesser similar products or service offered presently.		
3	There is a considerable surplus gap of demand over supply of the product or service.		
4	There are proper marketing strategies developed for addressing the gap.		
5	There is adequate resource provision for marketing expenses and noncurrent assets.		
6	The marketing staff is available.		
7	There are growth and expansion possibilities if the idea is pursued.		

#### b. Technical feasibility checklist

It is important to know the ability of the business to produce or offer what it intends to offer. This requires to check the availability of resources, technology, technical know-how, operational logistics, etc. Following checklist may be useful in getting this done:

Table 2.4: Technical feasibility checklist

SL No.	Key Checklist	YES	NO
1	There is a proper plan for production facility.		
2	The production process and methods are well researched and prepared.		
3	The raw materials are available as required.		
4	There are financial arrangements made for the acquisition of equipment and incurring operational expenses.		
5	The technical and operational staff is available.		

### c. Organisational feasibility checklist

Organisational feasibility requires checking on the nature, form and name of the business,; credentials of the proponents,; organisational structure,; human resource requirements,; administrative overheads and capital expenditure required for administrative purposes. These can be confirmed using the following checklist:

Table 2.5: Organisational feasibility checklist

SL No.	Key Checklist	YES	NO
1	The form of the business and business name are decided.		
2	The capability profile of the proponents is prepared.		
3	Organisational structure and segregation of duties of the staff is ready.		
4	Recruitment and selection of the staff is planned.		
5	The financial arrangement for meeting cost of administrative staff, administrative overheads, and noncurrent assets for administrative use is arranged.		

### d. Financial feasibility checklist

In addition to the earlier feasibility checklists, understanding the preparedness of the business from the financial perspective is also important. Following may be looked at as a part of financial feasibility checklist:

Table 2.6: Financial feasibility checklist

SL No.	Key Checklist	YES	NO
1	The total project cost of implementing the idea is determined.		
2	The financing plan is prepared.		
3	Security for debt is being arranged.		
4	Preparation of projected financial statements are planned.		
5	Key financial analysis such as breakeven analysis, payback period determination, estimation of profit margin, and calculation of internal rate of return are done.		

The feasibility checklist exercise will enable the entrepreneur to know about the preparedness of the entrepreneur in pursuing the business ideas. In addition to the insights drawn from the business idea screening exercise 2.2, the feasibility checklist will help in selecting the right business idea.

### Learning Activity 2.3

This activity aims to help learners to conduct selection of business ideas using the business idea feasibility checklists.

**Instruction:** In the existing group, use the business idea feasibility checklists and complete the given tasks.

**Task:**

- a. From the list of business ideas screened, use the marketing, technical, organisational and financial feasibility checklists to select the best idea.
- b. Present the results and explain how the best idea was selected.

## 2.3 Intellectual Property

Intellectual Property (IP) is an intangible property resulting from creativity and innovation. Some of the common intellectual properties include copyrights, trademarks, patents and industrial designs.

According to the World Intellectual Property Organization (WIPO), Intellectual Property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce. WIPO is the global forum for intellectual property services, policies, information and cooperation.

Once the entrepreneurs come up with innovative business ideas, concepts, innovations, or inventions that has enormous market potential, protecting these from unauthorised use by any others becomes a major concern. Protection of IP under law enables the owner (entrepreneur) to earn recognition or financial benefit from the invention or creation, thereby fostering an environment in which creativity and innovation can flourish. Moreover, development of the knowledge economy, the globalisation of markets as well as the increasing complexity of products and services has increased the importance of Intellectual Property Rights (IPRs). IPRs refer to a broad range



of legal rights conferred by laws of the IP to the owner of the IP.

In Bhutan, the Department of Intellectual Property, Ministry of Economic Affairs is responsible for implementing the policies and laws concerning IP. The Copyright Act of the Kingdom of Bhutan, 2001 and The Industrial Property Act of the Kingdom of Bhutan, 2001 are the laws governing IP in Bhutan. In addition, the National Intellectual Property Policy 2018 aims at developing an IP system consistent with best international practices that encourage creativity, innovation and inventiveness and provide protection through appropriate legislations.

### ***2.3.1 Types of Intellectual Property***

IP consists mainly of two branches:

- a. Copyright
- b. Industrial Property

#### **a. Copyright**

According to WIPO, Copyright relates to literary and artistic creations such as books, music, paintings and sculptures and films and technology-based works (such as computer programs and electronic databases).

Copyright protects two types of rights – economic rights and moral rights. Economic rights allow right owners to derive financial rewards from the use of their works by others. Moral rights allow authors and creators to take certain actions to preserve and protect their link with their works. The author or creator may be the owner of the economic rights or those rights may be transferred to one or more copyright owners. In general, the economic and moral rights shall remain protected through the entire life of the author(s) and for fifty years after the death of the author(s).

#### **b. Industrial Property**

Industrial property is one of the two categories of Intellectual Property. It includes patents, industrial designs, trademarks or service marks and geographical indications.

##### *i. Patents*

According to The Industrial Property Act of the Kingdom of Bhutan, 2001, a patent refers to the title granted to protect an invention. Invention refers to an idea of an inventor which permits in practice the solution to a specific problem in the field of

technology. An invention may be related to either a product or a process.

Patents are the most widespread means of protecting technical inventions. The patent system is designed to contribute to the promotion of innovation and the transfer and dissemination of technology to the mutual advantage of inventors, users of inventions and the general public. The owner of a patent has the right to prevent anyone else from commercially exploiting the invention for a limited period, generally 20 years. Once the patent expires, the protection ends and the invention enters the public domain.

#### *ii. Utility Model*

Utility model is also a type of industrial property, which is similar to patents but sought for technically less complex inventions or for commercially short-lived inventions. It is not popular in many countries and it is granted usually for incremental innovations upon something, which has already been invented. The duration of protection of utility model under law ranges from 7 to 10 years.

One easy example to relate with will be the case of marker pen and its cover. Marker pen is an invention but the ink dries up when kept open. Thus, people have come up with the cover and lid to prevent the drying. So, in this case cover and the lid is the utility model which has increased the value of the marker pen which has already been invented.

#### *iii. Industrial Designs*

It refers to the ornamental or aesthetic aspects of an article including composition of lines or colours or any three-dimensional form that gives a special appearance to the product or handicraft. It applies to wide range of industrial products and handicrafts. The design must have aesthetic appeal. Moreover, it must be something that can be reproduced by industrial means for mass production; this is the essential purpose of the design and the reason why the design is called 'industrial'. From a legal perspective, an industrial design refers to the right granted to protect the original, ornamental and nonfunctional features of a product resulting from design activity.

In Bhutan, the validity of an industrial design shall be for a period of five years from the date of filing the application for registration. The registration may be renewed for two consecutive terms of five years each through a payment of the prescribed fee.

#### *iv. Trademark*

A trademark is a sign, or a combination of signs that differentiates the goods or services of one company from another. The signs may be in the form of words, letters, numerals, pictures, shapes and colours or any combination thereof. Trademarks are commonly used on goods as well as for marketing purposes through advertisements, packages, newspapers, etc. Trademarks are usually renewable indefinitely upon paying renewal fees.

In addition to trademarks, there are other marks such as Collective Marks, Trade Name and Service Mark which distinguishes a company and its products from that of others.

Collective mark refers to any visible sign designated as such in the application for registration and capable of distinguishing the origin or any other common characteristic, including the quality of goods or services of different enterprises which use the sign under the control of the registered owner of the collective mark. It is a trademark that belongs to an association or organization, such as an association of accountants, engineers and entrepreneurs, whose members use it for the purpose of differentiating their products and services from that of the non-members with regard to the level of quality and standards set for the association.

Trade name refers to the name or designation of an enterprise that it is commonly known as. It is more like a name that is used by enterprises in doing their business which could be different from their registered name. The name 'Tashi Cell' is a trade name by which people refer to Tashi Infocomm Limited (registered name) and the company also uses it for advertising and doing business. Thus, a trade name is DBA name (Doing Business As name). A trademark which is used specifically in association with services is called service mark. It is used by businesses in the service industry.

#### *v. Geographical Indication*

It is a sign used on goods that have a specific geographical origin and possess qualities or a reputation due to that place of origin. Geographical indication is commonly used for agricultural products, culture and tradition-oriented products, etc. Assam Tea and Darjeeling Tea are examples of geographical indication.

### Learning Activity 2.4

This activity aims to facilitate learners' understanding of legal provisions pertaining to the intellectual property regulations in Bhutan.

**Instruction:** In groups, refer the latest Acts governing the intellectual property and IP reports of Bhutan to complete the given tasks. These documents can be accessed from:

[https://www.moea.gov.bt/?page\\_id=941](https://www.moea.gov.bt/?page_id=941) and [https://www.moea.gov.bt/?page\\_id=943](https://www.moea.gov.bt/?page_id=943)

**Task:**

- a. Read the Acts governing intellectual property and reports pertaining to it thoroughly and select one intellectual property or report discussed. Different groups may select different provisions of intellectual property.
- b. Prepare and deliver a presentation on the different provisions pertaining to the chosen intellectual property.

### Chapter Review Questions

1. Compare and contrast the concept of business idea and opportunity.
2. Explain business opportunity identification process.
3. Mr. Dorji aspires to do some business but has no business idea. Advise him how to generate business ideas using business idea generation methods. Further, suggest him suitable techniques for screening ideas generated earlier.
4. Based on your suggestion to Dorji in question 3, advise him to conduct feasibility studies in choosing the most promising business idea.
5. Discuss different types of intellectual properties by citing an example each.
6. Explain the protection of ideas using intellectual property system.

# CHAPTER 3

## Development of Business Model



### *Learning Objectives*

- ✧ Describe the components of Business Model Canvas
- ✧ Develop Business Model Canvas for the selected idea
- ✧ Conduct an assessment of the business model
- ✧ Deliberate on embedding sustainability in business model

## 3.1 Business Model Canvas

The introduction to Business Model Canvas (BMC) was already covered in chapter 3 of the Business and Entrepreneurship textbook of Class XI. Nevertheless, this chapter will begin with a brief description of BMC to reiterate and make the concepts clear.

Business model describes the rationale of how an organisation creates, delivers and captures value. In simple terms, it refers to how a business plans to make money. This requires entrepreneur to clearly identify the customer segment(s) that he or she wishes to serve; plan the value propositions intended to be offered; plan the channels through which information and the products are to be delivered; strategise how customer relationships will be developed and nurtured; explore and identify the revenue streams for the business; identify and plan arrangement of key resources; recognise the key activities the business must undertake; strategise how to develop key partnerships; and estimate the cost and cost structure for the business. These 9 interrelated components constitute the building blocks of BMC. Each of these components is briefly discussed below:

### 3.1.1 Customer Segment

The customer segment building block defines the group of individuals or organisations that the business aims to reach and serve. They represent the group for whom the business is creating value. Customers make up the heart of any business model and without them no company can operate. Businesses typically group their customers into segments based on their common needs, behaviors or other attributes to serve them better. Mass market, niche market, segmented market and diversified market are few examples of customer segments.

### 3.1.2 Value Proposition

Value proposition describes the bundle of products and services that create value for the specific customer segment. The value proposition should describe how the product solves customer problems, benefits the customers can expect and why customers should buy from one business over its competitors. Unique and superior value proposition distinguishes and gives a competitive edge to the business over its competitors. The price, turnaround time, product volume, etc., could be examples of quantitative value whereas the newness, performance, convenience, brand, customisation, design of the product and customer experience could be considered as qualitative value.

### ***3.1.3 Channel***

The channel describes how a company communicates with and deliver its value proposition to its customer segment. It is important to understand which pathway (or channel) is best for the business to reach its customers. A company can choose to reach its consumers either through its own network (Business-to-Consumers (B2C)) or Partner channel (Business-to-Business (B2B)) or through a mix of both. In a broader sense, a channel not only includes the mode of transportation but also medium such as websites, social media and other promotional mix through which the business communicates with its customers. While deciding upon the channel, the entrepreneur must pay due consideration to all the phases a customer goes through while purchasing and consuming the product or service – awareness creation, evaluation of the value proposition, the actual purchase of the product, delivery of the product and availing after sales services.

### ***3.1.4 Customer Relationships***

Customer Relationships building block describes the nature of relationship a business establishes with each of its customer segments. It helps in customer acquisition and retention to boost sales. Customer relationship could be improved through personal assistance, automated services, self-service and co-creation to deliver unique user experience.

### ***3.1.5 Revenue Streams***

Revenue streams building block represents the cash that a business generates from each customer segment. If customers are considered as the heart of the business model, revenue streams are its arteries. There are several ways a business can generate revenue. Some of the ways through which revenue streams can be generated are sale of assets, usage fee, subscription fee, renting, leasing, licensing, brokerage and advertising fees.

### ***3.1.6 Key Resources***

Key resources building block describes the most important resources needed by an organisation to make its business model work. Key resources can be intellectual, financial, physical or human. Every model requires key resources and it is through key resources that businesses generate value propositions, offer value propositions to its customer segments, maintain relation with its customers and generate revenue.

### ***3.1.7 Key Activities***

This building block describes the business activities without which the business cannot operate. Every business model requires key activities and they vary depending on the business model. Like key resources, they are essential to create and offer a value proposition, reach markets, maintain customer relationships and earn revenues.

### ***3.1.8 Key Partnerships***

Key partnerships building block refers to the network a business builds with the stakeholders such as suppliers, distributors and other partners which make the business model work. These partnerships enable the business to mobilise resources, reduce risks and uncertainties to succeed. Different types of essential partnerships are strategic alliances between non-competitors; competition – strategic partnerships between competitors; joint ventures to develop new businesses; and buyer-supplier relationships to ensure reliable supplies.

### ***3.1.9 Cost Structure***

Cost structure refers to the cost incurred in implementing the business model. This component of BMC is important in understanding the cost impact and deciding whether to proceed with the business or change some components in the BMC as desired. Generally, businesses may be categorised into cost-driven and value-driven businesses. The cost driven businesses will always attempt to minimise cost whereas the value driven businesses will focus less on cost and focus more on enhancing the value of the products and services for the customers.



### 3.2 Development of Business Model Canvas

Business Model Canvas is a basis for writing a business plan. Therefore, it is advisable for an entrepreneur to sketch the BMC prior to preparing a full-fledged business plan. Figure 3.1 represents a template which can be adapted for the purpose of developing a BMC.

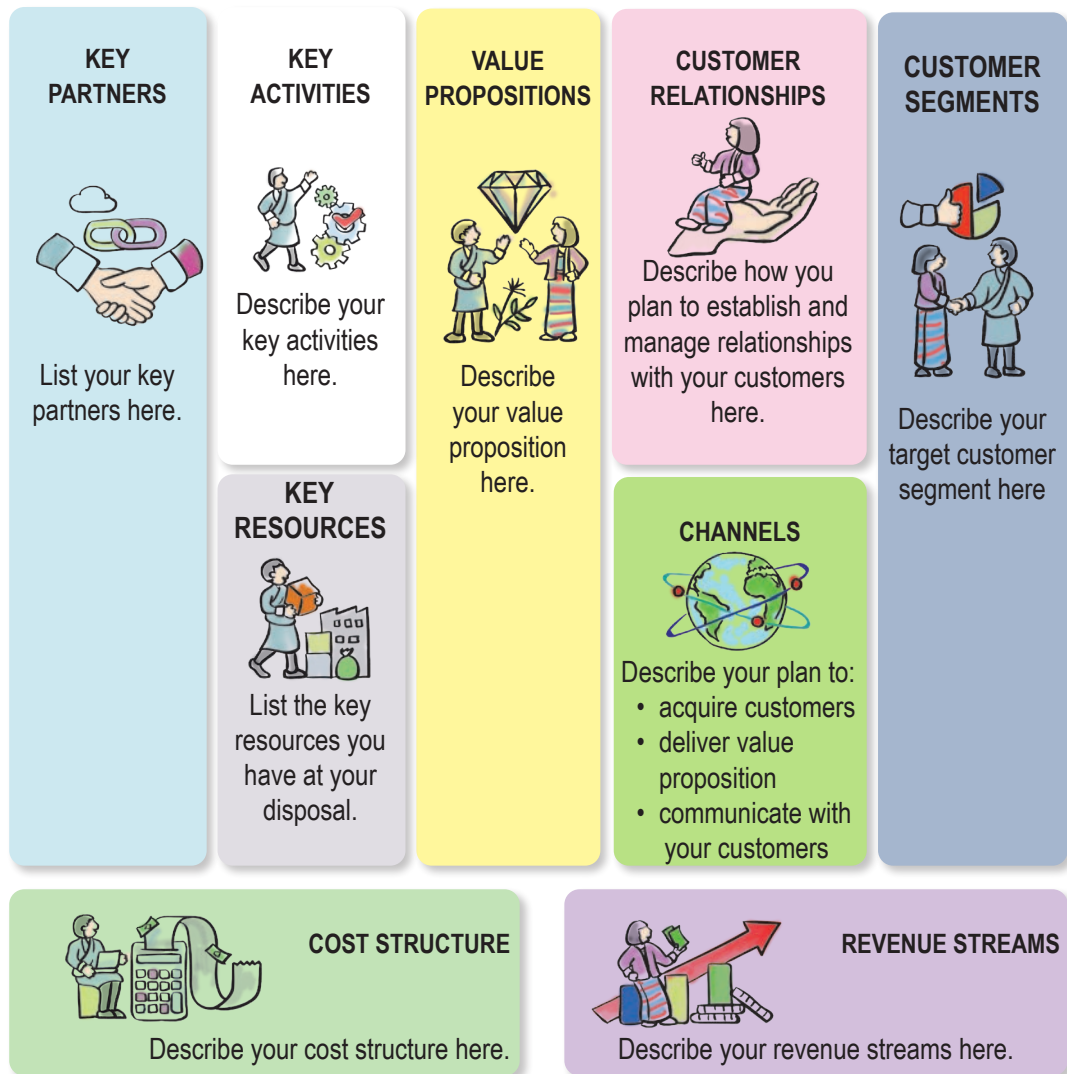


Figure 3.1: Template for Business Model Canvas

### Learning Activity 3.1

This activity aims to enable learners to develop their own Business Model Canvas.

**Instruction:** Refer the business idea your group has selected towards the end of chapter 2 and complete the given tasks.

**Task:**

Develop a Business Model Canvas for the selected idea and present it to the class.

### 3.3 Assessment of Business Model

The assessment of business model is an essential exercise to test the overall relevance and appropriateness of the model. A popular method used to conduct the assessment of business model is to put the business model through a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities and threats. SWOT analysis provides these four perspectives from which a business model can be assessed. Figure 3.2 represents the SWOT matrix.



Figure 3.2: SWOT Matrix

Strengths and weaknesses are internal to the business while opportunities and threats relate to the external environment of the business. Strengths and opportunities are factors which are helpful for the business while weaknesses and threats are factors which affect the business negatively. Using SWOT analysis for assessing business model enables the entrepreneur to understand the strengths and weaknesses the business model possesses; identify the opportunities the business model has and recognise the threats associated with the business model. The analysis of business model requires close examination of each of the 9 building blocks of the Business Model Canvas. A brief description of assessing business model using SWOT is given below:

### ***3.3.1 Assessment of Strengths***

While assessing strengths, it is important to pay attention to all the 9 building blocks. The entrepreneur must clearly understand the strengths of the business model and further enhance it to take advantage of the opportunities. Some of the probable strengths related to customer segments could be well segmented customer base; high attraction and retention rate and low churn rate. Similarly, value proposition aligned with customer needs; satisfied customers with the value proposition and uniqueness and inimitability of value proposition could be strengths related to value proposition. Efficient and effective channels; high economies of scope of the channel and wider and well-integrated channels could be some channel-related strengths. Some of the strengths related to customer relationships could be strong customer relationships; proper fit between relationship and customer segment; strong brand image and binding customers through high switching cost. Some strengths associated with revenue streams could be high margins; stable, and sustainable and diversified revenue streams. Availability of required resources; inimitability of the resources and their combination, and efficient inventory management may be some of the strengths pertaining to key resources. Likewise, efficient and inimitable processes may be some strengths related to key activities. Strong relationships with partners, and having committed and reliable key partners could be primary strengths related to key partnerships block. The strengths associated with cost structure could be low-cost impact, predictable costs; cost-efficient operations and economies of scale..

### ***3.3.2 Assessment of Weaknesses***

Like strengths, it is important to understand the weaknesses of the business model. The entrepreneur must always attempt to convert the weaknesses into strengths or at least hold it constant so that it does not disrupt the business functioning. Some of the weaknesses related to the 9 building blocks could be unsegmented customer base; low

customer acquisition and retention rate; high churn rate; misaligned value proposition and customer needs; inefficient channels; poorly integrated channels; weak customer relationships; weak brand image; low switching cost for customers; poor margins; unpredictable revenue; single revenue stream; high revenue collection cost; easily replicable key resources; unpredictable resources requirement; easily imitable key activities; poor working relationships with partners; high and unpredictable costs; cost-inefficient operations and lack of economies of scale.

### ***3.3.3 Assessment of Opportunities***

The assessment of business model from the perspective of the opportunities associated with the business model is also essential to enable the entrepreneur to capitalise on the opportunities and enhance the prospects for the business. Some of the notable examples of opportunities pertaining to the building blocks of the business model could be possibilities of serving new customer segments; growing market prospects; possibilities of serving the existing segments better; possibilities of enhancing the value proposition; potentials of satisfying new customer needs; prospects of improving the channels; prospects of enhancing customer relationships through ways such as automation and personalisation; potentials for enhancing revenue streams and customers' willingness to pay better prices; improving efficiency and effectiveness of key activities; possibilities of resource optimisation; capitalising on intellectual properties; exploring outsourcing opportunities; enhancing relationships with key partners and prospects of reducing or sharing costs.

### ***3.3.4 Assessment of Threats***

Threats are external factors which could affect the success, competitive position and overall sustainability of the business. Proper assessment of threats is indispensable for mitigating the threats and ensuring proper risk management. Some of the examples of threats associated with 9 building blocks of the business model could be market segments nearing saturation; intense competition in the market segments; availability of wide range of substitutes for the value proposition the firm is offering; better pricing strategies of the competitors; risk of channels becoming irrelevant; danger of deteriorating customer relationships; firm's margins being threatened by the competitors; too much dependence on one revenue stream; possibility of disruption in the supply of key resources; deteriorating quality of key resources; possibility of key activities being disrupted; danger of losing partners; too much dependence on certain partners; costs becoming highly unpredictable and issues with rising cost.

