

#8

WRITING A BUSINESS PLAN

Entrepreneurial starts here



CPA... Imagine the possibilities!

## Learning Activity

**Writing a Business Plan:** Working in teams and simulating a start-up company, students develop an idea for a new product or service and write a business plan for their company to bring their product or service to market.

## Learning Objectives

1. Prepare a detailed, written business plan for a company based on an idea for a new product or service.
2. Create advertising and promotional material to market the new product or service.
3. Present the business plan to a mock panel of directors in competition format.

## Academic Standard

“Students identify entrepreneurial opportunities, and develop a business plan.” (NBEA)

## Assessment

Students will: (1) write a business plan that contains a mission statement, strategic plan, methods of implementing strategies, financial plan, and marketing plan, (2) create prototypes of their product and advertising material, and (3) orally present and explain the business plan and its components.

## Business Skill

**Management Consulting:** The success of any business depends in large part on how well management is able to specify and achieve its goals and objectives. CPAs assist businesses in identifying critical success factors and measures that can be tracked over time to assess the progress made in achieving goals and objectives.

**Distribute a copy of the Topic Overview to your students** and discuss any terms or concepts they are unfamiliar with. Specifically, explain the rationale for the key elements of a business plan and discuss what students hope to accomplish by being in business and how they intend to organize their resources to meet their goals.

**Distribute copies of Activity #8** to your class and review the sample business plan outline for **Hot Seats, Inc.**

**Explain to the class that they will work in teams to simulate the real world of business,** with each team responsible for developing a new product or service and writing a business plan. Point out that strategic and critical thinking skills—brainstorming ideas, evaluating alternatives, predicting outcomes—and effective research are involved in each step of starting your own business and that the quality of the team’s thinking will be evidenced in their business plan.

**It is recommended** that as part of this activity you require students to identify resources (on-line or print) for developing a business plan. There are many business plan “templates” and “tips” available free of charge on the Internet, from both public and private sector sources. For suggestions and guidelines, visit the **Small Business Administration’s** Web site at [www.sba.gov/starting/businessplan.html](http://www.sba.gov/starting/businessplan.html).

## TEACHING-TIPS

For related lesson plans and activities, see Activity #2, *Forecasting Your Future*, Activity #4, *From Air to Market*, Activity #5, *Calculated Choices*, and Activity #6, *What’s New?*

Have students create promotional material, such as television or radio commercials, magazine or newspaper advertisements, or simulated billboard displays for their product or service.

Have students present the business plan to a mock panel of directors or investors in competition format under the presumption that the winning group will receive funding from the panel to set their business plan in motion.

# Overview

A **business plan** is an essential aspect of starting a business or continuing the operation of a current business. It serves as a guide to what a business does and how it will accomplish its goals and objectives. A business plan consists of the following key sections: **Strategic Plan**, **Marketing Plan**, and **Financial Plan**.

**The Strategic Plan.** A strategic plan is a detailed outline of a company's goals and objectives and the methods by which the objectives will be met. A strategic plan consists of three components: a mission statement, strategies, and methods of implementation. A **mission statement** is a goal, objective or purpose. A company's mission statement articulates specifically what that company plans to achieve or accomplish. As a company goal or objective, the mission statement reads "To provide...," "To service...," "To produce...," "To establish...," "To develop...," "To achieve...," "To gain...," "To maintain...," et cetera.

Business plan **strategies** state specifically how the stated goals or objectives will be accomplished. A strategic plan and mission statement can be applied to individuals as well as companies. For example, a high school student may have a mission statement, "To attend the University of Connecticut," or other college or university of choice. In order to accomplish that particular mission statement, the student will need to develop strategies. The strategies may include finishing high school ranked in the top 10% of the graduating class, scoring 1200 on the Scholastic Aptitude Test, and exhibiting characteristics of a well-rounded individual.

**Methods of implementation** relate to specific strategies and are described as "how" the strategies will be carried out or implemented, which in turn translates into accomplishing the mission statement. For example, one method of implementing a high school student's strategy to be ranked in the top 10% of the graduating class is to study at least two hours every night during the week. In order to implement the strategy of scoring 1200 on the SAT, the student will seek extra help from English and Math teachers after school at least once a week. And in order to become a well-rounded person, the student will become involved in extracurricular activities such as athletic teams, student council, yearbook staff, prom committee and, if possible, obtain a part-time job or become a volunteer in community activities. If a company, or individual, has a clear mission statement supported by

well-developed strategies and well-exercised methods of implementation, the probability of accomplishing the goals and objectives set forth by that company or individual increases dramatically.