The entrepreneurs must assess the relevance and viability of the business model

regularly – both before and after the commencement of the business.

### Learning Activity 3.2

This activity will facilitate learners to conduct SWOT analysis of their business model.

**Instruction:** Based on the SWOT matrix and analysis described above, use the table below to complete the given task.

9 Building Blocks	Strengths	Weaknesses	Opportunities	Threats
Customer Segment				
Value Proposition				
Channel				
Customer Relationships				
Revenue Streams				
Key Resources				
Key Activities				
Key Partnerships				
Cost Structure				

**Task:**

Conduct a SWOT analysis of your business model and present it to the class. You may also need to revise your business model based on the SWOT analysis results.

## 3.4 Sustainability of Business Model

Sustainable business model can be defined as a business model that creates, delivers and captures value for all its stakeholders without depleting the natural, economic and social capital it relies on.

Conceiving business ideas and establishing businesses are very important. Building a sustainable business is even more important. There are several methods and standards used for assessment and certification of the sustainability of a business, not just from the financial or economic perspective but also from the environmental and social perspectives. While most of these tools and standards are used for already established businesses, it may be thoughtful and important to consider sustainability

of the business before the business is even being established. Therefore, assessment of the sustainability of the business model is deemed important.

Startups could explore using following approaches for assessing the long-term sustainability of their businesses:

### 3.4.1 Triple Bottom Line

Conventionally, businesses were mostly driven by profit motive. However, businesses today have given strenuous focus on sustainability beyond profitability. Social and environmental aspects of sustainability have now become more important especially with growing level of knowledge and awareness amongst the general populace on social and environmental issues. Triple bottom line theory expands the conventional accounting framework to incorporate social and environmental impacts of businesses. The triple bottom line is often referred as 3Ps of sustainability – People, Planet and Profit.

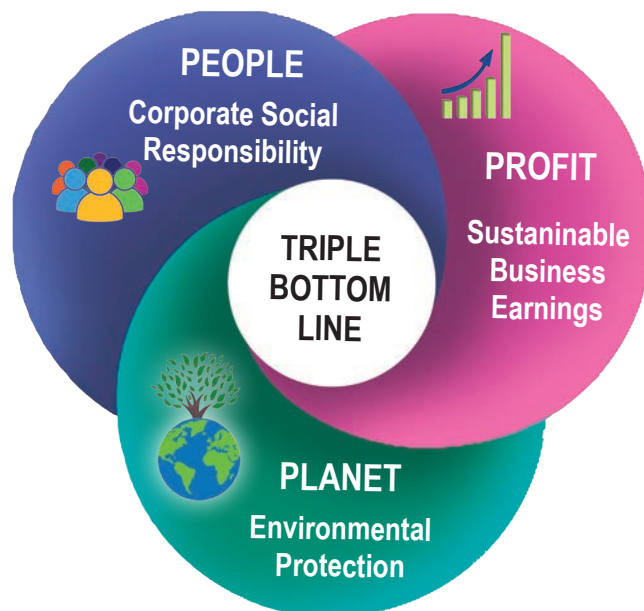


Figure 3.3: Triple bottom line

The long-term success and sustainability of the business is not just determined by how much profit the business earns, it is equally determined by how the business fulfills its social and environmental responsibilities. Therefore, it is essential for startups to understand the importance of triple bottom line and decide on incorporating 3Ps into their business model.

### Learning Activity 3.3

This learning activity aims to facilitate learners to integrate Triple Bottom Line into their proposed businesses.

**Instruction:** Read the article in the box 3.1 on Manufacturing of Egg Tray under the initiative of YDF and complete the task.

**Task:** Deliberate on integration of Triple Bottom Line into your proposed businesses and present the results to the class.

**Box 3.1:** *An Application of Triple Bottom Line at Waste Paper Recycling Unit: Manufacturing Egg Trays – an Initiative of YDF*



The Waste Paper Recycling Unit (WPRU) is an innovative, green and social enterprise dedicated to manufacturing pulp egg trays with a certain percentage of profits going to youth development projects in Bhutan.

With the vision to preserve Bhutan's natural environment, the enterprise recycles wastepaper into pulp egg trays to meet the demands of local poultry farms. On the social front, it offers employment opportunities to the youth and generates fund for youth development projects in Bhutan.

Bhutan Youth Development Fund (YDF) launched this green enterprise in 2015 with an establishment funding from the UNDP's Small Grant Program (SGP) and Goodwill Foundation USA on an industrial estate area leased by the Ministry of Economic Affairs at Bjemina, Thimphu.

In the last six years, the enterprise has recycled over 270 metric tonnes of wastepaper and manufactured more than 4 million egg trays (valued at Nu. 13.2 million) for poultry farmers in Bhutan. As a social enterprise guided by the principles of the triple bottom-line — people, planet, and prosperity, it is adding social and environmental good to the goal of turning a profit by:

**People** (social) *employing young* and early school-leavers, and in particular, those youth who are recovering from substance abuse addiction as production associates. Through our local distributor, Karma Groups, pulp egg trays go to poultry farms at a competitive price.

**Planet** (environment) *collecting and recycling wastepaper* into pulp egg trays, through conscious, sustainable ways leaving behind a minimum ecological footprint. According to a UNDP environment expert, the annual environmental value of the enterprise is **142 tonnes of GHG emission** (Green House Gas) avoided and sink protected, **985 trees saved** and **2027 litres of water saved** due to recycling of waste papers.

**Prosperity/Profit** (economy) *boosting local economy* by substituting import of egg trays; and *generating surplus* to be self-sustaining and supporting the organisation's overall youth development efforts like educational scholarship, rehabilitation of drug addicts etc..

Like any entrepreneurial venture, and as the country's first egg tray manufacturer, the social enterprise has had challenging times. Drying of egg trays has always been challenging since the enterprise follow natural drying process, and for the fact that egg trays have high moisture content. Generating huge surplus is also difficult because pulp egg tray is a low economic value product and the enterprise is a not-for-profit venture — the dual economic and social foci of social enterprises. The ability to scale-up the venture becomes challenging in many ways.



Today, the enterprise produces on average 15,000 egg trays per week from waste papers received free from various government and corporate offices; and bought from Greenerway, schools, and private garbage vendors in Thimphu, which would roughly be 1250 kgs (average) of wastepaper. At the speed of over 50 metric tonnes of wastepaper recycled, in the next ten years, the enterprise will be saving 9850 trees as well as 1419.49 tonnes of GHG emission avoided and sink protected.

Wastes in Bhutan will continue to grow with growing population and consumption pattern. So is the growth of poultry farming due to dedicated support from the Government. The future of the green economy is hopefully promising as YDF ventures into another egg tray project aimed at **achieving the goal of saving 10,000 trees and 1,500 tonnes of GHG emission in the next five years.**

Around the world, social enterprises are fast emerging as an entity of the alternative economy. When the traditional economic systems of a country or market-based solutions fall short to ensure well-being in the society, social enterprises can spearhead disrupting models to solve growing social problems. Bhutan's Gross National Happiness development framework and carbon-negative status quo is a fertile ground for such kind of business models to test and grow. To have an enabling business ecosystem, Bhutan can still emulate countries with proper support mechanisms and structured policies for social enterprises.

### ***3.4.2 Gross National Happiness (GNH) Certification***

Gross National Happiness is a holistic development paradigm propounded by His Majesty Jigme Singye Wangchuck, the Fourth King of Bhutan in the early 1970s. GNH today is vastly implemented in Bhutan as a holistic and sustainable development approach and has also inspired many countries around the world. Despite its conceptual popularity, the integration of GNH into the business world has remained minimal. Owing to the fact that businesses operate on a conventional profit maximisation principle and with the motive of embedding GNH into business, a team of researchers from the Centre for Bhutan Studies & GNH has developed GNH assessment tool for businesses. The indicators of the assessment tool are based on the 9 domains of GNH – Psychological Wellbeing; Health; Time Use; Education; Community Vitality; Cultural Diversity and Resilience; Good Governance; Ecological Diversity and Resilience; and Living Standards.

The GNH Certification is beyond the scope of a startup firm at its inception stage but more applicable to fully functional and established business organisations. However, it may be wise for startups to assess their business models using the 9 domains of GNH. This will help them understand the likeliness of the businesses' sustainability in the long run. Assessing against following nine domains could help in pondering on the business model's sustainability from GNH perspective:

Following 9 questions could help in pondering on the business model sustainability from GNH perspective:



Figure 3.4: Business model and domains of GNH

### **Chapter Review Questions**

1. In groups, discuss and evaluate the need for a suitable business model.
2. Review the need for assessment of business model.
3. As modern businesses increasingly focus on profit motive, discuss the need for a sustainable business model.
4. Explore the ways through which values and principles of GNH can be embedded into the business models.
5. How can sustainability of a business be ensured through the infusion of GNH principles into the business?



# CHAPTER 4

## Introduction to Business Plan



### *Learning Objectives*

- ✧ Describe business plan
- ✧ Discuss the importance and users of business plan
- ✧ Discuss the components of business plan

## 4.1 Meaning, Importance and Users of Business Plan

A business plan is a written document and strategic tool that describes the details of the proposed business. It must include four essential components namely the marketing, operational, organisational and financial plan of the proposed business. The business plan is the entrepreneur's roadmap for establishing the business. It is also used for ensuring achievement of the vision, mission and objectives set for the venture.

Depending on the use and purpose of the business plan, it is also called by different names – venture plan, loan proposal, investment prospectus or detailed project report. The business plan should be prepared by the entrepreneur. However, the entrepreneur may choose to consult and seek support from other professionals and sources such as business and entrepreneurship experts, consultants, lawyers, accountants, financial experts, marketing consultants and engineers to develop the business plan, if assistance is required.

It is important for the entrepreneur to have a properly researched and well written business plan. Some of the reasons for the importance of business plan are described as follows:

- *Prove the commitment of the entrepreneur* – business partners or stakeholders such as investors, employees and suppliers refer to business plan to ascertain if the entrepreneur is well informed, organised and committed to start the proposed business.
- *Establishment of business milestones* – the entrepreneur must document the vision, mission and objectives of the business in the business plan from which specific milestones can be derived. This also helps the entrepreneurs or businesses to have a sense of direction, purpose and strategy for attaining the milestones of the business.
- *Understanding the market competition* – writing a business plan requires the entrepreneur to undertake a market survey. That information provides an insight into the existing and possible competition in the market. This helps the entrepreneur to position the business well and strategise on ways to gain competitive advantage.
- *Understanding the customers* – a market analysis or an in-depth market research must be conducted for writing a business plan. This helps in gaining insights

about what are the customer needs and how they would like to be served.

- *Knowing the feasibility of the business* – a thorough study of the market prospects of the business along with technical, organisational and financial feasibilities of the business must be conducted in order to write a vibrant business plan. Undertaking these studies will enable the entrepreneur and business partners to ascertain the feasibility of establishing the proposed business.
- *Documenting the business model* – drafting the business model, which is constituted by the nine building blocks, has become a prerequisite for preparing any business plan. Further, the business plan elaborates the ways through which the business will create, deliver and capture value. This helps the business to have a properly documented business model.
- *Determining the financial needs* – the preparation of business plan requires estimating cost and determining financial needs for the proposed business. This will enable the entrepreneur to know how much capital is to be raised and also decide how to raise the required capital.
- *Attracting lenders and investors* – a formal business plan is the basis on which entrepreneurs submit funding proposals to the investors. The investors and banks generally look at market prospects of the business and attractiveness of its financial projections. These can be ascertained from the business plan.
- *Attracting business partners and employees* – establishment and operation of business requires the support and commitment of the business partners and employees. They use the business plan to understand the risks and prospects of joining that business. Thus, it serves as the basis for making decisions to confirm or not to confirm their support and commitment to the entrepreneur.
- *Completing registration and legal formalities* – every business needs to get itself registered with the state to begin its operations for which a formal business plan is necessary to complete the legal and regulatory formalities. Therefore, having a well written business plan helps in meeting such purposes.

The business plan is used by different business stakeholders for different purposes. Figure 4.1 depicts the main users and their reasons for using the business plan:

- a. Entrepreneurs** - The entrepreneurs themselves are the foremost user of the business plan they prepare. They use it for the purpose of pitching their ideas to seek support from other stakeholders. The entrepreneurs also use the business plan as a roadmap that guides their actions and activities in the process of establishing and operating the business.

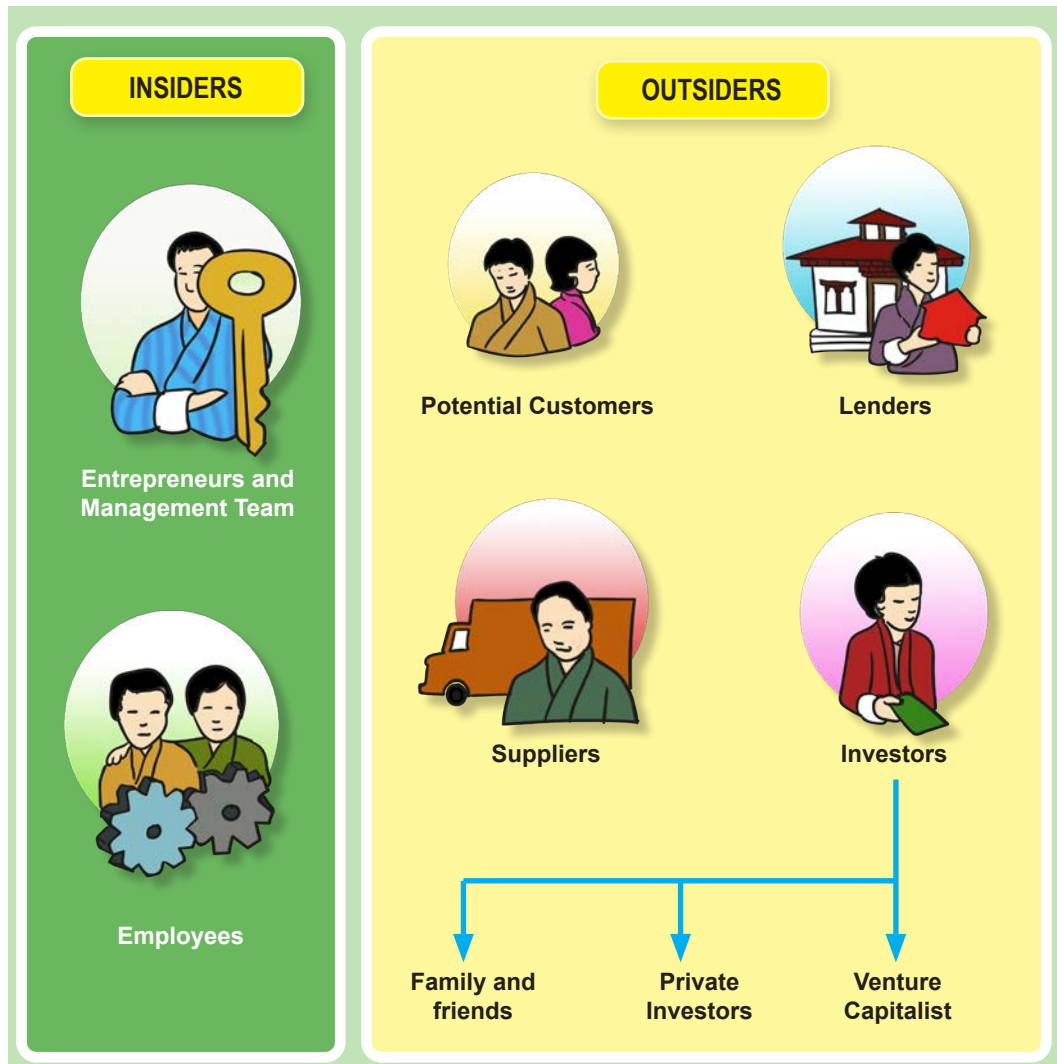


Figure 4.1 Business Plan users



- b. Investors** - the investors such as angel investors, venture capitalists and private equity firms primarily use business plan for gauging the risk associated with investing in the business and assessing the growth prospects of the business. This assessment becomes the basis for their investment decision.
- c. Bankers** - banks use business plan to assess the debt servicing capacity of the business. Basically, bankers examine this through the projected financial statements of the proposed business. They make the decision to extend loan services to the businesses as per the credit worthiness as ascertained from the projected financial statements.
- d. Potential partners** - if the entrepreneur considers to take a business partner onboard, the potential partner will have to be provided with the business plan which clearly states the ownership structure and the roles of the partner. In addition, the potential partner can also assess the market, operational, organisational and financial prospects of the business by using the business plan.
- e. Managers and employees** - the managers and employees of the business use business plan as a reference point for reminding them of the vision, mission and objectives of the business. They also use it to implement strategies, plans and activities of the business. It further facilitates them to make necessary adjustments as per the changes in the business environment.
- f. Suppliers** - the suppliers are mostly interested in the capacity of the business to pay their bills on time and also their potential to place more orders. Therefore, suppliers use business plan for understanding the cash flow status, operating results and growth prospects of the business.
- g. Customers** - usually all customers do not read the business plan. However, for those customers who are looking for long term relationship with the business, it may be used for gaining better insights about the business.
- h. Advisors and consultants** - the business advisors and consultants use business plan to gain better understanding of the business and accordingly provide their expert opinions and advises to the business.

## 4.2 Components of Business Plan

The business plan comprises of several components which are described ideally in a document ranging from 25 to 35 pages. Following is a typical template used for writing a business plan:

Table 4.1: Components of Business Plan

Section	Content
1.	Title Page
2.	Confidentiality Statement
3.	Table of Contents
4.	Executive Summary
5.	Business Profile
6.	Business Model Canvas
7.	Market Analysis and Marketing Plan
8.	Operations Plan
9.	Management Plan
10.	Financial Plan
11.	Assessment of Risks
12.	Appendices

Each of the components of a business plan is discussed below:

### *i. Title page*

A business plan must have a title page or cover page with the name of the business and proponents.

### *ii. Confidentiality statement*

It is a statement stating that the information provided in the business plan is confidential and the user agrees not to personally use or disclose any part of the business plan without a written consent from the rightful owner.

### *iii. Table of contents*

The table of contents must clearly state the various sections of the business plan with corresponding page numbers.

#### *iv. Executive summary*

Executive summary is an overview of the business plan which enables the readers to gain insights of the entire plan. Therefore, the executive summary must be written only after completing the entire plan and the important parts of the plan is condensed into a maximum of two pages. Furthermore, the users of the business plan may not have the time and be interested in reading the entire business plan unless the executive summary ignites interest to read the plan. Therefore, it must be written well and precisely, else the business plan may be deemed ineligible for funding or support. Generally, executive summary include the following information, in a summarised version:

- ✓ Brief background, vision and mission of the proposed business.
- ✓ The problem it intends to address and its market opportunities.
- ✓ Brief insights of market research and marketing strategies.
- ✓ Snapshot of the technical or operations plan.
- ✓ Brief notes on the management and organisational plan.
- ✓ A brief outline of the financial needs and projections.

#### *v. Business profile*

The business profile or description is an overview of the proposed business. Name, logo and address; form and nature of the proposed business; name, address and capability profile of the proponents (entrepreneurs); and vision and mission of the proposed business are some of the information which are included under business profile.

#### *vi. Business model canvas*

Although the conventional business plans do not include business model canvas into the plan, the contemporary business proposals include a copy of the business model canvas. This helps the users to comprehend the business at a glance.

#### *vii. Market analysis and marketing plan*

This component of the business plan attempts to convince the investors and other stakeholders that there is market for the products and services of the proposed business. It also shows that the projected sales can be achieved and the proposed

business has potential to grow and a competitive advantage.

Generally, market analysis helps to understand the gap between existing supply and demand which is essential for ascertaining projected sales. Marketing plan comprise of the details about target market segment that the business intends to serve; the products and/or services to be sold or provided; marketing strategies to promote the products and services. It basically needs to be focused on how to attract and retain customers .

#### *viii. Operations plan*

Operations or technical plan pertains to transformation of raw materials into finished goods or the process of rendering services. It comprises of the location and description of the production facility; methods and processes involved in production of the products or rendering of services; production or operations schedule; fixed investment requirements for operation purposes; sources and terms of procuring the non-current assets required for operations; estimation of plant capacity and capacity utilisation; estimation of raw material requirements and costs; estimation of labour requirements and costs; estimation of operation overhead costs; and computing total and unit cost of production.

#### *ix. Management plan*

Management plan pertains to the identification of the administrative and management personnel required for the business; segregation of their position and roles; determination of professional experiences required for the positions and roles; and estimation of investment and expenses required for management and administrative purposes. These can be done through development of organisational structure; description of key positions and responsibilities; recruitment and selection plans; training of staff; estimation of cost of personnel for administration; projection of the non-current assets required for administrative purposes; provisioning for maintenance and repairing of assets; drawing the office layout; estimating the pre-operating expenses; and estimating the management and administrative expenses.

#### *x. Financial plan*

The financial section of the business plan must reveal the financial viability of the proposed business. It includes estimation of total project cost; development of financing plan; identification of security for loan; development of loan repayment plan and interest calculation; preparation of projected financial statements; and conducting

important financial analysis such as break-even analysis, payback period, net present value and return on investment.

#### *xi. Assessment of risks*

Risk is inevitable in business. The entrepreneur must make an assessment of risks the business is likely to face. This section should clearly list the likely risks confronting the proposed business, the risk management strategies and alternative course of actions intended to be employed in the event of facing risks.

#### *xii. Appendices*

The supporting documents such as resume of the proponents, market research reports, price list from the suppliers, contracts signed with business partners and stakeholder, and clearances and certificates may be included under appendices.

The details and the templates for preparing marketing plan, operations plan, management plan and financial plan are discussed in the subsequent chapters.

### Chapter Review Questions

1. Describe the meaning and the importance of business plan in your own words.
2. When you develop a business plan, who would be your likely audience and why?
3. Develop a suitable template for business plan.



# CHAPTER 5

## Market Analysis and Marketing Plan



### *Learning Objectives*

- ✧ Explain the meaning of market analysis and marketing plan
- ✧ Conduct industry analysis
- ✧ Identify target market segment
- ✧ Analyse demand, supply and conduct gap analysis
- ✧ Perform competitor analysis
- ✧ Forecast revenue
- ✧ Determine marketing mix
- ✧ Develop marketing strategies
- ✧ Determine non-current assets required for marketing purpose
- ✧ Estimate marketing expenses

## 5.1 Meaning of Market Analysis and Marketing Plan

Market analysis refers to the process of analysing a particular industry or a market to gain certain information or insights about the attractiveness of the industry, needs of the market segment, demand-supply gap and competitors. Basically, these insights are gathered to assess market potential for the products and services of the proposed business. Based on these insights, the sales projection is done and marketing plan is prepared to achieve the projected sales.

Marketing plan is a strategic roadmap consisting of strategies to market the products and services of the business for realising the projected sales. In addition, the marketing plan also includes essential activities such as budgeting resources, estimation of marketing expenses and determination of non-current assets required for marketing purposes.

## 5.2 Industry Analysis

A market analysis is intended to study the attractiveness and the dynamics of a particular market within an industry. Industry analysis becomes essential to understand the attractiveness of the market that an entrepreneur is planning to serve. It is a tool that helps a business to understand its relative position to other businesses that produce similar products or services. The environment and changing dynamics of the industry can have huge impact on the business. Therefore, analysing the industry prior to preparation of marketing plan is necessary.

A popular tool used for conducting industry analysis is Porter's Five Forces (PFF) propounded by Michael Porter in 1979. The model identifies and analyses the five forces of competition that shapes an industry and helps to identify the industry's strengths and weaknesses. It helps to measure the intensity of competition, attractiveness and profitability of an industry. The potential sources of pressures, according to Porter, within an industry are categorised into five forces as depicted in Figure 5.1.



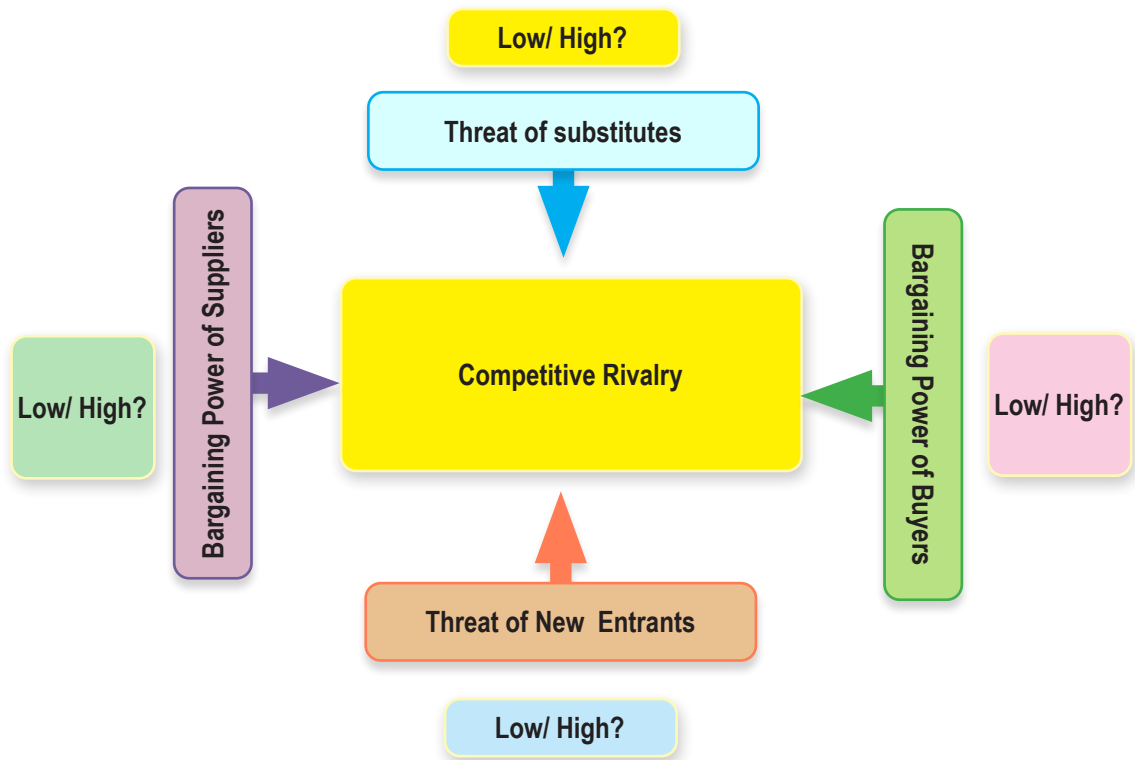


Figure 5.1: Porter's Five Forces framework

The five forces are competitive rivalry amongst the competitors in the market; threat of new entrants; threat of substitutes; bargaining power of buyers and the bargaining power of suppliers.

The first step in using this technique is to decide the industry in which the business will operate. This decision is extremely important as the results of the analysis vary based on the type of industry. Once the industry is decided upon, the five forces are closely studied to identify possible pressures the business may encounter. Brief description of each of the five forces are as follows:

- a. **Competitive rivalry** - it relates to an examination of other businesses operating in the same industry to understand the level of competition that exists and their abilities to undercut a company. It is important to know where the proposed business would stand. If the competitive rivalry is very high, the proposed business

will not have an upper hand. Hence, the industry is considered not attractive.

- b. Threat of new entrants** - this relates to ease of a new entrant or company entering the industry. Because each new entrant will increase the level of competition of the firms in that industry and can weaken their position. If there are high barriers to entry, the threat of new entrants will be low and vice versa. High threat of new entrants due to ease of entry will make the industry unattractive.
- c. Threat of substitutes** - availability of substitutes for what a business intends to produce and sell have the potential to threaten the survival of the business. Therefore, a business that intends to enter the industry in which there are no close substitutes will have more chances for survival and growth and will also have more power in the market. However, if there are numerous substitutes for the products and services of the proposed business, the industry is said to be unattractive.
- d. Bargaining power of buyers** - this considers the power relationship between the buyers and the business in terms of bargaining or the buyers' ability to lower the prices. This will be influenced by factors such as the number of customers, significance of the customers and ease of finding new customers. If there are lesser number of buyers who are significant and difficult to replace, the buyers will have higher bargaining power than the business. This limits the attractiveness of an industry.
- e. Bargaining power of suppliers** - like the customers, the suppliers can also have power to push up the costs of the inputs. Their bargaining power will also depend on the number of suppliers, uniqueness of the inputs and the cost of switching to another supplier. Factors such as fewer suppliers, unique supplies and costlier alternatives will give the supplier higher bargaining power. An industry is deemed to be attractive if the suppliers have relatively lower bargaining power than the business.

The level of attractiveness of the industry for the proposed business can be tabulated using Table 5.1.

Table 5.1: Porter's Five Forces Scoring Sheet

Five Forces	Scale of Importance (I) (1 to 5) *	Scale of Threats (ST) (1 to 5) **	Weighted Score (I x ST)
Competitive Rivalry			
Threat of New Entrants			
Threat of Substitutes			
Bargaining Power of Buyers			
Bargaining Power of Suppliers			
Total Attractiveness Score***			

\*1= Not Important to 5 = Very Important

\*\*1=Low, 3=Moderate, 5=High

\*\*\* 5=Very Attractive to 125=Very Unattractive

Conducting PFF analysis helps the entrepreneur to understand the attractiveness of the industry and also strategise on implementing the business plan and activities.

In order to connect the learners well with the process, it is important to be reminded of the outcomes of the Learning Activities 2.1, 2.2 and 2.3 of chapter 2. These learning activities facilitated generation of business ideas, screening of the ideas and ultimately selecting a feasible idea for further planning and preparation of business model and business plan. Now it is time for the learners to carry forward the idea selected through the Learning Activity 2.3 and conduct analysis of the industry in which the idea falls.

### Learning Activity 5.1

This learning activity aims to facilitate learners to conduct industry analysis using PFF analysis.

**Instructions:** Refer the outcome of Learning Activity 2.3 from chapter 2 and complete the given task.

**Task:** Conduct PFF analysis of the industry in which your business idea falls. Figure 5.1 and Table 5.1 should be used for this exercise.

### 5.3 Target Market Segment

Target market refers to the customer group to whom the business is planning to sell its products and services. This is also the group of customers towards which the marketing efforts and campaigns are targeted. The market segmentation may be done based on several factors such as

- geographical location – country, region, district and city, etc.
- demographic factors – age, sex, income, education, etc.
- psychographic factors – lifestyle, personality, social class, interest, etc.
- behavioral factors – purchase occasion, benefit sought, user status, usage rate, loyalties status, etc.

It is important for the business to clearly define its target market segment. If the market segment is properly identified, the marketing efforts and resources will not be wasted. It is essential to understand the needs and key characteristics of the target market segment. Table 5.2 can be used for identifying the target market segment.

Table 5.2: Target Market Segment

Segment Name	Characteristics of the Segment	Reason for choosing the segment

#### Learning Activity 5.2

This learning activity facilitates learners to identify the target market segment they wish to serve.

**Instructions:** Use Table 5.2 and complete the given task.

**Task:** Identify your target market segment as per the requirement stated in Table 5.2.

## 5.4 Demand-Supply Gap Analysis

Once the target market segment is chosen, it is necessary to determine the demand for the products and services the business would offer. In order to ascertain this, demand analysis must be conducted. Demand analysis can be conducted using Table 5.3.

Table 5.3: Demand Analysis

Target Market Segment	Name of the Product	Number of Potential Buyers	Usage rate		Total Quantity demanded	
			Volume	Value (Nu.)	Volume	Value (Nu.)
	Total					

### Notes:

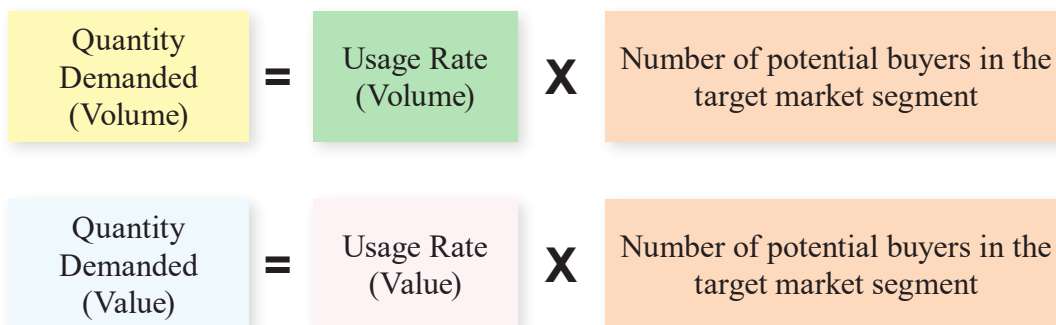
#### i. Usage rate

- *Volume* – This refers to the quantity purchased for consumption during a particular period by a single customer. The period could be a day, month or year. Use any period consistently. For example, if the calculation is done on monthly basis, use this basis consistently throughout the preparation of business plan.
- *Value* – This refers to the amount spent for purchasing the particular product or complimentary product during a particular period by a single customer. The period could be a day, month or year. Consistency of the chosen period must be maintained.

#### ii. Quantity demanded

This refers to the total figure, which is derived by multiplying usage rate volume and potential number of buyers in the target market segment. Similarly, the value can be computed by multiplying usage rate value by the potential number of buyers in the target market segment.

Therefore,



**Assumptions:** Any assumption made for demand analysis should be supported by relevant data and such assumption must be noted.

Having known the potential demand for the products and services intended to be offered by the proposed business, it is important to know the existing supply. This is ascertained through supply analysis. In order to understand the extent of current supply, it is necessary to take note of the existing competitors, their products and services and the volume and value of their supply in a day or month or a year. The existing supply can be tabulated as depicted in Table 5.4.

Table 5.4: Supply Analysis

Target Market Segment	Name of Competitor	Name of Product	Total Supply	
			Volume	Value (Nu.)
<b>Total</b>				

**Assumptions:** Any assumption made for supply analysis should be supported by relevant data and such assumption must be noted.

Once demand and supply analysis are completed, the gap between them must be ascertained. This is done through gap analysis. A surplus of demand over supply indicates market potential for the proposed business. The gap analysis can be tabulated as presented in Table 5.5.

Table 5.5: Gap Analysis

Name of the Product	Total Demand (A)		Total Supply (B)		Gap (A-B)	
	Volume	Value (Nu.)	Volume	Value (Nu.)	Volume	Value (Nu.)

**Notes:**

- *Total Demand (A)* – this figure refers to the total quantity demanded (volume and value) ascertained using demand analysis Table 5.3.
- *Total Supply (B)* – this figure refers to the total quantity supplied and the value of the supply estimated using Table 5.4.
- *Demand-Supply Gap (A - B)* – this is calculated by subtracting total supply from total demand.

**Assumptions:** Any assumption made for gap analysis should be supported by relevant data and such assumption must be noted.

### Learning Activity 5.3

This learning activity intends to facilitate learners to conduct gap analysis of the demand and supply of the products or services they intend to offer.

**Instructions:** Refer Tables 5.3, 5.4 and 5.5, and complete the given tasks.

**Task:** Conduct demand analysis, supply analysis and gap analysis of the product or service your group intends to offer.

## 5.5 Competitor analysis

The entrepreneur must also conduct analysis of the primary competitors. Knowing the competitors and their strategies is essential for developing one's own marketing strategies. The competitor analysis must focus on the marketing mix – 4Ps or 7Ps depending on whether the business sells products or offer services. In doing so, the

entrepreneur must pay attention to the following questions:

***i. Product strategy***

What special features do the competitors' products and services have to make them sellable? For this analysis, the entrepreneur can focus on quality, branding, packaging, customer service, etc.

***ii. Distribution (place) strategy***

How do the competitors reach their products and services to the customers? What are the channels used in delivering their products and processes involved in offering their services?

***iii. Promotion strategy***

How do the competitors communicate about their products and services to the customers? Do they use advertising, personal selling, sales promotion, direct marketing or publicity?

***iv. Pricing strategy***

What pricing strategies do the competitors adopt to set price for their products? Is it demand-oriented, cost-oriented or competitor-oriented?

***v. People strategy***

How do the competitors attract, train and retain the right people (employees) to deliver superior service to the customers?

***vi. Process strategy***

What structures, processes, policies and systems makes the competitors' functioning efficient and effective?

***vii. Physical evidence strategy***

What makes the competitors' physical evidence unique and better?

Some of the prominent sources of information about the competitors are websites, catalogues, promotions and interviews with distributors and customers. This can



further be substantiated by in-depth marketing research. The competitor analysis can be summarised using Table 5.6.

Table 5.6: Competitor Analysis

Strategies	Competitor A	Competitor B	Competitor C	Competitor D
Product strategy				
Distribution (place) strategy				
Promotion strategy				
Pricing strategy				
People strategy				
Process strategy				
Physical evidence strategy				

### Learning Activity 5.4

This activity aims to support learners to perform competitor analysis.

**Instructions:** Complete the given task after reading section 5.5 of this chapter and studying Table 5.6.

**Task:** Conduct competitor analysis to identify the strengths and weaknesses of the competitors' strategies. Present the results of competitor analysis to the class.

## 5.6 Forecasting of Revenue

Revenue refers to the gross inflow of economic benefits (cash, receivables, other assets) arising from the daily operations of the business (sale of goods and services). It is also broadly termed as sales.

The usage of the term sales is more suitable here as it is important to project the potential revenue which could be earned through the sale of products and services to the target market segment. This projection must be done meticulously as the rest of the projections for the business plan will be based on the projected sales.

The entrepreneur must anticipate sales for at least three years. Some investors and bankers even require entrepreneur to make the projections for five to ten years. The sales projection is based on the result of the gap analysis as there is no point in manufacturing and attempting to sell a product or service which has no demand. Remember that it may not be possible for the business to fill in the entire gap if the gap is huge. Therefore, projected sales will mostly be a fraction of total gap. Table 5.7 can be used for forecasting the sales.

Table 5.7: Sales Projection

Products and Services	Sales								
	Year 1			Year 2			Year 3		
	Total Quantity	Unit Price	Total Value	Total Quantity	Unit Price	Total Value	Total Quantity	Unit Price	Total Value
<b>Total Sales Value</b>									

### *Assumptions:*

Assumptions must be made in estimating the sales. It is important to make realistic or data-based assumptions. The entrepreneur can think of factors such as the nature of product and service, losses which may be incurred during storage, sales and marketing expenses while making assumptions. Some of the common assumptions made in sales forecasting are the percentage by which sales would fluctuate from year to year, fluctuations in selling price, dynamics of the target market, etc.

Once the sales forecasting is done, the market analysis is complete. It is now time for the entrepreneur to prepare marketing plan. The subsequent sections deal with preparation of marketing plan.

### Learning Activity 5.5

This activity aims to facilitate learners to project sales for their proposed business.

**Instructions:** Make use of the knowledge gained on forecasting of sales and complete the given task.

**Task:** Conduct projection of sales for your proposed business.

## 5.7 Determining Marketing Mix

Determination of marketing mix of the business is indispensable to achieve the marketing objectives of the business. Generally, marketing mix includes the 4 Ps in case of a manufacturing firm and 7 Ps in case of a service-oriented business. The 7 Ps are briefly explained below:

- *Product* – the product variety, quality, design, features, brand name, packaging, size, services, warranties, etc., must be decided.
- *Price* – the decision pertaining to the price of the product or service, discounts, allowances, payment period, credit terms, etc., must be taken.
- *Promotion* – the promotion mix (sales promotion, advertising, public relations, direct marketing, personal selling) the business intends to use.
- *Place* – how the business intends to distribute or deliver its products and services to the customers must be decided. This includes the channels, coverage, location, inventory and transportation arrangement.
- *People* – the number, knowledge, skills, attitude and competencies of the people who are required for the delivery of services must be decided. This includes not just the employees who directly interact and render services but also the distributors of the business.
- *Process* – the service delivery takes place through a process. The process involved in delivery of service must be able to give the customers a superior user experience. This may be achieved by having standard operating procedures and implementing it consistently.
- *Physical evidence* – it includes the environment or place where the service is offered. The website of the business, its logo and brochures, ambience of sales or service delivery points, dress code of the employees rendering service, etc., creates distinctive experience for the customers.

## 5.8 Developing Marketing Strategies

After identifying the marketing mix, marketing strategies of the business must be developed. A prerequisite for formulating marketing strategies is to have specific and realistic marketing goals and objectives established because the marketing strategies

are the plans of how to achieve the marketing goals and objectives. The marketing goals and objectives must specify what the business intends to achieve in terms of customers' awareness level, sales, market share, etc. Marketing strategies are the ways the business positions its marketing mix and marketing efforts to meet the marketing goals and objectives.

The subsequent subsections related to product, price, promotion, place, people, physical evidence and process are useful for developing marketing strategies.

***i. Product or service strategy***

The product is more than its physical components which are obviously visible to all. It includes packaging, price, brand name, warranty, service, delivery time, features, etc. It is important to consider the special features that the products will have in order to make them sellable. In order to develop product or service strategy, the entrepreneur may focus on quality, branding, packaging, customer service, features, etc.

***ii. Pricing strategy***

Prior to making decision on the price of the product, it is important to take into consideration the factors such as the cost of the product, margin for the entrepreneur and the intensity of the competition. Based on these considerations, the price of the products and services must be determined.

Pricing strategy the business plans to adopt in pricing must be stated. Mention whether the pricing is based on demand, cost or competition.

***iii. Promotion strategy***

This relates to how businesses plan to get itself or its products and services known to the customers. It is important for the business to inform and educate potential customers about the products and services it intends to offer. This can be done through the development of appropriate promotion mix. Promotional mix consists of advertisement, sales promotion, direct marketing and personal selling. The promotional mix the business intends to adopt must be stated under this subsection.

***iv. Place strategy***

It is related to the strategies for making the products and services available through various distribution channels. The channels such as the business's own outlets,

wholesalers, agents, retailers and online platforms which the business intends to adopt must be stated while formulating the place strategy.

**v. *People strategy***

This relates to the strategy of the business in making choice of the customer-facing employees and distributors. The nature, attitude and professionalism of the sales representatives matter in delivering better user experience. The recruitment, selection, deployment and training strategies for ensuring right customer-facing employees and distributors must be stated here.

**vi. *Process strategy***

This pertains to the process, mechanism and the flow of activities that take place when the customers and the business interacts. The business processes for making customers' interaction with the business more satisfying and delivering better customer experience must be mentioned here.

**vii. *Physical evidence***

It is evident that customer satisfaction and experience not only depend on the aspects of the products and services but also on the physical environment through which they are delivered. The features such as creation of unique customer touch points, superior brand and conducive environment are important.

### Learning Activity 5.6

This activity aims to facilitate learners develop marketing strategies for their proposed business.

**Instructions:** Recollect the lesson on the marketing mix and marketing strategies to complete the given task.

**Task:** Develop marketing strategies for your proposed business.

## 5.9 Determining Noncurrent Assets Required for Marketing Purpose

Noncurrent assets refer to the long-term assets of the business. The value of such assets will not be realised within one accounting year but may be spread over a number of years. Land, building, plant and equipment (Property, Plant and Equipment), and

intangible assets such as patents, goodwill and industrial design are some of the examples of noncurrent assets.

To carry out the marketing activities, business requires noncurrent assets and such requirements must be determined. Table 5.8 illustrates the estimation of noncurrent assets required.

Table 5.8: Determination of Noncurrent Assets for Marketing

SL No.	Description of Noncurrent Assets	Quantity	Specification	Purchase Price (Nu) (A)	Estimated Life (B) OR Depreciation Rate (C)	Yearly Depreciation (A÷B) OR (A×C)
1						
2						
3						
4						
	Total					

***Assumptions:***

Assumptions may have to be made for determining the noncurrent assets, their prices and estimated life span of the assets or depreciation rate. These assumptions must be made based on facts, relevant data, and applicable rules and accounting standards. The assumptions must be clearly stated so that the users or readers of the plan can easily comprehend the estimation.

## 5.10 Estimating marketing expenses

Marketing activities incur certain expenses. Some of the examples of such expenses are salaries and allowances to be paid the marketing personnel, commission to sales agents, fees to the advertising agents, maintenance of noncurrent assets used for marketing purposes, cost of fueling, communication expenses, depreciation of noncurrent assets used for marketing purpose, etc. Such expenses must be clearly projected for a minimum period of three years. Table 5.9 provides a template for making projection of marketing expenses.

Table 5.9: Estimation of Marketing Expenses

SL No	Expenses	Year 1	Year 2	Year 3
1	Salary for marketing personnel			
2	Allowance for marketing personnel			
3	Commission to sales agents			
4	Maintenance of assets			
5	Depreciation			
6	Fuel			
Total Marketing Expenses				

**Assumptions:**

Assumptions may have to be made for estimating the salaries, allowances and other marketing expenses. These assumptions must be based on facts, relevant data and applicable rules and laws, and must be clearly stated so that the users or readers of the plan can easily comprehend the estimation.

**Learning Activity 5.7**

This activity aims to facilitate learners to estimate the requirement of noncurrent assets for marketing use and marketing expenses.

**Instructions:** Recollect the lessons on the determination of noncurrent assets requirement and estimation of marketing expenses to complete the given tasks.

**Task:** Estimate the noncurrent assets and marketing expenses required for your proposed business using Tables 5.8 and 5.9. Clearly mention the assumptions made.

### Learning Activity 5.8

This activity will facilitate learners to consolidate the outcome of the activities completed earlier in this chapter and compile them into a market analysis and marketing plan.

**Instructions:** Revisit the Learning Activities 5.1 to 5.7 and complete the given tasks.

**Task:** Compile the outcomes of the Learning Activities 5.1 to 5.7 into a market analysis and marketing plan.

### Chapter Review Questions

1. Explain market analysis and marketing plan.
2. Ms. Dema wants to start a restaurant in your locality. Suggest her how to conduct industry analysis.
3. Computation of demand-supply gap is essential to identify the market potential. Discuss how gap analysis is conducted and present it in the form of a graph using the data gathered for your proposed business.
4. Explain competitor analysis and discuss how a business can use it as a basis for developing its marketing strategies.
5. In the context of question 2, what are your suggestions to help Ms. Dema in making a revenue forecast for her business?
6. Discuss the types of noncurrent assets and state its significance in conducting marketing activities.
7. Explain marketing expenses with suitable examples.



# CHAPTER 6

## Operations Plan



### *Learning Objectives*

- ✂ Explain the meaning of operations plan
- ✂ Identify and describe the location of the operations facility
- ✂ Exhibit the process and depict the method of operations
- ✂ Prepare operations schedule and estimate the quantities
- ✂ Identify noncurrent assets required for operational purpose
- ✂ Identify the sources and terms of procuring noncurrent assets
- ✂ Estimate the plant capacity and capacity utilisation plan
- ✂ Estimate the direct material, direct labour and direct expenses
- ✂ Estimate the overhead costs of operation
- ✂ Calculate the total and unit factory costs

## 6.1 Meaning of operations plan

Operations in the context of business refers to transformation of resources into products or rendering of services. The operations plan is also called as technical plan or production plan or manufacturing plan. Operations plan comprises of:

- describing the location of the operations or production facility;
- illustrating the operations process or method;
- defining operations quantities and schedule;
- estimating the noncurrent asset required for operations;
- identifying sources and defining terms of procuring the noncurrent assets;
- estimating plant capacity and capacity utilisation in case of manufacturing business;
- estimating the raw material requirement, its sources, cost and availability;
- estimating the operations overhead costs, and computing total and unit operations or production costs.

In case of a business manufacturing a physical product, the manufacturing process transforms materials into goods that have tangible form. The transformation process may lead to changes in one or other dimensions such as physical properties, shape, size, surface finish, joining parts and materials. If the operations process does not lead to changes in such dimensions, then the process is related to a service. Figure 6.1 distinguishes a manufacturing process from a service process.

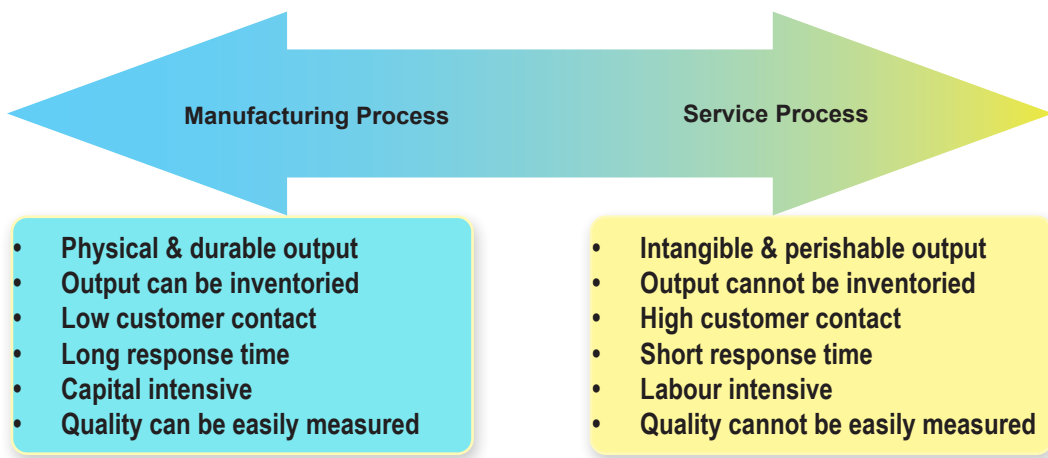


Figure 6.1: Continuum of characteristics of manufacturing and service processes

Whether an entrepreneur plans to embark business in manufacturing or service industry, operations plan must be prepared like any other component of the business plan. Subsequent sections provide guidance on preparation of operations plan.

## 6.2 Location of the operations facility

It is important to choose and describe where the operations facility is to be located. The business makes substantial investment of time and resources to set up its operations facilities. This makes it difficult and costly for the business to change its operations facility from the place where it has been initially located. Choosing a wrong location can impact the business negatively and can be disastrous. Therefore, careful attention must be paid in selecting the operations facility. Some of the factors which must be considered while making the choice of the location of the operations facility are proximity to market; proximity to suppliers; availability of skilled labour; access to logistics and other amenities; relevant environmental regulations; fiscal and financial incentives offered by government; and potential for future expansion.

It is important for the business to describe where the production facility will be located and also state the significance of choosing the location. Basically, the merits provided by the location must be clearly stated.

For service-related businesses, the description of the location or touch points through which the service is rendered must be described. For enhancing the visual aspect of the description, the map of the location with clear indication of access to necessary amenities must be drawn.

## 6.3 Process and Method of Operations

In addition to the location of the operations facility, the actual method and processes involved in operations play a major role in making it efficient. The business can choose to follow a suitable operations process from various approaches such as job, batch, flow and lean methods.

**Job method** is adopted for manufacturing a peculiar, special or non-standardised product as per the orders received from the customers. The modality under this method is ensuring customisation of products as per the specification or requirement of each customer. As each product is non-standardised, varying in size and nature, it requires separate job for each production. The machines and equipment are adjusted in such a manner so as to suit the requirements of a specific job.

**Batch production** refers to the production of goods where the demand or estimated demand from the customer is known. It relates to repetitive production where identical products are produced. It produces similar items in groups (batch), stage by stage and the batch of products go through each stage of production process together before moving to the next stage. A good example of batch production is that of bakeries. This method is similar to job method except for the variation in the quantity of goods produced.

**Flow or mass method of production** involves a continuous production of standardised or same products in large quantities. In this method, production takes place continuously in expectation of a future demand. Standardised products are produced by using standardised materials and equipment. An uninterrupted flow of production takes place by arranging the machines in a proper sequence, making it suitable for mass production. The manufacturing process is segregated into separate operations where the product passes through a series of operations.

**Lean method** is a strategy which focuses on reducing wastage from operations process and improving the productivity of the business to create values for customers. Regardless of the method of operations chosen, it is important for the entrepreneur and business to incorporate lean manufacturing practices to its operations process. Today, lean approach is widely used not only in operations but also in other facets of the business.

Under the process and method of operations section of the business plan, the process and method of producing products or rendering service must be stated.

In addition, the steps involved in the operations process must be outlined in right sequence with a sketch or diagram for the purpose of clarity. For service-oriented business, the customer touch points such as steps or the process through which customers avail the services must be highlighted.

## 6.4 Operations Schedule and Quantities

The operations scheduling refers to setting the timing as well as use of resources for production or rendering of services. It can relate to usage of equipment and facilities and scheduling of human activities. Operations quantities pertain to the estimated production quantity projected for a certain number of years. The projected sales must be used as the basis to determine production quantities and schedule.

The aim of the operations schedule is to balance customer needs with the available resources besides operating in a cost-effective way. If the operations schedule and

quantities are not accurate and feasible, the business will face problems pertaining to the production and delivery of the products to the customers. This will further have implication on customer relationship and sales of the business.

In case of a service business, operations quantities mean projection of number of service units which must be rendered to the customer in order to meet the projected sales. Service units may be in terms of number of clients to be served, number of hours of work, etc. The template given in Table 6.1 can be used to guide the estimation of required production volume.

Table 6.1: Estimation of required production volume

Production Volume	Year 1	Year 2	Year 3
Production volume required to cover projected sales			
Production volume required to cover the inventory level			
<b>Total Production</b>			

#### ***Assumptions:***

The assumptions made while estimating the production volume must be stated here. The assumptions may be related to number of units required to be produced for meeting the projected sales, level of safety inventory or buffer stock, lead time in operating cycle, etc.

### **6.5 Noncurrent Assets Required for Operations Purpose**

Noncurrent assets are required for transforming the raw materials into products. It is necessary for the entrepreneur to determine the requirement of noncurrent assets, their cost and other details in the operations plan. Table 6.2 illustrates how the noncurrent assets requirement can be determined.

Table 6.2: Determination of noncurrent assets required for operations

Sl. No.	Description of Noncurrent Assets	Quantity	Specification	Purchase Price (Nu) (A)	Estimated Life (B) OR Depreciation Rate (C)	Yearly Depreciation (A÷B) OR (A×C)
1						
2						
3						
	Total					

**Assumptions:**

Assumptions may have to be made for determining the requirement of noncurrent assets, their prices, estimated life of the assets, depreciation rate, etc. These assumptions must be made based on facts, relevant data, applicable rules and accounting standards. The assumptions must be clearly stated so that the users of the plan can easily understand the estimation.

**6.5.1 Sources and terms of procuring noncurrent assets**

The source from where the business arranges the required noncurrent assets such as Property, Plant and Equipment (PPE) and the terms of procurement must be specified clearly. Considerations must also be made whether the machinery and equipment are available from local dealers, distributors and fabricators or needs to be imported.

State the sources and terms of procuring noncurrent assets as depicted in Table 6.3.

Table 6.3: Sources and terms of procuring noncurrent assets for operations

Sl. No.	Noncurrent Assets	Sources	Terms of Acquisition

**Assumptions:** If there is any assumption to be made, it must be stated clearly.

**6.6 Estimating Plant Capacity and Capacity Utilisation**

Manufacturing businesses require plant and machineries for operations. The production capacity of such plant and machineries must be ascertained. The production volume projected in the Table 6.1 is recommended to be used as a reference point to determine the capacity of the proposed plant. Considerations pertaining to future expansion may also be explored while determining the plant capacity. In case of a service-oriented business, the plant capacity and capacity utilisation are irrelevant. Table 6.4 is recommended to be used for estimating plant capacity and capacity utilisation.

Table 6.4: Estimation of plant capacity and capacity utilisation

Year	Production Volume	Capacity Utilisation (%)
1		
2		
3		

**Assumption:** Any assumption pertaining to plant capacity estimation and capacity utilisation must be stated to enable the reader to understand the estimations.

## 6.7 Direct Material, Direct Labour and Direct Expenses

The business needs raw materials, direct labour and incur direct expenses for getting the raw materials transformed into finished goods. Following subsections describe these costs:

### 6.7.1 Direct material requirements, its sources, cost and availability

The business needs raw materials, direct labour and incur direct expenses for getting the raw materials transformed into finished goods. Following subsections describe these costs:

#### 6.7.1 Direct material requirements, its sources, cost and availability

The raw materials required for manufacturing the products must be stated under this heading. It is also important to clearly state from where the raw materials will be sourced. Further, the cost of raw materials and its availability must be explored and described.

##### a. Direct material requirements

Direct materials are those materials which can be directly identified and allocated to cost unit conveniently. It refers to the raw materials required for manufacturing the products. For example, steel used while manufacturing a car and plank used in making furniture are considered as direct material. It is important to identify the requirement of such materials for the business in order to ensure its operations. Material requirement must be estimated based on the anticipated sales volume or estimated production volume with an allowance for finished goods and materials inventories. However, for service-oriented businesses such estimations will be

irrelevant. Material requirement estimations can be made as shown in Table 6.5.

Table 6.5: Estimation of direct materials requirement

Year	Materials to cover sales volume		Materials to cover finished goods inventory (safety stock)		Materials inventory		Total materials requirement	
	Quantity	Amount (Nu.)	Quantity	Amount (Nu.)	Quantity	Amount (Nu.)	Quantity	Amount (Nu.)
1								
2								
3								

### b. Annual cost of direct materials

Calculating annual cost of direct materials helps in providing a clear picture of the cost of materials used. Table 6.6 depicts estimation of annual material cost.

Table 6.6: Estimation of annual material cost

Particulars	Year 1	Year 2	Year 3
Purchases			
Add: Opening Inventory			
<b>Total cost of materials available</b>			
Less: Closing Inventory			
<b>Cost of materials used</b>			

### c. Sources and availability of direct materials

The sources from where the business intends to get the materials and the strategies for ensuring continued supply of materials must be stated here.

#### 6.7.2 Direct labour requirement, cost and availability

The business requires direct labour who are directly engaged in the production process – altering the composition or condition of raw materials into products. For example, a carpenter engaged in manufacturing furniture and a mason involved in constructing road can be considered as direct labour. It is important for the business to estimate the requirement of direct labour, its cost and availability. In case of a



service-oriented business, the human resources who render the service directly can be considered as direct labour. For example, the trainer who conducts training, and the chef and waiter who works in a restaurant can be considered as direct labour.

#### d. Direct labour requirement

State the direct labour requirement for the business. For every job, the qualification, experience, skills and competencies required must be assessed well. Decision about the remuneration package must also be made. The template given in Table 6.7 can be used for assessing the direct labour requirement.

Table 6.7: Direct labour requirements

Job title	Number of workers	Qualifications/ Experience	Monthly salary/ Benefits	Yearly labour cost
Total				

**Assumptions:** State any assumption related to direct labour requirement and their benefits

#### e. Yearly direct labour cost

Yearly cost of direct labour is computed and tabulated as given in Table 6.8. The assumptions pertaining to yearly changes in the number of labour and their remuneration must also be stated.

Table 6.8: Yearly cost of direct labour

Year	Total direct labour cost per year
1	
2	
3	

**Assumptions:** The assumptions pertaining to yearly changes in the number of labour and their remuneration must also be stated.

### f. Availability of direct labour

The availability of direct labour must be ascertained. It is important to ensure whether the labour requirements can be met from the locality or needs to be imported. It is also essential to mention the strategies for ensuring supply of skilled labour for the business.

#### 6.7.3 Direct expenses

The business requires direct expenses to be incurred for the purpose of transforming direct materials into finished goods. Such expenses are incurred for reasons such as hiring of equipment for a particular job, cost of special layout, design or drawings, and fees paid to architects of a building. In other words, direct expense includes any expenditure other than direct material and direct labour engaged in the production process in a manufacturing concern.

It is also important for the business to project the amount of direct expenses likely to incur. Table 6.9 is recommended to be used for tabulating yearly direct expenses.

Table 6.9: Yearly direct expenses

Direct Expenses	Year 1	Year 2	Year 3
<b>Total</b>			

**Assumptions:** State any assumption related to direct expenses.

## 6.8 Estimating Overhead Costs of Operations

In addition to the direct materials, direct labour and direct expenses, the business incurs overhead expenses during the operations. This is also referred as factory overheads and it includes indirect material, indirect labour and indirect expenses. The sum of these three categories of indirect expenses forms the total operations overhead costs. Each category of operations overhead cost is discussed below.

### a. Indirect material

These are the materials such as lubricants, spare parts and other consumable stores used in manufacturing of goods which cannot be directly identified with the product.

The indirect material requirements and their costs must be identified. Table 6.10 can be used for projecting the indirect material requirements and costs.

Table 6.10: Indirect material cost

Particulars	Year 1	Year 2	Year 3
Lubricants			
Fuel			
Cleaning materials			
Spare parts			
Welfare costs (tea)			
Health and safety products			
Medical supplies			
<b>Total cost of indirect materials</b>			

**Assumptions:** If there are assumptions made, these must also be stated clearly.

### b. Indirect labour

Indirect labour refers to the workers who are not directly engaged in the operations but indirectly supports the operation process. The plant manager, security personnel, mechanics in the factory, etc., are examples of indirect labour. The requirement of indirect labour and their cost must be clearly stated. This is done using the template given below.

Table 6.11: Indirect labour requirement and cost

Job title	Number of personnel	Monthly salary/Benefits	Year 1	Year 2	Year 3
Plant Manager					
Mechanic/Maintenance personnel					
Watchman					
General helpers					
<b>Total Cost of indirect labour</b>					

**Assumptions:** The assumptions related to indirect labour cost estimation must be clearly mentioned.

### c. Indirect expenses

Indirect expenses are those expenses which are not covered under indirect material and indirect labour costs. The cost of insurance, electricity, depreciation, taxes, duties, etc., are some of the examples of indirect expenses. The Table 6.12 is used for estimating indirect expenses in operations.

Table 6.12: Indirect expenses

Particulars	Year 1	Year 2	Year 3
Electricity			
Insurance			
.....			
<b>Total indirect cost before depreciation</b>			
Depreciation			
<b>Total indirect cost after depreciation</b>			

**Assumptions:** The assumptions made in estimating the indirect expenses must be stated clearly.

### d. Total operations overhead cost

The total of all indirect materials, labour and expenses in operations constitute the total operations overhead cost. It is also called factory overhead cost. These must be compiled as given in Table 6.13.

Table 6.13: Total operations overhead cost

Particulars	Year 1	Year 2	Year 3
Indirect material			
Indirect labour			
Indirect expenses			
<b>Total factory overhead costs</b>			

## 6.9 Total Factory Cost and Unit Factory Cost

Compilation of the various costs estimated earlier in this chapter determines the total factory cost. The total of direct material, direct labour and direct expenses determines the prime cost. The total factory cost is ascertained by adding factory

or operations overhead to the prime cost. The factory cost is also known as works cost. When the total factory cost is divided by total production volume, it results in unit factory cost. Template given in Table 6.14 is to be used for computing the total and unit factory costs.

Table 6.14: Total factory cost and unit factory cost

Year	Direct materials cost (A)	Direct labour cost (B)	Direct expenses (C)	Total factory overhead costs (D)	Total factory cost (A+B+C+D)	Unit factory cost (Total factory cost/ Total production volume)
1						
2						
3						

**Note:**

The computation of unit cost of sales is important to make pricing decision of the business. To compute the total cost of sales, the total administrative overheads to be ascertained in chapter 7 and the total marketing expenses computed in chapter 5 must be added to the total factory cost ascertained in Table 6.14. The total cost of sales must be then divided by the total projected production of respective years to find out the unit cost of sales.

### Learning Activity 6.1

This activity aims to help learners to prepare operations plan based on the lessons learnt in this chapter.

**Instructions:** Recollect the lessons from this chapter and complete the given tasks.

**Task:** Prepare operations plan for the business. The operations plan must have the following components:

- location of the operations facility
- process and method of operations
- operations schedule and quantities
- noncurrent assets required for operations purpose
- sources and terms of procuring noncurrent assets
- plant capacity and capacity utilisation

- direct material, direct labour and direct expenses
- overhead costs of operations
- total factory cost and unit factory cost

### Chapter Review Questions

1. Describe operations plan in your own words.
2. List down the similarities and differences between service operations and manufacturing operations.
3. Discuss the importance of choosing an appropriate location for operational facilities.
4. Describe various methods used in business operations.
5. Why is operations schedule important?
6. List down the noncurrent assets required for operations purpose if you are to start a bakery business.
7. Differentiate direct operating cost from indirect operating cost with relevant examples.
8. Explain operating expenses with appropriate examples.

# CHAPTER 7

## Organisational and Management Plan



### *Learning Objectives*

- ✧ Explain the meaning of organisational and management plan
- ✧ Decide the legal form of proposed business
- ✧ Decide business name and design business logo
- ✧ Write and exhibit the capability of the proponents
- ✧ Frame the organisational structure
- ✧ Describe the key positions and their roles
- ✧ Plan for recruitment and selection of staff
- ✧ Determine the cost of administrative personnel
- ✧ Identify the noncurrent assets requirement for administration
- ✧ Provide provisions for maintenance of noncurrent assets
- ✧ Design office layout
- ✧ Provide provision for pre-operating activities and expenses
- ✧ Estimate the organisation and management overhead costs

## **7.1 Meaning of organisational and management plan**

Organisational and management plan is one of the components of the business plan. It is a plan that describes the legal form of the business; depicts the organisational structure; explains the credentials of the managerial team and board of directors (if applicable); describes the key positions and roles; estimates the noncurrent assets requirement for office and administrative purposes; and states the estimation of the organisational and management expenses.

The following sections describes the important components of organisational and management plan.

## **7.2 Legal Form of Proposed Business**

There are different forms of businesses such as sole proprietorship, partnership and companies. The entrepreneur may choose an appropriate form of business and the reasons for choosing the proposed form must be clearly described.

## **7.3 Business Name and Design Business Logo**

The organisational plan should state the name of the business. In addition to the business name, a copy of the logo designed for the business must be depicted with its symbolic meaning, if any. The name and the logo of the business should not be a replication of the existing businesses. The legal requirements of naming a business and the provisions of intellectual property laws must be adhered.

## **7.4 Capability of the Proponents**

The profile of proponents that includes educational and professional credentials along with their skills and experiences must be clearly described.

## **7.5 Organisational Structure**

The organisational structure of the proposed business must be drawn portraying clear segregation of roles and position, and well-defined lines of reporting and communication. It is also called organisational hierarchy or organogram. There are different organisational structures such as line, line and functional, line and



staff, divisional, project, matrix, hybrid, and informal structures. In this section, the organisational structure chosen for the proposed business must be drawn and a brief rationale behind the chosen structure may be provided.

## **7.6 Key Positions and the Roles**

The organisational structure drawn in section 7.5 identifies key positions involved in the conduct of the business. The roles and responsibilities of each of the positions must be clearly articulated here.

## **7.7 Recruitment, Selection and Training of Staff**

The key positions described above must be manned by employees who shoulders the responsibility and performs the duty. The proposed business must formulate the strategies of recruitment, selection and training the employees. It basically pertains to how the business will attract, select, train and develop its employees.

### **a. Recruitment strategy**

Recruitment refers to generating a pool of job applicants who are interested and willing to work for the organisation. Some of the popular recruitment sources are internal transfer and promotion; press advertisement; educational institution; executive search and placement agency; employment exchange; labour contractor; employee recommendation; and unsolicited applicant. The strategies for attracting potential employees must be stated here.

### **b. Selection strategy**

Once a pool of potential applicants is generated, the procedure for selection of the right candidate begins. The kind of selection methods and criteria depends on the position types and human resource requirements in terms of quality. The general tools used in selection are preliminary interview, application blank, medical examination, reference check, selection test, employment interview and final approval. The general methods to be used for selection must be expressed here.

### **c. Training strategy**

Once the employees are selected, the new employees need orientation and training programme so as to be able to carry out their duties effectively and efficiently. The

strategies of orienting and training the new employees must be articulated here. Additionally, strategies of developing the employees further with the intention to improve their effectiveness may also merit to be mentioned in this section.

## 7.8 Cost of Administrative Personnel

The details of the personnel involved in administration and their remuneration, which forms the cost of administrative personnel must be stated here. Table 7.1 can be used for projecting the cost of administrative personnel.

Table 7.1: Cost of administrative personnel

Administrative Personnel	Salary and Benefits (Monthly)	Salary and Benefits (Year 1)	Salary and Benefits (Year 2)	Salary and Benefits (Year 3)
<b>Total</b>				

**Assumptions:** Assumptions taken into consideration while deciding the number and employment terms must be stated.

## 7.9 Noncurrent Assets Requirement for Administration

The business requires noncurrent assets such as vehicles, computers, printers and furniture for office and administrative uses. The noncurrent assets which are meant for office and administrative uses must be stated along with their description, specification, estimated price, estimated life and depreciation rate. Table 7.2 presents a template that can be used for estimating the aforementioned details pertaining to noncurrent assets required for office and administrative purposes.

Table 7.2: Noncurrent assets requirement for office and administration

Sl. No.	Description of Noncurrent Assets	Specification	Quantity	Purchase Price (Nu) (A)	Estimated Life (B) OR Depreciation Rate (C)	Yearly Depreciation (A÷B) OR (A×C)
1						
2						
3						
<b>Total</b>						

***Assumptions:***

Assumptions may be required for determining the noncurrent asset requirements, their prices, estimated life, etc. These assumptions must be made based on facts, relevant data and applicable rules and accounting standards. They must be clearly stated so that the users of the plan can easily comprehend the estimation.

**7.10 Maintenance of Noncurrent Assets**

The maintenance and repair plan for the noncurrent assets must be described in this subsection.

**7.11 Office Layout**

Office layout refers to the manner in which the office equipment and furniture are arranged for providing adequate space for performing regular office activities. The planned layout of the office must be drawn and presented here.

**7.12 Pre-operating Activities and Expenses**

Pre-operating or preliminary expenses refer to the expenses incurred before the commencement of the business. The proponents of the business may spend certain amount of money for activities such as conducting feasibility studies, development of designs, preparation of business plan, business registration, processing of loan, signing agreements with suppliers, consulting legal experts, recruitment and training, and trial production. All such expenses incurred prior to commencement of the business must be clearly recorded and presented. If the amount of pre-operating expenses is not significant, it may be expensed in the first year as per the accounting standards. However, if the amount is significant, the same may be capitalised and amortised over a certain number of years, usually three years as per income tax rules.

Identify all the activities which must be carried out before the commencement of the business and reflect the expenses as shown in Table 7.3.

Table 7.3: Estimation of pre-operating expenses

Pre-operating Activities	Expenses (Nu.)
Business plan preparation	
Business registration	
Loan application and approval	
Contracting with suppliers of material	
Trial production	
Recruitment and training of personnel	
Obtaining samples	
Any other activities	
<b>TOTAL</b>	

### 7.13 Organisation and Management Overhead Costs

It describes the expense items and the amount incurred in relation to office and administration functions. The business must undertake activities pertaining to organisation and management of the business and will incur expenses related to such activities. Some examples of such expenses are salaries and allowances paid to administrative personnel; procurement of stationery; payment of telephone charges, electricity bills, license renewal fees; training of employees; purchase of newspapers; repair and maintenance; depreciation of noncurrent assets used for administrative purposes; and pre-operating expenses. Such expenses must be clearly projected and presented for a period of three years as given in Table 7.4.

Table 7.4: Estimation of organisation and management overhead costs

Sl. No.	Items	Year 1	Year 2	Year 3
1	Salaries			
2	Stationery and other office supplies			
3	Telephone			
4	Electricity and water			
5	Renewal of permits and licenses			
6	Staff training and development			
7	Newspapers/Magazines			
8	Fuel			

9	Repairs and maintenance			
10	Donations			
11	Miscellaneous			
<b>Total organisation and management expenses before depreciation and pre-operating expenses</b>				
12	Depreciation			
13	Pre-operating expenses			
	<b>Total organisation and management expenses</b>			

**Assumptions:**

Assumptions made for estimating the salaries, allowances and other expenses must be based on facts, relevant data and applicable rules and laws. These must be clearly stated so that the users of the plan can easily comprehend the estimation.

**Learning Activity 7.1**

This activity intends to facilitate learners to prepare organisation and management plan for their proposed business.

**Instructions:** Recall the lessons on organisation and management plan, and complete the given task.

**Task:** Prepare a suitable organisation and management plan for your proposed business. The plan must consist of the following components:

- Legal form of the proposed business
- Business name and logo
- Capability profile of the proponents
- Organisational structure
- Key positions and their roles
- Recruitment, selection and training strategies
- Cost of administrative personnel
- Noncurrent asset requirement for administrative purposes
- Maintenance of noncurrent assets for administrative purposes
- Office layout
- Pre-operating activities and expenses
- Organisation and management overhead costs

**Chapter Review Questions**

1. Explain organisation and management plan in your own words.
2. Describe the components of organisation and management plan.
3. Mr. Tobgay is planning to start a transportation business. Recommend him strategies for recruiting, selecting and training of employees.
4. In the context of question 3, list down the requirement of noncurrent assets.
5. Explain pre-operating expenses and its treatment in accounting.
6. Discuss organisation and management overheads with suitable examples.

# CHAPTER 8

## Financial Plan



### *Learning Objectives*

- ✧ Explain the meaning of financial plan
- ✧ Prepare projected cost sheet
- ✧ Determine total project cost
- ✧ Prepare financing plan
- ✧ Decide and provide provision for security of loan
- ✧ Conduct loan amortisation and prepare loan repayment schedule
- ✧ Prepare projected financial statements
- ✧ Conduct economic and key financial analysis

## 8.1 Meaning of Financial Plan

Financial plan is an important component of the business plan. It relates to:

- I. the estimation of fund required to conduct the proposed business;
- II. determining the sources of finance;
- III. arrangement of loan and security for loan;
- IV. amortisation of loan and preparation of loan repayment schedule;
- V. preparing projected financial statements; and
- VI. conducting key financial analysis.

The potential investors and money lenders demand a realistic financial plan before investing their money into the proposed business. A properly developed financial plan also helps the entrepreneur manage the business effectively.

## 8.2 Projected Cost Sheet

Projected cost sheet refers to a projected statement that presents the estimated costs likely to be incurred in the operation of the proposed business. It is used to determine the cost of a product, services and cost per unit. The direct material, direct labour and direct expenses calculated in Chapter 6 are added to ascertain the prime cost. Factory overheads or operations overhead computed in the same chapter is added to the prime cost for ascertaining factory or works cost. Adding office and administrative overhead to the works cost will result in the cost of production. Further, adding selling and distribution overheads or marketing expenses to the cost of production leads to the cost of sales. When cost of sales is deducted from projected sales, it results in projected profit or loss.



A pro forma of the projected cost sheet is given below:

Particulars	Year 1		Year 2		Year 3	
	Total Cost (Nu.)	Cost Per Unit (Nu.)	Total Cost (Nu.)	Cost Per Unit (Nu.)	Total Cost (Nu.)	Cost Per Unit (Nu.)
Direct Materials	xxx	xxx	xxx	xxx	xxx	xxx
Direct Labour	xxx	xxx	xxx	xxx	xxx	xxx
Direct (or chargeable) Expenses	xxx	xxx	xxx	xxx	xxx	xxx
<b>Prime Cost</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
	xxx	xxx	xxx	xxx	xxx	xxx
Factory Overheads	xxx	xxx	xxx	xxx	xxx	xxx
<b>Factory Cost/ Work Cost</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
Office and Administrative overheads	xxx	xxx	xxx	xxx	xxx	xxx
<b>Cost of Production</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
Selling and Distribution overheads	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total Cost or Cost of Sales</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
	xxx	xxx	xxx	xxx	xxx	xxx
<b>Profit or Loss</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>Sales</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>

Once the cost of sales and the total units of production are determined, a cost per unit can be calculated by dividing the total cost or cost of sales by the total units of items produced.

### 8.3 Project Costing

It is essential for the business proponent or the entrepreneur to ascertain the fund needed for establishing and implementing the business. The total project cost comprises of the capital expenditure, pre-operating expenses and the working capital needed. Therefore, the total project cost can be ascertained using the formula given below.

$$\text{Total Project Cost} = \text{Capital Expenditure} + \text{Pre-operating Expenses} + \text{Working Capital}$$

### a. Capital expenditure

Capital expenditure refers to the amount of money needed in acquiring and maintaining non-current assets such as property, plant and equipment; and intangible assets which are used for the production of goods or providing of services. The capital expenditure includes the purchase price and all direct costs which are incurred for acquisition of an item of property, plant and equipment. The proprietor may also need to include any post acquisition costs as capital expenditure if it is expected that such cost would increase the life span of the asset or enhance its productivity. Otherwise, a normal maintenance of the asset to keep the asset in running condition is not a capital expenditure.

*Note:* All the estimations for non-current assets for marketing, operations and administration done in the previous chapters are added for ascertaining the total capital expenditure.

### b. Pre-operating expenses

Pre-operating expenses refer to the amount of money spent by the business before its commencement. Some common examples of pre-operating expenses are amount spent on feasibility study, business plan development, business registration, legal consultation and training of employees.

*Note:* Refer Chapter 7 (Section 7.12) for estimation of pre-operating expenses.

### c. Working capital

Working capital refers to the amount of money required for daily operation of the business. It covers both direct and indirect operating costs involved in the conduct of business. Therefore, working capital comprises of prime cost (sum of direct material cost, direct labour cost, and direct expenses); operations expenses; office and administrative expenses; and marketing expenses.

*Note:* The following estimates calculated in previous chapters are required to be added to ascertain the working capital requirements:

- ❖ the total of direct material costs computed in Chapter 6
- ❖ the total of direct labour costs computed in Chapter 6
- ❖ the total of direct expenses computed in Chapter 6
- ❖ the total operations overhead costs computed in Chapter 6

- ❖ the total marketing expenses computed in Chapter 5
- ❖ the total organisation and management expenses computed in Chapter 7

Thus, the total of capital expenditures, pre-operating expenses and working capital requirements determines the total fund required to establish and implement the proposed business.

A template of project costing is presented below:

Template for Project Costing		
A	Capital Expenditure	Amount
	Land	xxx
	Building	xxx
	Machinery & equipment	xxx
	Transport & other equipment	xxx
	Furniture	xxx
	Others	xxx
	<b>Total Fixed Investment (A)</b>	<b>XXX</b>
B	Pre-operating Expenses	
	Business registration	xxx
	Cost of training	xxx
	Others	xxx
	<b>Total Pre-operating Expenses (B)</b>	<b>XXX</b>
	<b>Total Investment (A+B)</b>	
C	Working Capital	
	Direct Operating Cost:	
	Direct material cost	xxx
	Direct labour cost	xxx
	Direct expenses	xxx
	Factory overheads (excluding depreciation)	xxx
	Indirect Operating Cost:	
	Marketing expenses (excluding depreciation)	xxx
	Organisation & management expenses (excluding depreciation)	xxx
	Debtors (Credit sales)	xxx
	Less: Cash sales	(xxx)
	<b>Working Capital Required (C)</b>	<b>XXX</b>
	<b>Total Project Cost = Total Investment + C</b>	<b>XXXX</b>

## 8.4 Financing plan

Once the total project cost is determined, the next component of financial plan pertains to arrangement of fund. There are several options such as own investment; funds from friends and family; loans from banks and other financial institutions; and investment from angel investors, private equity firms, and venture capital firms. The finance mobilised from these sources are broadly categorised into debt and equity. The sources and the proportion of fund must be stated as presented in Table 8.1.

Table 8.1: Financing plan

Sl. No.	Type of Finance	Proportion (%)
1	Debt	
2	Equity	

## 8.5 Security for Loan

When the entrepreneur plans to avail loan from banks and other financial institutions, the lenders usually require the entrepreneur or the business to keep certain assets as the collateral for the loan. The assets planned to be kept as collateral for availing loan must be stated in this section.

## 8.6 Loan Amortisation and Loan Repayment Schedule

Loan amortisation refers to paying back the loan to the lender usually in equated monthly instalments. The equated monthly instalment consists of certain amount as principal and a portion as interest. Present loan information using Table 8.2.

Table 8.2: Loan information

Name of the Financial Institution	
Amount of Loan (Nu)	
Interest Rate (%)	
Loan Term (Number of years)	
Grace Period	
Repayment Method	

The name of the financial institution from where the loan is planned to be availed

and the loan amount must be stated. Interest rate is the rate of interest charged by the lender on the loan. Loan term refers to the number of years within which the loan must be repaid along with the interest. When the entrepreneur avails a loan for establishment of a business, the entrepreneur is required to start repayment of loan only upon the commencement of the business. This period agreed between the lender and the borrower is called grace period. Repayment method refers to the terms of loan repayment such as monthly, quarterly, bi-annually and annually.

Based on the loan information recorded in Table 8.2, loan repayment schedule is prepared. Table 8.3 is recommended for preparing loan repayment schedule.

Table 8.3: Loan amortisation schedule

Year	Beginning balance (A)	Annual interest amount (B)	Annual principal amount (C)	Total Annual payment (B+C)	Ending balance (A – C)
1					
2					
3					
<b>Total</b>					

## 8.7 Projection of Financial Statements

Financial projection is a vital component of the financial plan as well as the overall business plan. It is considered as the backbone of the business plan. Although financial projection is considered to be the most difficult part of the business plan, it is not as difficult as it is perceived. Once the entrepreneur completes writing other sections of the business plan such as marketing, operations and organisational plans, prerequisites for preparing financial plan is ready. It is a matter of organising and quantifying the information given in the aforementioned sections of the business plan. The quantified information is thereafter presented through projected financial statements.

Projected financial statements comprise of the projected statement of comprehensive income, projected statement of financial position and the projected statement of cash flow. The projected statement of cash flow helps in estimating series of inflow and out flow of cash and cash equivalents of the business. The projected statement of comprehensive income estimates the future operating results of the business. The projected statement of financial position estimates the future financial position of the business. Information on projection of financial statements of the proposed business is presented in the following subsections

### a. Projection of statement of comprehensive income

The projected statement of comprehensive income refers to the financial statement that projects the operating results (profit or loss) of the proposed business. It compares the expenses against the revenue over a certain period of time to show the net profit or loss the business would earn or incur respectively.

In order to prepare the projected statement of comprehensive income, the assumptions and estimations done through the chapters on marketing, operations and organisational plans are necessary. In addition to the estimations and assumptions, provisions related to taxation, employment, and other rules and laws must be meticulously considered while preparing the projected financial statements. The following is the pro forma of projected statement of comprehensive income.

Particulars	Year 1	Year 2	Year 3
<b>A. Sales</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
Less: Taxes on sales	(xx)	(xx)	(xx)
Refunds	(xx)	(xx)	(xx)
Discounts	(xx)	(xx)	(xx)
<b>B. Net Sales</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
Less: Direct Operating Cost			
Direct materials costs	(xxx)	(xxx)	(xxx)
Direct labour costs	(xxx)	(xxx)	(xxx)
Direct expenses	(xxx)	(xxx)	(xxx)
<b>C. GROSS PROFIT</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Less: Indirect Operating Cost			
Factory overheads (excluding depreciation)	(xxx)	(xxx)	(xxx)
Marketing expenses (excluding depreciation)	(xxx)	(xxx)	(xxx)
Organisation & management expenses (excluding depreciation)	(xxx)	(xxx)	(xxx)
<b>D. PROFIT BEFORE DEPRECIATION AND PRE-OPERATING EXPENSES</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Depreciation	(xxx)	(xxx)	(xxx)
Pre-operating expenses	(xxx)		
<b>E. OPERATING PROFIT</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Less: Interest payment	(xxx)	(xxx)	(xxx)
<b>F. NET PROFIT BEFORE TAX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Less: Tax payment	(xxx)	(xxx)	(xxx)
<b>G. NET PROFIT AFTER TAX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

*Notes:*

- ❖ Sales figures can be referred from the yearly sales projected in Chapter 5, section 5.6, Table 5.7.
- ❖ Taxes on sales refer to the tax imposed on sale of the goods and services. The sales tax is paid to the government and therefore must be deducted from the sales amount. The rate of taxes must be made consistent to the rates imposed by the relevant government agencies.
- ❖ Refunds and discounts may be assumed as a percentage of sales.
- ❖ The yearly direct material, direct labour and direct expenses are estimated using the directions provided in Chapter 6, section 6.7.
- ❖ The factory or operations overheads are as calculated using the template provided in Chapter 6, Table 6.13. Since depreciation is separately expensed, it must be excluded from the factory overheads.
- ❖ Marketing expenses are as computed using the template given in Chapter 5, section 5.10. As depreciation is separately expensed, depreciation must be excluded from marketing overheads.
- ❖ Organisation and management expenses must be as calculated using the lesson given in Chapter 7, section 7.13. As depreciation is separately expensed, depreciation must be excluded from administrative overheads.
- ❖ Depreciation here refers to the yearly depreciation of the noncurrent assets used for marketing, operations and administrative purposes as calculated using the template in the Tables 5.6, 6.2, and 7.2 of this book.
- ❖ Pre-operating expenses are as determined using the template given in Chapter 7, section 7.12 (Table 7.3) of this book. Depending on the amount of pre-operating expenses, it may be expensed in the first year.
- ❖ Interest refers to the interest on loan the business has planned to avail. The amount of interest payment is as per the calculation done using loan amortisation schedule presented in Table 8.3.
- ❖ The tax payment must be in line with provisions of the Revised Income Tax Act of the Kingdom of Bhutan 2001, and Rules on Income Tax Act of the Kingdom of Bhutan 2001 and amendments thereafter.

**b. Projection of statement of financial position**

Following is a template of preparing the projected statement of financial position:

ITEMS	Year 1	Year 2	Year 3
<b>1. ASSETS</b>			
CURRENT ASSETS:			
Cash	xxx	xxx	xxx
Receivables	xxx	xxx	xxx
Inventories	xxx	xxx	xxx
<b>Total Current Assets (A)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
NONCURRENT ASSETS:			
Land	xxx	xxx	xxx
Building	xxx	xxx	xxx
Machinery & Equipment	xxx	xxx	xxx
Office Equipment	xxx	xxx	xxx
Transport Equipment	xxx	xxx	xxx
Others	xxx	xxx	xxx
Total Noncurrent Assets	xxx	xxx	xxx
Less: Accumulated Depreciation	xx	xxx	xxx
<b>Book Value of Noncurrent Assets (B)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>TOTAL ASSETS (A+B)</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
<b>2. LIABILITIES</b>			
CURRENT LIABILITIES:			
Accounts Payable	xxx	xxx	xxx
Working Capital Loan	xxx	xxx	xxx
<b>Total Current Liabilities (D)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
NONCURRENT LIABILITIES:			
Fixed Investment Loan	xxx	xxx	xxx
Retirement benefit obligations	xxx	xxx	xxx
<b>Total Noncurrent Liabilities (E)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>3. EQUITY</b>			
Owner's Equity	xxx	xxx	xxx
Retained Earnings	xxx	xxx	xxx
Current Profit	xxx	xxx	xxx
<b>Total Equity (F)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>TOTAL LIABILITIES &amp; EQUITY (D+E+F)</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>



Projection of the statement of financial position is vital for understanding the future financial position of the business. The projected statement of financial position shows the position of the assets of the business and the claims the creditors and business owners have against those assets. Therefore, this statement is prepared based on the fundamental accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

This statement has two sides – asset side and liability side. An increase or decrease on one side of the statement leads to an increase or decrease on the other side. Hence, this statement is also called as balance sheet.

Projection of the financial position of the business requires projection of assets, liabilities and equity positions. The presentation of projected statement of financial position helps the business present a view on the financial position of the business to the investors and lenders financing the business.

#### *Notes:*

- ❖ It is important to note that the projected statement of financial position does not cover a period of time but it represents the financial position of the business at a given point in time.
- ❖ Cash refers to the net cash flow that can be ascertained while preparing the Statement of Cash Flows.
- ❖ Accounts receivable refers to the amount of money the business is yet to receive from the debtors. It may be assumed as a percentage of sales.
- ❖ Inventories refer to the stock of raw materials, work in progress and finished goods. Remember that service businesses will not have inventory value.
- ❖ The noncurrent assets must be the total of noncurrent assets estimated for marketing, operations and administrative purpose. Accumulated depreciation must be deducted from the value of noncurrent assets.
- ❖ Accounts payable refers to the amount of money the business owes to the creditors. Usually, for the purpose of projection, accounts payable is also assumed as a percentage of sales.
- ❖ Working capital loan refers to the amount of loan the business has availed for daily operational purposes. For projection purpose, refer the project costing done and the amount of working capital requirement estimated earlier in this chapter under Section 8.3. It is important to decide what proportion of the

working capital requirement will be financed through loan. Only the loan portion will be reflected in this part of the statement of financial position.

- ❖ Noncurrent liabilities are long term liabilities. Loan taken for procurement of noncurrent assets, and retirement benefits obligation are few examples. Similar to working capital loan, the fixed investment loan can be ascertained from the decision of what amount of total project cost will be financed through long term loan.
- ❖ Owners' equity refers to the shareholders' money which the business has to pay upon liquidation. Retained earnings refer to the whole or the portion of the net profit of the business retained for future use. It forms a part of owners' equity and the business owes it to the owners.

### c. Projection of statement of cash flows

The projected statement of cash flows is prepared based on the amount of cash expected to be received and anticipated to be paid by the proposed business. The cash received by the business is called cash inflow and the cash business pays out is called cash outflow. The receipts and payments of cash by the proposed business is usually the result of three broad categories of activities comprising of operating, investing and financing. Consequently, cash flow statement is usually categorised and prepared based on the cash inflows and the outflows related to these three categories. However, as startups will have limited items of cash inflow and outflow, the cash flow statement may be customised and prepared without strict aforementioned categorisation. In other words, the preparation of cash book with cash receipts and cash payments will result in net cash inflow or outflow which can be used as the basis for preparation of statement of financial position.

Proper projection of cash flow for the proposed business helps in proper management of cash when the business actually commences. Projected statement of cash flows has enormous benefits such as predicting cash shortages and surpluses; comparing business expenses and income; strategising cash management; and providing debt servicing assurance to the lenders.

Following are the basic steps involved in projecting the cash flows:

- Finding the beginning cash balance
- Estimating cash inflow
- Estimating cash outflow
- Deducting the total cash outflow from the total cash inflow
- Adding net cash flow to the opening cash balance

Given below is a pro forma of projected cash book:

Particulars	Year 1	Year 2	Year 3
<b>A. BEGINNING CASH BALANCE</b>	-	XXXX	XXXX
<b>CASH RECEIPTS:</b>			
Cash sales	xxx	xxx	xxx
Equity contribution	xxx	xxx	xxx
CapEx loan	xxx	xxx	xxx
Interest received	xxx	xxx	xxx
Working capital loan	xxx	xxx	xxx
<b>B. Total Cash Receipts</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
<b>CASH PAYMENTS:</b>			
Capital expenditure	(xxx)	(xxx)	(xxx)
Direct operating costs	(xxx)	(xxx)	(xxx)
Indirect operating costs	(xxx)	(xxx)	(xxx)
Interest paid	(xxx)	(xxx)	(xxx)
Repayment of loan	(xxx)	(xxx)	(xxx)
Tax	(xxx)	(xxx)	(xxx)
<b>C. Total Cash Payments</b>	<b>(XXXX)</b>	<b>(XXXX)</b>	<b>(XXXX)</b>
<b>D. NET CASH (B-C)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>ENDING CASH BALANCE (A+D)</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>

### Notes:

In order to prepare the projected statement of cash flows for the proposed business, the assumptions and estimations done in the previous chapters are essential. Assuming that the accrued income is received and accrued expenses are paid in cash within a year, the following items assumed and calculated earlier in this chapter and previous chapters will come under cash inflow for the purpose of preparing yearly statement of cash flows:

- Sales
- Loan received
- Equity contribution

Likewise, the following items will come under cash out flow:

- Capital expenditure
- Marketing expenses
- Direct operating expenses
- Indirect operating expenses
- Organisation and management expenses
- Tax payment

Following is a template of projected statement of cash flows with clear segregation of operating, investing and financing activities:

Particulars	Year 1	Year 2	Year 3
<b>I. Cash Flows from Operating Activities</b>			
Profit Before Tax	XXXX	XXXX	XXXX
Add: Non-operating and Non-cash Expenses			
Pre-operating Expenses	XXX	XXX	XXX
Depreciation	XXX	XXX	XXX
Interest Expenses	XXX	XXX	XXX
Less: Non-operating and Non-cash Income			
Gain on Revaluation of Investments	(XXX)	(XXX)	(XXX)
Interest Income	(XXX)	(XXX)	(XXX)
Gain on Disposal of Fixed Deposit	(XXX)	(XXX)	(XXX)
<b>Operating Profit Before Working Capital Changes</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
Add: Increase in Current Liabilities and			
Decrease in Current Assets	XXX	XXX	XXX
Less: Decrease in Current Liabilities and			
Increase in Current Assets	(XXX)	(XXX)	(XXX)
<b>Cash Generated from Operations</b>			
Less: Dividend Paid	(XXX)	(XXX)	(XXX)
Income Tax Paid	(XXX)	(XXX)	(XXX)
<b>Net Cash from Operating Activities (A)</b>	<b>XXXXXX</b>	<b>XXXXXX</b>	<b>XXXXXX</b>
<b>II. Cash Flows from Investing Activities</b>			
Capital Expenditure	(XXX)	(XXX)	(XXX)
Purchase of Investments	(XXX)	(XXX)	(XXX)
Dividend Received	XXX	XXX	XXX
Interest Received	XXX	XXX	XXX
Proceeds from Disposal of Noncurrent Assets	XXX	XXX	XXX
Proceeds from Disposal of Investments	XXX	XXX	XXX
<b>Net Cash Flow from Investing Activities (B)</b>	<b>XXXXXX</b>	<b>XXXXXX</b>	<b>XXXXXX</b>
<b>III. Cash Flows from Financing Activities</b>			
Owner's Equity Contribution	XXXX	XXXX	XXXX
Bank Loan Received	XXXX	XXXX	XXXX
Repayment of Bank Loan	(XXX)	(XXX)	(XXX)
Interest Paid	(XXX)	(XXX)	(XXX)
<b>Net Cash Flow from Financing Activities (C)</b>	<b>XXXXXX</b>	<b>XXXXXX</b>	<b>XXXXXX</b>
<b>Net Increase in Cash &amp; Cash Equivalents (A+B+C)</b>	<b>XXXXXXX</b>	<b>XXXXXXX</b>	<b>XXXXXXX</b>
<b>Beginning Cash &amp; Cash Equivalents (D)</b>	<b>XXXX</b>	<b>XXXX</b>	<b>XXXX</b>
<b>Ending Cash &amp; Cash Equivalents (A+B+C) + D</b>	<b>XXXXXX</b>	<b>XXXXXX</b>	<b>XXXXXX</b>

It is also important to make an assumption related to the proportion of expenses and income to be incurred and received respectively in cash for the purpose of preparing projected statement of cash flows.

A detailed preparation of statement of cash flows with clear segregation of items related to operating, investing and financing activities must be done to ascertain the category of activities in which the business is either using or generating cash.

### Learning Activity 8.1

This activity aims to facilitate learners to prepare financial plan for their proposed business.

**Instructions:** Recall the lessons from this chapter and complete the given task.

**Task:** Prepare a suitable financial plan for the proposed business. The following components must be included in the financial plan:

- Projected cost sheet
- Total project cost
- Financing plan
- Security for loan
- Loan amortisation and loan repayment schedule
- Projected financial statements

## 8.8 Break Even Analysis

Break-even analysis refers to determining a point in which the total cost and the total revenue are equal. It is a point at which the business recovers its project cost through the revenue generated. Calculation of the Break Even Point (BEP) helps the business in ascertaining the year in which production volume or sales recovers the total project cost.

Revenue in excess of break-even point results in profit while revenue falling below break-even point results in loss. BEP is calculated using the given formula:

$$\text{BEP} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}}$$

Where, Contribution Margin = Sales – Variable Costs

**Notes:**

- ❖ The fixed costs refer to those costs which do not change with the change in production volume. The total fixed cost is ascertained from the statement of comprehensive income by adding the components of the fixed cost.
- ❖ Variable costs refer to those costs which change with the change in level of production volume. The total variable cost is ascertained from the statement of comprehensive income by adding the components of the variable cost. The unit variable cost is calculated by dividing the total variable cost by total units produced.
- ❖ Sales refer to the total sales or unit selling price as determined in the previous chapters.
- ❖ For multiple products, the weighted average contribution margins must be calculated and the break-even point in units can be determined by dividing the total fixed costs by the weighted average contribution margin per unit.

**Learning Activity 8.2**

This activity aims to help learners compute the BEP for their proposed business.

**Instructions:** Complete the given task by recalling the lessons on break-even analysis.

**Task:** Calculate the BEP in terms of revenue and unit sales for the proposed business.

**8.9 Financial Analysis**

The financial statements projected earlier is used for gaining insights about the business through analysis of these statements. Some of the important analysis consists of computing ratios and conducting analysis which are discussed below:

**a. Payback Period**

Payback Period (PBP) is a capital budgeting technique (method) used to estimate the amount of time taken by an investment to reach its break-even point. It gives a quick judgement of how fast a business recovers its initial investment. Shorter payback periods are desired over longer periods. Similar to the break-even analysis,

PBP can indicate the duration of an investment to break-even. Mathematically, the payback period is calculated by dividing initial investment (cost of investment) by the cash flow per period, assuming that the business generate equal cash flow every year.

$$\text{PBP} = \frac{\text{Cost of Investment}}{\text{Cash flow}}$$

However, if the cash flow is per annum is uneven, the PBP is calculated using the given formula:

$$\text{PBP} = \text{Completed number of years} + \frac{\text{Balance to be recovered}}{\text{Cash flow of that year}}$$

### b. Net Present Value

Net Present Value (NPV) is the value of all future cash flows over the entire life of an investment discounted to the present value. It is one of the popular methods with which entrepreneurs and investors make investment decisions. The projects with positive NPV are preferred over those with negative NPV.

$$\text{NPV} = \sum_{i=1}^n \frac{c}{(1+r)^n} - C_0$$

where C= cash flow, r = discount rate, n = year of cash flow

$C_0$  = initial investment

### c. Return on Investment

Return on Investment (ROI) is a method of calculating the profitability of the business. It determines how much money can be made on the investment as a percentage of the cost of investment. The projects with higher ROI is considered favourable. It is calculated by subtracting the cost from the total income and dividing it by the total cost:

$$\text{ROI} = \frac{\text{Revenue} - \text{Cost}}{\text{Cost}}$$

### d. Net Profit Margin

Profit margin is considered as a commonly accepted measure of profitability. The relationship of profit to sales indicate the entrepreneur's ability to operate the business with success not only to recover all costs from the revenues but also to earn reasonable amount of profit. It essentially expresses the 'cost-price' effectiveness of the business

operation. The ratio is also called percentage return on sales, margin on sales or net profit percentage. It is calculated using the following formula:

$$\text{Net Profit Margin} = \frac{\text{Revenue} - \text{Cost}}{\text{Sales}}$$

### Learning Activity 8.3

This activity aims to facilitate learners conduct some of the important financial analysis of their projected financial statements and consolidate these with the components of financial plan prepared earlier in this chapter.

**Instructions:** Perform the given tasks with the help of lessons learnt on financial analysis and the projected financial statements.

**Task:**

- a. Calculate payback period, net present value, return on investment and net profit margin.
- b. Consolidate the components of the financial plan prepared earlier in this chapter. The consolidated financial plan must have the following components:
  - Projected cost sheet
  - Total project cost
  - Financing plan
  - Security for loan
  - Loan amortisation and loan repayment schedule
  - Projected financial statements
  - Break-even analysis
  - Payback period
  - Net present value
  - Return on investment
  - Net profit margin



### Chapter Review Questions

1. Why is financial plan important while preparing a business plan?
2. Discuss the need of preparing a projected cost sheet.
3. Explain the process of computing the total project cost.
4. Why is it important to have a financing plan?
5. Explain the reasons for conducting loan amortisation.
6. Mr. Gangkar is planning to do a business but he is not convinced about the need for projecting the financial statements. Convince him on the purpose and importance of projecting financial statements.
7. Explicate the reasons for conducting break-even analysis; calculating payback period; ascertaining net present value; and computing return on investment and profit margin ratio.



# CHAPTER 9

## Business Plan Pitching



### *Learning Objectives*

- ✧ Explain the concept of business plan pitching
- ✧ Craft the business plan pitch deck
- ✧ Pitch the business plan
- ✧ Be aware about the support system for business launch

## 9.1 Concept of the Business Plan Pitching

Development of a comprehensive business plan is important and the ability of the entrepreneur to pitch the business plan is even more important as it impacts the ability to garner support for the proposed business. Pitching the business plan refers to presentation of the business plan to the potential business partners such as investors, lenders, employees and major customers to garner support from them. For example, the entrepreneur uses business plan pitch to prove how the business can deliver value to the customers and returns to the investors. Pitching is also done at the idea level.

The pitch is similar to the presentation of the basic components of the Business Model Canvas discussed in the Chapter 3. It comprises of customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structures. However, the pitch may be customised depending on the stakeholder to whom the pitching is done.

While pitching the business plan, the business model comprising of the aforementioned components should be precisely presented. The pitch is also called ‘elevator pitch’ because the entrepreneur should effectively deliver the pitch in the length of time it takes to ride up few storeys of a building in an elevator with the potential investor. Usually, the duration of elevator pitch is 60 seconds. However, depending on the pitching platforms and their norms, the duration of pitching may vary. The detailed business plan is not presented during the pitch as the goal is to convince the potential investor by sharing a snapshot of the plan. This is also to encourage the potential investor to meet again for further deliberation of the plan and finalise the investment decision.

## 9.2 Crafting the Business Pitch

The business plan pitch that the entrepreneur presents to the prospective investors and business partners must be engaging, informative and compelling. There are several formats or pitch decks available for an entrepreneur to use for pitching. Guy Kawasaki’s 10 slides pitch deck is one of popular formats. As the name suggests it uses only TEN PowerPoint slides to pitch the business plan and is discussed below to give an idea of what should be presented while pitching a business plan:

### 9.2.1 Title slide

In this slide, the name of the business; names of the proponents or entrepreneurs;

and the address and the contact details of the proponents or the entrepreneurs must be provided. All the details in the title slide must be up to date as these are the lines of communication to be established with the audience of the pitch.

## 1. TITLE

Provide company name, your name and title, address, email, and cell number

### 9.2.2 *Problem or opportunity*

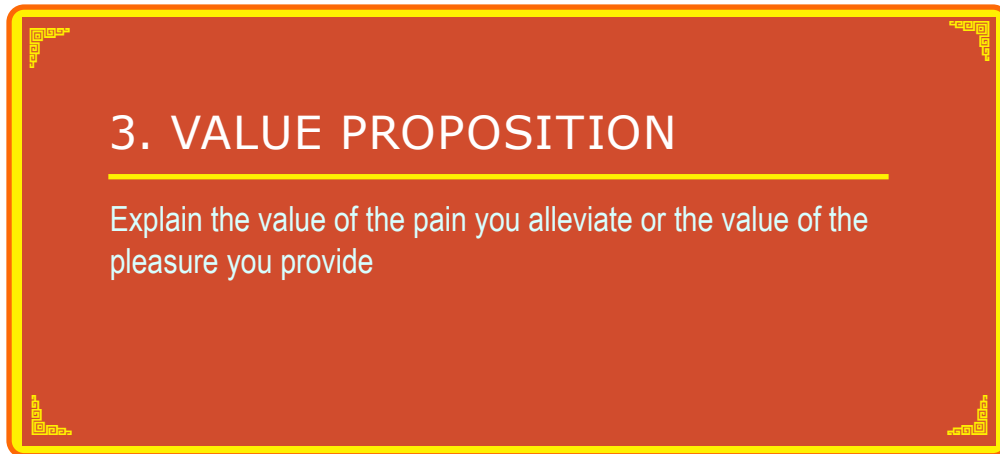
This slide should contain information with regard to the problem that the proposed business intends to address or the opportunity it plans to capitalise. It is important to state the problem or opportunity as clear and precise as possible and relatable to the audience. The audience should be able to empathise and believe that the problem is real.

## 2. PROBLEM OR OPPORTUNITY

Describe the pain that you're alleviating or the pleasure you're providing

### 9.2.3 Value Proposition

The value proposition that the proposed business plans to offer must be well articulated in this slide. It is important to describe the value proposition in a single phrase or a sentence. This slide should fascinate the audience to let them know more and everything else the pitch has to present.



### 9.2.4 Underlying magic

The technology behind the proposed product and the demonstration of the prototype is done here. Basically, it is about presenting the unique features and functionalities of the product.



### 9.2.5 *Business model*

The logic behind how the proposed business is going to make money is presented in this section. Present the streams from which the business is going to generate revenue and the margin that it expects to earn.

## 5. BUSINESS MODEL

Explain who has your money temporarily in his pocket and how you're going to get it into yours.

### 9.2.6 *Go-to-market plan*

In this slide, the entrepreneur demonstrates that he understands the market well and has a clear marketing plan. The channels for marketing and delivery of the products and services must be presented here. It adds to the merit of the business to present about its validated market.

## 6. GO-TO-MARKET PLAN

Explain how you are going to reach your customer without breaking the bank.

### 9.2.7 *Competitive analysis*

Information gathered through the competitive analysis must be used here to give an indication that the business clearly understands the competition it faces. Audience may not be interested in listening to how bad the competitors are but they will be interested in learning about how better and unique the proposed business is as compared to the competitors or existing businesses. Therefore, the competitive advantages the proposed business has over its competitors are articulated in this slide.

## 7. COMPETITIVE ANALYSIS

Provide a complete view of the competitive landscape. Too much is better than too little.

### 9.2.8 *Management team*

The credentials of the management team of the proposed business are presented here including their strengths and relevant experiences. Consider that investors and business partners invest their money and render supports not only based on the attractiveness of the business but also on the potential of the team to make the business succeed. If the team has certain drawbacks, the strategies to overcome the weak links must be clearly presented.

## 8. MANAGEMENT TEAM

Describe the key players of your management team, board of directors, and board of advisors, as well as your major investors. It's okay if you have less than a perfect team. If your team was perfect, you wouldn't need to be pitching.



### ***9.2.9 Financial projections and key metrics***

The key insights from the projected financial statements are presented here along with the metrics which are to be used for measuring the success of the business. The amount of money required for the business is also mentioned in this slide. Consider that the investors are well versed in financial matters, therefore, being realistic with the figures and projections is important.

## **9. FINANCIAL PROJECTIONS AND KEY METRICS**

Provide a three-year forecast containing not only dollars but also key metrics, such as numbers of customers and conversion rate. Do a bottom-up forecast, not top-down.

### ***9.2.10 Current status, accomplishment to date, timeline and use of funds***

The current status of the proposed business; the momentum and traction of the products and services of the business; timeline of the business growth in future; fund that the business needs; and the intended use of the funds must be presented in this slide.

## **10. CURRENT STATUS, ACCOMPLISHMENT TO DATE, TIMELINE AND USE OF FUNDS**

Explain the current status of your product, what the near future looks like, and how you'll use the money you're trying to raise.

Guy Kawasaki suggests a 10/20/30 rule for pitching. This means the followings:

- ❖ a pitch should consist of 10 slides
- ❖ the presentation should last no more than 20 minutes
- ❖ the font size should be no smaller than 30 points

### Learning Activity 9.1

This activity aims to facilitate learners to prepare a pitch deck for their proposed business.

**Instructions:** Recall the lesson on Guy Kawasaki's 10 slides pitch deck and complete the given task.

**Task:** Prepare a pitch deck for your proposed business.

## 9.3 Business Plan Pitching

Pitching the business plan in an effective manner is of paramount importance. Following are some of the common tips for delivering an effective pitch:

- *Develop the pitch deck well* – the pitch deck must consist of the essential areas discussed under Section 9.2.
- *Begin the pitch with a compelling story* – the story must be related to the problem intended to be solved by the business. This helps in engaging the audience and gaining their support.
- *Know your target market well* – the target market must be well studied so that the entrepreneur is clear about who the customers are, what their needs are and how they would like to be served. This enables the entrepreneur in convincing the potential investors or partners.
- *Highlight about the Unique Selling Proposition (USP) of the product* – share the USP of the product or service that is offered by the business. If tests have been conducted, the results of the tests must be shared.

- *Know your revenue model* – the ways through which the business is going to make money must be clear to the entrepreneur and it must be presented to the audience in a clear and concise manner, especially to the investors.
- *Traction and milestones* – the entrepreneur must be prepared to present the traction and growth milestones of the business. Traction may be in the form of number of customers, sales, total hiring, contracts entered into with the business partners, etc. These basically show to the potential investors that the proposed business has the potential to succeed.
- *Know your competition* – be clear on who are the competitors of the business. Highlight the competitive advantage the business has over its competitors. Use the information from the competitive analysis here.
- *Strategise marketing and sales* – how the business intends to conduct its marketing and sales activities must be presented clearly. The market analysis information serves as a good input for this.
- *Know the team well* – the knowledge, skills and competencies of the team that leads the business is very important. Investors invest first in the team and then in the idea or the business they intend to build.
- *Be realistic with figures* – the financial projection must be done for a minimum period of three years. The figures mentioned in the financial projection must be realistic.
- *Be clear on the funding needs* – the amount of fund needed for the business and its purposes must be clearly articulated.
- *Define the exit strategy* – in case of a huge investment, investors will be interested to know the exit strategy the business has planned. Exit strategy is the strategy of how the investors will liquidate or leave the current investment upon achievement of the objectives of the business. Going for initial public offering, selling the business and strategic alliance are some of the exit strategies.
- *Rehearse the pitch* – the preparation of the pitch deck is one aspect of effective pitching. Another important aspect is practicing what one has prepared. What is mentioned in the PowerPoint slides or the pitch deck is just a reference point. The entrepreneur must be thorough with the entire pitch and the business.

### Learning Activity 9.2

This activity aims to facilitate learners to pitch their business plans.

**Instructions:** Revisit the pitch deck section, prepare a pitch deck and complete the given tasks. The school management and the teacher may arrange juries for the pitch and even invite potential investors.

**Task:** Prepare, rehearse and pitch the business plan to the juries and investors.

## 9.4 Business Incubation

Once the business plan pitching is done, the entrepreneur may choose to get enrolled for incubation programme. The business incubation refers to the process of rendering support services and resources to the business incubatees for helping them establish and launch their businesses. The resources and support services may include working space, administrative services, coaching, mentoring, training, technical advice, access to equipment, fund raising support, networking opportunities, support for licensing and getting clearances. The support and services are rendered through business incubation centre and the services may be categorised as follows:

- ❁ *Work space supports* – aspiring entrepreneurs may require a physical space with basic infrastructural facilities. Generally, the incubation centres provide facilities such as furniture, internet, hall, labs and library.
- ❁ *Administrative supports* – the incubation centres provide administrative support services for enabling the incubatees to get licenses and clearances from the government agencies and regulatory authorities. In addition, administrative services such as printing, photocopying and communication may also be provided.
- ❁ *Business advice services* – business advice services such as coaching, mentoring, counseling and training in the areas related to the business being incubated are rendered.

- ❁ *Technical services* – the incubation centres also provide technical advices on product design, production method, procurement of equipment, etc.
- ❁ *Fund raising supports* – supports related to raising funds from various financing sources are rendered.
- ❁ *Networking supports* – businesses need network and relationship with various stakeholders. Incubation centres also help in bringing the key stakeholders together to build mutually fulfilling networks.
- ❁ *Marketing supports* – access to market is essential for every business. Incubation centres render support for establishing market linkages.

Some of the business incubation centres in Bhutan are Bhutan Innovation and Technology Centre at Thimphu TechPark Limited and Startup Center at the Department of Cottage and Small Industries. In addition, incubation centres are being established in colleges and technical training institutes by the government.

**Chapter Review Questions**

1. Explain the concept of business plan pitching.
2. Describe the concept of elevator pitch.
3. Discuss Guy Kawasaki's 10/20/30 rule of presentation.
4. Imagine that you are a member on the board of juries for evaluating business plan pitches, and you are required to develop a template for pitch deck for the aspiring entrepreneurs to use. Develop an appropriate pitch deck.
5. Discuss the primary support services rendered by business incubation centres. Do you think it is sufficient? What other services, do you think, would be required to support the start-ups?



# Annexure

## Annexure I

### How is Singapore reshaping using Design Thinking?

Lateeka Sabharwal, Nov 23, 2020

Singapore is one of the rare countries in the world that leads by example. From the lack of natural resources to ever-changing market economy, the island nation has gone through many challenges. Despite this, Singapore has written its own playbook in almost every aspect of governance and kept on seeking a sustainable future for Singaporeans. This time, they have made changes in their hospitals and schools by embedding a Design Thinking approach as it saves lives, cuts costs, and boosts social welfare. Let us have a look on how Design Thinking was used by the Singapore government to reshape the city experience and improve the lives of citizens.

#### Legal System

When conjuring up an image of Design Thinking, the first thought that comes to the mind is Humans. Design Thinking helps organizations focus on the people for whom they are creating the product, which not only leads to exceptional business but also phenomenal products, services, and internal processes. The government of Singapore used a similar approach to give Family Justice Courts a face-lift. Considering how stressful

situations arise at court, the authorities decided to rebuild the layout of the court, making it more child-friendly.

With the help of a Design Thinking approach, they created counselling and mediation rooms, where in-house specialists were made available for consultations with the public. Whenever possible, there will also be an out-of-court settlement. Moreover, judges will redirect people to use these services, and if amicable solutions can be reached, there will not be a need to undergo court hearings. To make it less stressful for children (as they are asked to come to court in some divorce cases), a colourful play corner with beautiful murals and a small library, was made that gave the court an upbeat vibe.

#### Hospitals

Not only legal courts, but hospitals and clinics in Singapore are also using Design Thinking tools to make the life of their patients easier, ranging from simple chair designs to the planning of an entire ward. Khoo Teck Puat Hospital simplified service delivery for the senior citizens by placing all the geriatric-related specialist care on the fourth floor. Due to this, they do not have to go to different floors for appointments with multiple doctors.

Clinics also have a come up with an Island Design concept, wherein a



workstation for both doctors and nurses will be placed in the centre of the clinic. With this approach, they got:

- 1) Extra free space that made the movement of patients a lot easier.
- 2) Allowed nurses to attend to patients without obstructions.

Some hospitals have even installed new chair designs, easing the access for the physically handicapped. They came up with sprung-up flip chairs—somewhere like what is seen in stadiums—that allows one to sit next to the patient while waiting in the queue. Before this, the attendant used to park the wheelchair at the allocated slot and sit separately. This change had a real impact and cut patient waiting time by 40%, just by rearranging the structure of services. The hospital also came up with the idea of making electronic queue and appointment systems to improve service efficiency and even re-organized the location of the consulting room, which made the communication between departments a lot easier.

## Housing

Due to its Human-centric nature, Singapore has implemented Design Thinking in the housing scheme to promote racial integration. They came up with the policy of reserving a set percentage of homes to individuals from each race, which will in turn prevent social enclaves from forming based on race.

## Classrooms/School

Many schools in Singapore are hosting workshops to nurture Design Thinking in kids and encourage creative solutions to global problems. It is also one of the broad directives in the Design 2025 Masterplan, which was released last year. They follow three steps:

- Address issues with empathy
- Create and consider various options
- Pick a solution and execute it

‘Thinkroom’, As Many Minds and Happiness Makers, have designed workshops for children which introduce them to techniques such as self-directed inquiry and brainstorming in a team.

The National Design Centre, the headquarters of Design Singapore Council, has hosted many programs for children, including a Junior Maker Programme, during which children engage in activities such as leather-crafting and making a Lightsaber, among others.

## Zoo

Since its formation (1971), Wildlife Reserves Singapore (responsible for operating four award-winning parks: Singapore Zoo, Night Safari, River Safari and Jurong Bird Park) is one of the primary sources of entertainment for the citizens of Singapore. With the help of Design Thinking, they came up

with two new major projects: Rainforest KidzWorld and My Animal Buddy. They nurtured around 20 Design Thinking (DT) internal champions and trained 30-40 senior management and key personnel in Design Thinking. Creation of Rainforest KidzWorld, an outdoor play zone concept for the Singapore Zoo was also a part of the approach. However, the start high remains the concept of My Animal Buddy, an initiative wherein your animal friend does not live in your house,

but in the zoo.

Apart from the Government, even the private firms in Singapore are using Design Thinking to work on their business strategies and grow their organizations by leaps and bounds. With this, I hope that you understand how Design thinking methodologies play a vital role in helping the government deliver valuable services.

## Annexure II

### Depreciation Schedule as per the Rules on the Income Tax Act of the Kingdom of Bhutan 2001

Block	Sl. No.	Asset Type	Maximum Rates
I	INFRASTRUCTURAL FACILITIES		
	1	Building – Permanent – All types	3%
	2	Bridges – Permanent	
	3	Compound Walls and Fencing	
	4	Roads – Permanent	
	5	Tube Wells and Deep Wells and Water Pipe Lines	
	1	Semi-Permanent	20%
	2	Temporary	50-100%
II	ELECTRICITY GENERATION AND TRANSMISSION		
	1	Devices for controlling transmission loss	5%
	2	Generator (Hydro)	
	3	Power House Equipment	
	4	Poles and Pillars	
	5	Substation Equipment	
	6	Transmission Lines – HT & LT	
	7	Underground Cables	
III	EQUIPMENT		
	1	Audio/Visual Equipment	15%
	2	Computer/Data Processing System	
	3	Deep Freezers / Refrigerators (Hotels & General Use)	
	4	Fire Fighting Equipment/System	
	5	Lightning Arresters	
	6	Laboratory Equipment	
	7	LPG Cylinders	
	8	Office Equipment – all types	
	9	Photographic/Reprographic Equipment	
	10	Pollution Control Equipment	
	11	Telephone including PABX system	
	12	Tools and Implements	
	13	Trekking Equipment	
	14	Vaccum Cleaner	15%
	15	Water Cooler and Water Purifier	
	16	Weighing Machines	
	17	Washing Machines	

IV	FURNITURE, FIXTURES AND UTENSILS		
	1	Ceramic and Glass Utensils	15%
	2	Carpets of all types	
	3	Curtains & Heavy Drapes	
	4	Domestic Electrical Appliances and Fixtures	
	5	Furniture of all Kinds	
	6	Mattresses, Pillows and Blankets	
	7	Silver, Steel and Metallic Crockeries	
V	PLANT & MACHINERY (including spare parts and accessories)		
	1	Boilers	15%
	2	Cinema Projectors and Screen	
	3	Cranes, Chain and Pulley	
	4	Deep Freezers / Refrigerators (Industrial Purposes)	
	5	Earth Moving Machinery including Bulldozers	
	6	Scrapers, Excavators, Wheel Loaders, etc.	
	7	Fork Lifts	
	8	Industrial Gas Cylinders	
	9	Lifts	
	10	Mining Equipment and Machineries	
	11	Petrol Pump Installation and Tanks	
	12	Printing Machineries	
	13	Rope Way Installation	
	14	Road Rollers	
	15	Railing & Locomotives' Storage Tanks	
	16	Wood Cutting / Processing Machines	
VI	VEHICLES, VESSELS AND AIRCRAFTS		
	1	Aircraft including Helicopter	15%
	2	Buses & Vans	
	3	Cycles & Rickshaws	
	4	Light Motor Vehicles including two or three Wheelers	
	5	Trucks & Trailers	
	6	Vessels – Ships, Boats, Rafts, etc.	
VII	SMALL ASSETS costing up to Nu.25,000 in total per tax payer per income year		Write off

## Annexure III

### ASSESSMENT

National School Curriculum (NSC) is grounded on the principle of competency-based education which empowers learners with intellectual, social, emotional, behavioral competencies and transversal skills for holistic development as nationally rooted and globally competent individuals. It is an attempt to transform the teaching of “what” to learning of “how”. Further, with technology becoming increasingly indispensable in education which allows learners to get knowledge easily from digital platforms and use it in teaching-learning processes, there is a need to embrace such practice and prepare our learners for the world of work.

Assessment is an integral part of the teaching-learning process especially to guide and help learners in achieving required skills and competency in the subject. To achieve the objectives of NSC to deliver competency-based education, the assessment plays a critical role to ensure that such competencies in the form of knowledge, skills, and values are acquired by the learners.

#### **a. Business Plan Assessment Tool**

The assessment tool must be used for the assessment of business plan project completed by the learners in class XII.

A Complete Evaluation Tool by Donald F. Kuratko and Robert C. McDonald (2007). This tool is used for self-assessment of the business for its improvement.

#### ***The Components***

The components of the business plan considered here for assessment are:

- ❖ executive summary
- ❖ business profile
- ❖ business model canvas
- ❖ market analysis
- ❖ marketing plan
- ❖ operations plan
- ❖ management plan

- ❖ financial plan
- ❖ assessment of risks
- ❖ appendices

### ***Assessment scale***

Following is the 5-Point Likert scale that can be used for assessing each component of the business plan.

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

*Directions:* Use the above scale to assess each of the components of the business plan. A description of each component in ideal form is presented along with the rating scale.

### ***1. Executive Summary***

Executive summary enables the reader to gain insights of the entire business plan. It should be precise and clear. It creates interest in the reader to read further through the entire plan. Following components of the executive summary must be considered for assessment:

- Brief background, vision and mission of the proposed business
- The problem it intends to address and its market opportunities
- Brief insights of market research and marketing strategies
- Snapshot of the technical or operations plan
- Brief note on the management and organisational plan
- The financial needs and projections including the highlights of the key financial analysis

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 2. Business Profile

The business profile or description is an overview of the proposed business. The following components of the business profile must be considered for assessment:

- Name, logo and address of the proposed business
- Form and nature of the proposed business
- Name, address and capability profile of the proponents (entrepreneurs)
- Vision and mission of the proposed business.

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

### 3. Business Model Canvas

The 9 building blocks of business model canvas must be considered for assessment:

- Customer segments
- Value proposition
- Channels
- Customer relationships
- Revenue streams
- Key partnerships
- Key resources
- Key activities
- Cost structure

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

### 4. Market Analysis

The following components of the market analysis must be considered for assessment:

- Industry analysis
- Target market segment
- Demand-supply gap analysis



- Competitor analysis
- Revenue or sales forecast

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 5. Marketing Plan

The following components of the marketing plan must be considered for assessment:

- Marketing mix
- Marketing strategies
- Noncurrent assets requirement
- Marketing expenses

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 6. Operations Plan

The following components of the operations plan must be considered for assessment:

- The location of the operations facility
- Process and methods of operation
- Production quantities and schedule
- Noncurrent asset requirements
- Plant capacity and capacity utilisation
- Direct operating costs
- Operations overheads
- Total and unit factory costs

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 7. Management Plan

The following components of the management plan must be considered for assessment:

- Legal form of business
- Organisational structure
- Human resource requirements
- Cost of administrative personnel

- Noncurrent asset requirements
- Office layout
- Pre-operating expenses
- Administrative overheads

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 8. Financial Plan

The following components of the financial plan must be considered for assessment:

- Projected cost sheet
- Total project cost
- Financing plan
- Security for loan
- Loan amortisation and schedule
- Projection of financial statements
- Breakeven analysis and other key financial analysis

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects

4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 9. Risk Assessment

The following components of the risk assessment must be considered for assessment:

- Risk identification
- Risk evaluation
- Risk response strategies

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

## 10. Appendices

The business plan may have the following components:

- Market analysis report
- Feasibility study report
- Resumes of the proponents
- Copies of the license
- Agreements and deeds signed with key stakeholders

● Clearances and certificates

**Note:** The learners at this stage will not have all the documents which are supposed to be appended. Therefore, only the relevant appendices may be considered for evaluation.

*Rate this component by circling the appropriate point.*

Scale	Performance Category	Description
5	Outstanding	All the components are thoroughly captured and complete in all respects
4	Very Good	Most of the components are thoroughly captured but the plan could be improved
3	Good	Some components are thoroughly captured but others are missing
2	Fair	Only a few components are captured with minimal detail
1	Poor	No component is captured adequately

Once the rating of the components is done, the aggregate score can be computed using the following table.

Components	Points Scored				
	5	4	3	2	1
Executive Summary					
Business Profile					
Business Model Canvas					
Market Analysis					
Marketing Plan					
Operations Plan					
Management Plan					
Financial Plan					
Risk Assessment					
Appendices					
<b>Total Points Scored</b>					

**Note:** Transfer the points scored in each of the components of business plan to the above table for computing the aggregate score.

**Interpretation of the aggregate scores:**

- ❖ 40 – 50 points: Exceeding
- ❖ 30 – 39 points: Meeting
- ❖ 20 – 29 points: Approaching
- ❖ Below 20 points: Beginning

Competency Level	Interpretation
Exceeding	The learner demonstrates competencies beyond expectations and targets
Meeting	The learner demonstrates competencies that meeting the expected competencies
Approaching	The learner demonstrates competencies that are towards the expected competencies
Beginning	The learner demonstrates competencies that are below expectations

**b. Assessment techniques, tools and weightings:**

Sl.No	Assessment Techniques	Tools	Weighting	Remarks
Term I				
1	Class Activities	Q & A, Checklist, Rubrics	2.5	20
2	Homework	Checklist & Rubrics	2.5	
3	Assignment or project work	Rubrics	10	
4	Test	Paper pencil test	5	
5	Terminal Exam	Paper pencil test	30	30
Term II				
1	Class Activities	Q & A, Checklist, Rubrics	2.5	20
2	Homework	Checklist & Rubrics	2.5	
3	Assignment or project work	Rubrics	10	
4	Test	Paper pencil test	5	
5	Terminal Exam	Paper pencil test	30	30
<b>Total Marks</b>				<b>100</b>

**Note:** The CA for class XII must be carried out based on the learning activities given under various lessons in the textbook. The assessment must be carried out based on the following traits.

- i) Class activity includes Q & A, participation in the activities, personal disposition, volunteerism, etc.

- ii) Homework includes extended class activities, short assignments, etc. which are assigned to practice classroom knowledge.
- iii) The test includes class tests, chapter-end tests and unit-end tests, etc.
- iv) Project work includes activities, assignments, solving case studies, small-scale research, etc. that engage learners in the application or enhancing the content knowledge and skills related to the subject.

### c. Sample Assessment Rubrics

The following are the sample rubrics developed to guide teachers and learners in carrying out the activities and assessment. The teachers can customise based on the need and suitability of given tasks.

#### i. *Rubrics for assessing assignment and homework*

Criteria	4	3	2	1
Completion	All the assigned tasks are completed	Most of the assigned tasks are completed	Some or part of the tasks are incomplete	Major part of the tasks are incomplete
Timeliness	Submitted on the due date	Submitted one day late	Submitted two days late	Submitted three days late and beyond
Accuracy	All of the answers are correct	Most of the answers are correct	Some of the answers are correct	Few answers are correct and require to redo the task
Neatness	All the answers are presented in orderly manners and neatly	Most of the answers are presented in orderly and neatly	Answers are not presented in orderly and lack neatness	Answers are presented haphazardly and no neatness at all

#### ii. *Rubrics for assessing classwork*

Grade	Descriptors
A	Demonstrated clear understanding of all the concepts studied and 100% of the work is complete and are correct.
B	Most of the concepts are understood clearly and 90% - 80% of the work is completed and is correct.

C	Some concepts are not understood properly and 80% - 70% of the works are completed and some are not correct.
D	Most of the answers are incorrect and only 70% to 60% of the works are only completed.
Redo	Concepts are not understood properly and less than 50% of the works are only completed. Required to redo the task.

### iii. *Rubrics for assessing case studies*

Standards	Outstanding (4)	Very good (3)	Good (2)	Satisfactory (1)
Identification of the issues/problems	Identifies and understands all of the main issues in the case study.	Identifies and understands most of the main issues in the case study	Identifies and understands some of the issues in the case study.	Identifies and understands a few of the issues in the case study.
Analysis of the issues	Insightful and thorough analysis of all the issues.	Analysis of all the issues without thoughtful analysis.	Analysis of two or three issues.	Imperfect and incomplete analysis of the issues.
Comments on effective solutions/strategies (The solution may be in the case already or proposed by you)	Well-documented, reasoned, and appropriate comments on solutions, or proposals for solutions, to all issues in the case study.	Appropriate with few thought out comments about solutions, or proposals for solutions, to some issues in the case study.	Artificial and inappropriate solutions to most of the issues in the case study.	Little or no action suggested and inappropriate solutions to all of the issues in the case study.
Research / Reference	Excellent research into issues and clearly documented reasons or arguments.	Good research into issues with some clearly documented links to material read.	Limited research and few documented links to readings.	Incomplete research and links to any readings.

### iv. *Rubrics for assessing project work*

Criteria	4	3	2	1	Total
Content	Content is new, relevant.	Content is not new but relevant.	Content is not new and not so relevant.	Content is not new and relevant.	



Presentation and format	Excellent presentation. The correct format is followed and the report is free of errors	Only one area of format is not correct. The report has a few errors.	Only two aspects of the format are not correct. The report has some errors	Three or more aspect of the format is incorrect. The report has many errors.	
Finding	Finding is supported by the facts and figures. The explanation is made on each fact and figure.	Finding is supported by the facts and figures. Insufficient explanation on each fact and figure.	Finding is not supported by enough facts and figures.	Finding is not supported by facts and figures.	
Research	The research is done on the topic and all ideas are clear and explained.	The research is done on the topic and most ideas are clear and explained.	The research is done and a few ideas are clear and explained.	Research not done and ideas are not clear and not explained.	
Reference	Five or more references are cited.	Three or four references are cited.	One or two references are cited.	No references.	

#### d. Question Pattern:

Both classes XI and XII are required to follow the same question pattern as given in the following table. The written examination must be conducted out of 100 and converted to 60. The same pattern will be used for the BCSEA board examinations.

SECTION A COMPULSORY QUESTIONS	MARKS
Question 1	
a) Multiple Choice Questions (MCQ)	50
b) Filling the blanks	
c) Matching the pair	
d) Writing True or False	
e) Short Response Questions (SRQ)	
<b>Total</b>	<b>50</b>

SECTION B Extended Response Questions (ERQ)	MARKS
QUESTION 2	TO ATTEMPT ANY 5 QUESTIONS (5 X 10 = 50)
QUESTION 3	
QUESTION 4	
QUESTION 5	
QUESTION 6	
QUESTION 7	
<b>Total</b>	<b>50</b>
<b>Section A + Section B</b>	<b>100 marks will be converted to 60%</b>
External Assessment	60%
Internal Assessment	40%
<b>Total (External + Internal Assessment)</b>	<b>100%</b>

## Annexure IV

### Sample Estimation and Projection: Entrepreneurship Training Service

#### 1. Market Analysis

Target Market Segment						
Segment Name	Characteristics	Reasons for Choosing the Segment				
Potential Entrepreneurs	Unemployed people with no entrepreneurship training but interested to pursue entrepreneurship	There are many unemployed people who aspire to be entrepreneurs but they lack entrepreneurship training. There is no training institute specialised in entrepreneurship training				

Demand Analysis						
Target Market Segment	Name of the Service	Number of Potential Trainees	Usage Rate		Quantity Demanded	
			Volume	Value (Nu)	Volume	Value (Nu)
Potential Entrepreneurs	Basic Entrepreneurship Training	16660	1	20000	16660	333200000

**Note:** All unemployed people as per LFSR 2020 assumed as potential trainees and average training cost per participant by MOLHR is Nu. 20000

Supply Analysis				
Target Market Segment	Name of the current service provider	Name of the service	Supply	
			Volume (Yearly)	Value (Nu)
Potential Entrepreneurs	The training presently is conducted by MOLHR	Basic Entrepreneurship Training	500	10000000

**Note:** On an average MOLHR trains about 500 participants on basic entrepreneurship course. (Source: MOLHR)

Gap Analysis			
Name of the service	Total Potential Demand (A)	Total Supply (B)	Gap (A-B)
Basic Entrepreneurship Training	333200000	10000000	323200000

## 2. Revenue Projection

Revenue Projection for 3 years				
Name of the Service	Market Gap	Projected Revenue		
		Year 1	Year 2	Year 3
Basic Entrepreneurship Training	323,200,000	32,320,000	33,936,000	35,632,800

*Note:* 10% of the gap has been targeted as first year revenue and thereafter 5% growth is assumed.

## 3. Noncurrent Asset Requirement for Marketing

Estimated Noncurrent Assets for Marketing						
Sl No	Description of the Asset	Quantity	Specification	Purchase Price (Nu)	Estimated Life (Years) or Depreciation Rate (%)	Yearly Depreciation (A/B)
1	Office Table	1	BBPL Art No. 110, Manager's Table, Dimension: 1600 x 800 x 750 mm	8539	15%	1281
2	Chair	3	Cushion attached chair without arm rest	10800	15%	1620
3	Laptop	1	Dell inspiron 15 5000, 8 GB RAM, 1TB HDD, Intel i5, 8th Gen, Windows 10	55000	15%	8250
4	Printer	1	HP LaserJet M1005 Multifunction	19999	15%	3000
<b>Total</b>				<b>94338</b>		<b>14151</b>

*Notes:*

- The price of the items is estimated based on quotation submitted for a public institution in 2021.
- Depreciation rates are as per Depreciation schedule of the Rules on Income Act of Kingdom of Bhutan 2001.

#### 4. Estimation of Human Resource Requirement and their pay and benefits

Estimation of Remuneration to the staff										
SI No	Human Resource Requirement	Purpose	Number of persons	Basic Pay	House Rent Allowance	Contract Allowance	Travel	Communication	Monthly Remuneration	Yearly Remuneration
1	Marketing officer (P5)	Marketing	1	20645	4129	6194	10500	1000	42467.5	509610
2	Master Trainer (EX3)	Operations	2	44120	8824	13236	10500	1000	77680	1864320
3	Trainer (P2)	Operations	2	32300	6460	9690	10500	1000	59950	1438800
4	Asst. Trainer (P5)	Operations	2	20645	4129	6194	10500	1000	42467.5	1019220
5	Manager (P5)	Administration	1	20645	4129	6194	4500	1000	36467.5	437610
6	Office Assistant (S5)	Administration	1	13575	2715	4073	4500	1000	25862.5	310350
7	Care Taker cum Cleaner (O4)	Administration	1	10550	2110	3165	0	300	16125	193500

*Note:* Revised pay and allowance for public servants 2019 was used as the basis of estimating the pay and allowance.

#### 5. Estimated Marketing Expenses

Estimated Marketing Expenses				
SI No	Expenses	Year 1	Year 2	Year 3
1	Pay and benefits for marketing officer	509610	519802	530198
2	Stationery and promotional cost	323200	339360	356328
3	Depreciation	14151	14151	14151
<b>Total Yearly Marketing Expenses</b>		<b>846961</b>	<b>873313</b>	<b>900677</b>
<b>3 Year Total</b>				<b>2620951</b>

*Note:* The stationery and promotional costs assumed as 1% of sales. 2% annual increase in pay and benefits assumed.

## 6. Operations Schedule

Estimated number of participants to be trained			
Operations Volume	Year 1	Year 2	Year 3
Projected Sales	32320000	33936000	35632800
Number of participants to be trained	1616	1697	1782

*Note:* The number of participants to be trained is calculated based on projected sales and the training cost estimated by MOLHR.

## 7. Estimated Noncurrent Asset Requirement for Operations

Estimated Noncurrent Assets Requirement for Operations						
Sl No	Description of the Asset	Quantity	Specification	Purchase Price	Estimated Life (Year) OR Depreciation Rate	Yearly Depreciation (%)
1	Executive table set	2	Rubber wood executive table	73360	15%	11004
2	Office table	4	BBPL Art No. 110, Manager's Table, Dimension: 1600 x 800 x 750 mm	34156	15%	5123
3	Low back revolving chair	2	Rajkamal/equivalent	10400	15%	1560
4	Chair	10	Cushion attached chair without arm rest	36000	15%	5400
5	Printer	1	HP LaserJet M1005 Multifunction	19999	15%	3000
6	Training furniture set	8	Training furniture set for 40-seater hall (5 chairs and 1 round table per set)	239992	15%	35999

7	Projector	2	LCD Eb-575wi EB 675WI Projector Projection Technology: 3LCD Technology 3,200 Lumen- 1,800 Lumen (economy) in accordance with IDMS15.4 Zoom: Digital, Factor: 1 - 1.35Throw Ratio Range: 0.28 - 0.37:1 Contrast Ratio: 16,000:1	265422	15%	39813
8	Laptop	6	Dell Inspiron 15 5000, 8 GB RAM, 1TB HDD, Intel i5, 8th Gen, Windows 10	330000	15%	49500
<b>Total</b>				<b>1009329</b>		<b>151399</b>

*Note:* The price of the items is estimated based on quotation submitted for a public institution in 2021. Depreciation rates are as per Depreciation schedule of the Rules on Income Act of Kingdom of Bhutan 2001.

## 8. Sources and Terms of Acquisition of Noncurrent Assets

Source and terms of acquisition of Noncurrent Assets			
SI No	Assets	Source	Terms of Acquisition
1	All assets such as laptop, printer, table and chair	Quoted supply	Cash Payment

## 9. Estimated Direct Labour Cost

Estimation of Direct Labour Cost			
Job Title	Number of workers	Qualification and Experience	Monthly Remuneration
Master Trainer	2	MBA Entrepreneurship and 10 years of training experience	155360

Trainer	2	MBA Entrepreneurship and 3 years of training experience	119900
Asst. Trainer	2	BBA Entrepreneurship	84935
<b>Total Monthly Labour Cost</b>			<b>360195</b>
<b>Total Yearly Labour Cost</b>			<b>4322340</b>

## 10. Estimated Direct Expenses

Estimated Direct Expenses				
Sl No	Direct Expenses	Year 1	Year 2	Year 3
1	Training Kit	404000	424200	445410
2	Training Material	1212000	1272600	1336230
<b>Total</b>		<b>1616000</b>	<b>1696800</b>	<b>1781640</b>

### Notes:

- A total of 1616, 1697 and 1782 participants will be trained in year 1, 2 and 3 respectively.
- Training kit would cost Nu. 250 per participant and training materials cost per participant is estimated to be Nu. 750

## 11. Estimated Total Operations Cost and Unit Operations Cost

Estimated Total and Unit Operations Cost					
Year	Direct Labour	Direct Expenses	Operations Overheads	Total Operations Cost	Unit Operations Cost
1	4322340	1616000	151399	6089739	3768
2	4408787	1696800	151399	6256986	3688
3	4496963	1781640	151399	6430002	3609
<b>Total</b>	<b>13228089</b>	<b>5094440</b>	<b>454198</b>	<b>18776727</b>	

### Notes:

- 2% annual increase in pay and benefits (direct labour) assumed.
- Unit Operations Cost = Total Operations Cost / Total Number of Participants



## 12. Estimated Cost of Administrative Personnel

Estimated Cost of Administrative Personnel				
Administrative Personnel	Monthly Remuneration	Yearly Remuneration (Year 1)	Yearly Remuneration (Year 2)	Yearly Remuneration (Year 3)
Manager	36468	36468	37197	37941
Office Assistant	25863	25863	26380	26907
Caretaker cum Cleaner	16125	16125	16448	16776
<b>Total Cost of Administrative Personnel</b>		<b>78455</b>	<b>80024</b>	<b>81625</b>

*Note:* 2% annual increase in pay and benefits assumed.

## 13. Estimated Noncurrent Asset Requirement for Office and Administration

Estimated Noncurrent Assets Requirement for Office and Administration						
SI No	Description of the Asset	Quantity	Specification	Purchase Price	Estimated Life (Year) OR Depreciation Rate	Yearly Depreciation (%)
1	Office table	2	BBPL Art No. 110, Manager's Table, Dimension: 1600 x 800 x 750 mm	17078	15%	2562
2	Chair	6	Cushion attached chair without arm rest	21600	15%	3240
3	Printer	1	HP LaserJet M1005 Multifunction	19999	15%	3000
4	Laptop	2	Dell Inspiron 15 5000, 8 GB RAM, 1TB HDD, Intel i5, 8th Gen, Windows 10	110000	15%	16500
<b>Total</b>				<b>168677</b>		<b>25302</b>

*Note:* The price of the items is estimated based on quotation submitted for a public institution in 2021. Depreciation rates are as per Depreciation schedule of the Rules on Income Act of Kingdom of Bhutan 2001.

## 14. Estimated Pre-Operating Activities and Expenses

Estimation of Pre-operating Expenses		
SI No	Activity	Cost
1	Feasibility study and preparation of business proposal	60000
2	Business Registration Fee	5000
3	Recruitment of staff	20000
4	Promotion of the training programme	50000
5	Training curriculum and content development	300000
<b>Total Pre-operating Expenses</b>		<b>435000</b>

*Note:* Registration fee is based on Regulations for Registration of Training providers 2014, MOLHR.

## 15. Estimated Organisation and Management Expenses

Estimated Organisation and Management Expenses				
SI No	Expenses	Year 1	Year 2	Year 3
1	Remuneration to administrative staff	747960	762919	778178
2	Rent for training space and office	1800000	1800000	1836000
3	Utility bill	100000	100000	100000
4	Depreciation	25302	25302	25302
5	Pre-operating expenses	435000	0	0
6	Miscellaneous	50000	50000	50000
<b>Total Organisation and Management Expenses</b>		<b>3158262</b>	<b>2738221</b>	<b>2789479</b>
<b>3 Year Total</b>				<b>8685961</b>

*Notes:*

- The stationery and promotional costs assumed as 1% of sales. 2% annual increase in pay and benefits assumed. Rent is assumed to be 150000 per month and increase by 2% every 2 years.
- The training space and office comprises of 40-seater training hall and office space.
- Utility and miscellaneous expenses assumed in lumpsum.

## 16. Estimated Cost Sheet

Estimated Cost Sheet						
Particulars	Year 1 Cost		Year 2 Cost		Year 3 Cost	
	Total	Unit	Total	Unit	Total	Unit
Direct Material	0	0	0	0	0	0
Direct Labour	4322340		4408787		4496963	
Direct Expenses	1616000		1696800		1781640	
<b>Prime Cost</b>	<b>5938340</b>	<b>3675</b>	<b>6105587</b>	<b>3598</b>	<b>6278603</b>	<b>3524</b>
Add:						
Factory overhead/Operations	151399		151399		151399	
<b>Works Cost</b>	<b>6089739</b>	<b>3768</b>	<b>6256986</b>	<b>3688</b>	<b>6430002</b>	<b>3609</b>
Add:						
Office & Administrative Overhead	3158262		2738221		2789479	
<b>Cost of Service</b>	<b>9248001</b>	<b>5723</b>	<b>8995207</b>	<b>5301</b>	<b>9219481</b>	<b>5175</b>
Add:						
Marketing Overhead	846961		873313		900677	
<b>Cost of Sales/Revenue</b>	<b>10094962</b>	<b>6247</b>	<b>9868520</b>	<b>5816</b>	<b>10120158</b>	<b>5680</b>
Profit	<b>22225038</b>	<b>13753</b>	<b>24067480</b>	<b>14184</b>	<b>25512642</b>	<b>14320</b>
Sales/Revenue	32320000	20000	33936000	20000	35632800	20000

## 17. Estimated Project Cost

Estimated Total Project Cost	
Project Cost Components	Amount
Capital Expenditure	1272344
Pre-operating Expenses	435000
Working Capital:	
Direct Labour cost	4322340
Direct Expenses	1616000
Marketing Overhead	832810
Organisation and Management Overhead	3132960
<b>Total Project Cost</b>	<b>11611454</b>

## 18. Proposed Financing Plan

Proposed Financing Plan			
SI No	Type of Finance	Amount	Proportion
	Total Project Cost	11611454	
1	Debt	1272344	11%
2	Equity	10339110	89%

*Note:* The capital expenditure will be funded through BOBL service loan.

## 19. Loan Information

Loan Information	
Name of the Bank	Bank of Bhutan Limited
Loan Amount	1272344
Interest Rate	8.72%
Loan Term (Years)	15
Grace Period	
Repayment Method	Monthly

*Note:* The details given above are as per BOBL service loan terms.

## 20. Loan Amortisation Summary for 3 Years

Loan Amortisation Summary for 3 Years					
Year	Beginning Balance	Annual Interest Amount (A)	Annual Principal Amount (B)	Total Annual EMI (A+B)	Ending Balance (Beginning Balance - Annual Principal Amount)
1	1,272,344	109,254	43,073	152,327	1,229,271
2	1,229,271	105,344	46,983	152,327	1,182,289
3	1,182,289	101,080	51,247	152,327	1,131,042

## 21. Projected Statement of Comprehensive Income

Projected Statement of Comprehensive Income			
Particulars	Year 1	Year 2	Year 3
Revenue	32320000	33936000	35632800
<b>Net Revenue</b>	<b>32320000</b>	<b>33936000</b>	<b>35632800</b>

Less: Direct Operating Cost			
Direct Labour	4322340	4408787	4496963
Direct Expenses	1616000	1696800	1781640
<b>Gross Profit</b>	<b>26381660</b>	<b>27830413</b>	<b>29354197</b>
Less: Indirect Operating Cost			
Marketing Expenses	832810	873313	900677
Organisation & Management Expenses	3132960	2738221	2789479
<b>Operating Profit</b>	<b>22415890</b>	<b>24218880</b>	<b>25664041</b>
Depreciation	190852	190852	190852
Pre-operating Expenses	435000	0	0
<b>Net Profit Before Interest &amp; Tax</b>	<b>21790038</b>	<b>24028028</b>	<b>25473190</b>
Less: Interest	109,254	105,344	101,080
<b>Net Profit Before Tax</b>	<b>21680784</b>	<b>23922684</b>	<b>25372110</b>
Less: Tax (30% BIT)	6504235	7176805	7611633
<b>Net Profit After Tax</b>	<b>15176549</b>	<b>16745879</b>	<b>17760477</b>

*Note:* 30% BIT as per the Rules on Income Tax Act of Kingdom of Bhutan 2001.

## 22. Projected statement of Financial Position

Projected Statement of Financial Position			
Items	End of Year 1	End of Year 2	End of Year 3
<b>CURRENT ASSETS:</b>			
Cash	25,663,438	42,553,186	60,453,267
<b>Total Current Assets</b>	<b>25,663,438</b>	<b>42,553,186</b>	<b>60,453,267</b>
<b>NONCURRENT ASSETS:</b>			
Furniture	451,925	451,925	451,925
Office Equipment	820,419	820,419	820,419
<b>Total Noncurrent Assets</b>	<b>1,272,344</b>	<b>1,272,344</b>	<b>1,272,344</b>
Less: Accumulated Depreciation	190,852	381,703	572,555
<b>Book Value of Noncurrent Assets</b>	<b>1,081,492</b>	<b>890,641</b>	<b>699,789</b>
<b>TOTAL ASSETS</b>	<b>26,744,930</b>	<b>43,443,827</b>	<b>61,153,057</b>
<b>LIABILITIES</b>			

<b>CURRENT LIABILITIES:</b>	-	-	-
<b>Total Current Liabilities</b>	-	-	-
<b>NONCURRENT LIABILITIES:</b>			
Fixed investment loan	1,229,271	1,182,289	1,131,042
<b>Total Noncurrent Liabilities</b>	<b>1,229,271</b>	<b>1,182,289</b>	<b>1,131,042</b>
<b>EQUITY:</b>			
Owner's Equity	10,339,110	10,339,110	10,339,110
Retained Earnings	15,176,549	31,922,428	49,682,905
<b>Total Equity</b>	<b>25,515,659</b>	<b>42,261,538</b>	<b>60,022,015</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>26,744,930</b>	<b>43,443,827</b>	<b>61,153,057</b>

### 23. Projected Cash Book

Projected Cash Book			
Particulars	Year 1	Year 2	Year 3
Beginning cash balance	-	25,663,438	42,553,186
<b>RECEIPTS:</b>			
Sales/Revenue	32,320,000	33,936,000	35,632,800
Equity contribution	10,339,110	-	-
Fixed investment loan	1,272,344	-	-
<b>TOTAL RECEIPTS</b>	<b>43,931,454</b>	<b>59,599,438</b>	<b>78,185,986</b>
<b>PAYMENTS:</b>			
Pre-Operating Expenses	435,000	-	-
Capital Expenditure	1,272,344	-	-
Direct operating cost	5,938,340	6,105,587	6,278,603
Indirect operating cost	3,965,770	3,611,534	3,690,156
Interest on loan	109,254	105,344	101,080
Loan principal repayment	43,073	46,983	51,247
Tax (BIT)	6,504,235	7,176,805	7,611,633
<b>TOTAL PAYMENTS</b>	<b>18,268,016</b>	<b>17,046,252</b>	<b>17,732,718</b>
<b>ENDING CASH BALANCE</b>	<b>25,663,438</b>	<b>42,553,186</b>	<b>60,453,267</b>

## 24. Projected Statement of Cash Flows

Projected Statement of Cashflows			
Particulars	Year 1	Year 2	Year 3
<b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit Before Tax	21,680,784	23,920,684	25,372,110
Add: Non Operating and Non Cash Expenses			
Depreciation	190,852	190,852	190,852
Pre-Operating Expenses	435,000	-	-
Interest Expenses	109,254	105,344	101,080
	22,415,890	24,218,880	25,664,041
Less: Non Operating and Non Cash Income	-	-	-
<b>Operating Profit Before Working Capital Changes</b>	<b>22,415,890</b>	<b>24,218,880</b>	<b>25,664,041</b>
Add: Increase in Current Liabilities & Decrease in Current Assets	-		-
	22,415,890	24,218,880	25,664,041
Less: Decrease in Current Liabilities & Increase in Current Assets	-	-	-
<b>Cash Generated From Operations</b>	<b>22,415,890</b>	<b>24,218,880</b>	<b>25,664,041</b>
Less: Income Tax Paid	6,504,235	7,176,805	7,611,633
<b>Net Cash Flow From Operating Activities (A)</b>	<b>15,911,655</b>	<b>17,042,074</b>	<b>18,052,408</b>
<b>II. CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Furniture	(451,925)	-	-
Purchase of Office Equipment	(820,419)	-	-
Sale of Furniture	-	-	-
Sale of Office Equipment	-	-	-
Pre-operating Expenses Paid	(435,000)	-	-
<b>Net Cash Used in Investing Activities (B)</b>	<b>(1,707,344)</b>	-	-
<b>III. CASH FLOW FROM FINANCING ACTIVITIES</b>			

Owner's Equity Contribution	10,339,110	-	-
Raising of Loan	1,272,344		
Interest Paid	(109,254)	(105,344)	(101,080)
Repayment of Loan	(43,073)	(46,983)	(51,247)
Net Cash Flow From Financing Activities (C)	11,459,127	(152,327)	(152,327)
<b>IV. NET INCREASE IN CASH &amp; CASH EQUIVALENTS (A+B+C)</b>	<b>25,663,438</b>	<b>16,889,748</b>	<b>17,900,082</b>
<b>V. BEGINNING CASH &amp; CASH EQUIVALENTS</b>	<b>-</b>	<b>25,663,438</b>	<b>42,553,186</b>
<b>VI. ENDING CASH &amp; CASH EQUIVALENTS (IV + V)</b>	<b>25,663,438</b>	<b>42,553,186</b>	<b>60,453,267</b>

## 25. Breakeven Analysis

Breakeven Analysis for 3 Years			
Items	Year 1	Year 2	Year 3
Fixed Costs:			
Office and Administrative Overhead	3158262	2738221	2789479
Marketing Overhead	846961	873313	900677
<b>Total Fixed Cost</b>	<b>4005222</b>	<b>3611534</b>	<b>3690156</b>
Variable Costs:			
Direct Labour	4322340	4408787	4496963
Direct Expenses	1616000	1696800	1781640
<b>Total Variable Cost</b>	<b>5938340</b>	<b>6105587</b>	<b>6278603</b>
Sales	32,320,000	33,936,000	35,632,800
Contribution (Sales - Variable Cost)	26381660	27830413	29354197
PV Ratio (Contribution / Sales)	81.6%	82.0%	82.4%
<b>Breakeven Point (Revenue)</b>	<b>4906772</b>	<b>4403851</b>	<b>4479448</b>
Projected Number of Participants	1616	1697	1782
Variable Cost Per Unit	3675	3598	3524
Per Unit Sales	20000	20000	20000
<b>Breakeven Point (Unit)</b>	<b>245</b>	<b>220</b>	<b>224</b>



## 26. Pay Back Period

Pay Back Period in case of Uneven Cash Inflow = Completed Years + (Balance to be recovered / Cashflow of that period)	
Total Initial Investment	11,611,454
Year 1 Cash Inflow	25,815,688
Year 2 Cash Inflow	16,737,498
Year 3 Cash Inflow	17,900,082
<b>Pay Back happens</b>	<b>Within 1 Year (5 Months 13 Days)</b>

## 27. Net Present Value

Net Present Value Calculation			
Year	Cash Flows	Discount Factor @ 8.72%	Discounted Cash Flows
0	11611454		
1	25,815,688	0.9198	23,745,114
2	16737498	0.8460	14160274
3	17900082	0.7782	13929216
Total Present Value of the Future Cash Inflows			51834604
<b>Net Present Value</b>			<b>40223150</b>

## 28. Return on Investment

$$\text{ROI} = (\text{Revenue} - \text{Cost}) / \text{Cost}$$

Estimated Return on Investment for 3 Years			
Items	Year 1	Year 2	Year 3
Revenue	32,320,000	33,936,000	35,632,800
Cost	11611454	11611454	11611454
<b>Return on Investment</b>	<b>178%</b>	<b>192%</b>	<b>207%</b>

## 29. Net Profit Margin

$$\text{Net Profit Margin} = \text{Revenue} - \text{Cost} / \text{Sales}$$

Projected Net Profit Margin for 3 Years			
Items	Year 1	Year 2	Year 3
Revenue	32,320,000	33,936,000	35,632,800
Cost	11611454	11611454	11611454
<b>Net Profit Margin</b>	<b>64%</b>	<b>66%</b>	<b>67%</b>

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### Weighting for the Chapters

Sl.No.	Chapters	Weighting %
1	Innovation and Entrepreneurship	10
2	Business Opportunity Identification and Selection	10
3	Business Model	10
4	Introduction to Business Plan	6
5	Marketing Analysis and Marketing Plan	12
6	Operation Plan	12
7	Organisational Plan	10
8	Financial Plan	20
9	Business Plan Pitching	10
<b>Total</b>		<b>100</b>
	CA (Business plan and pitching)	20
	<b>Total</b>	<b>120</b>
<i><b>Note:</b> Text conducted out of 100 will be converted to 80%</i>		