**The Marketing Plan.** The essentials of a marketing plan involve defining the target market and outlining the "4 Ps": Place, Product, Promotion, and Price.

A **target market** is that segment of potential buyers to whom the company intends to sell its product or service. In order to be successful, the company must define its target market and the product or service being provided by the company must be identified as a "need" or a "want" for that defined target market.

With respect to the "4 Ps" of marketing, **Place** refers to location. Specifically, "place" must be defined in terms of outlet location, number of locations, and channels and

methods of distribution. **Product** refers to the item produced or delivered or the service provided. The product or service must be described in detail, including an outline of distinguishing characteristics embodied by the company and provided by the product or service. **Promotion** refers to the actual marketing and advertising of a company and its product or service. In developing a promotional plan, advertising methods such as

television and radio commercials, magazine and newspaper advertisements, and outdoor advertising must be considered, as well as the target market itself and the unique or distinguishing characteristics of the product or service. In establishing the **Price** of a product or service, the cost to produce or deliver the product or service is the primary consideration. In addition, if similar or alternative products or services are provided by competitors, the competitor's price must also be a major consideration.

**The Financial Plan.** Projecting the financing and cash flow requirements for a new business venture is also a critical element of a business plan. Based on the type of product or service, estimated costs, competition, price and demand, one can estimate gross revenue. In addition, one can identify and estimate the costs incurred to manufacture a product or provide a service as well as the operating expenses of the business such as wages, employee benefits, rent, insurance, advertising, utilities and maintenance. Finally, with this information, a three-year projection of revenue and expenses can be prepared.



# Activities

## PART-1: What's Your Big Idea?

Develop an idea for a new product or service, one that does not exist today. Your team will act as the new company's management responsible for developing, producing and distributing this new product or providing this new service.

## PART-2: Write Your Business Plan

Prepare a written business plan for your company based on the new product or service you have created. Use the following business plan outline for **HOT SEATS, Inc.** as a guide. Note that a complete business plan written in its entirety should be organized, detailed, specific and descriptive.

### I. Strategic Plan

<b>A. Mission statement</b> Goals, objectives, purpose	To provide skiers a means of warmth and comfort on a chairlift between ski runs.
<b>B. Strategy #1</b> 1. Method of implementation	Provide a warm seat. 1. Run electronically heated coils beneath a padded HOT SEAT that fits on a variety of ski chairlifts. The electricity will be generated from insulated wires that run through the cables above the chair. The cables are protected against freezing.
<b>C. Strategy #2</b> 1. Method of implementation	Provide a comfortable seat. 1. Insert a thick foam padding with protective exterior into the HOT SEAT that not only provides comfort, but also protects riders from the electric coils.
<b>D. Strategy #3</b> 1. Method of implementation	Provide a quality seat in a variety of colors. 1. Manufacture HOT SEATS with a durable protective exterior to prevent "normal wear and tear" as well as protect the seat from extreme winter conditions. 2. Offer HOT SEATS in all primary colors so that buyers can customize color design with ski lodge/resort colors.

### II. Marketing Plan

<b>A. Target market</b> 1. Description 2. Customer needs vs. customer wants	Ski equipment companies, ski owners, ski expositions. HOT SEATS is a luxury—a customer "want"
<b>B. Place</b> 1. Location(s) 2. Distribution channels	HOT SEATS will be manufactured in an industrial park using an automated production line.
<b>C. Promotion</b> 1. Advertising 2. Key benefits 3. Target market	Provide brochures and a prototype of a HOT SEAT at ski expositions and ski lodges/resorts. Advertise in ski and snowboarding magazines such as <i>SKI</i> and <i>Transworld Snowboarding</i> .
<b>D. Product</b> 1. Description 2. Unique qualities	HOT SEATS are designed for ski chairlifts on any ski mountain. HOT SEATS is a safe, permanent and comfortable seat that provides warmth (60° F) to riders on a ski chairlift. HOT SEATS are designed for all sizes—quad, triple, double—of chairlifts.
<b>E. Price</b> 1. Rationale & considerations a. Competitors price b. Cost estimate	HOT SEATS, Inc. will hire a CPA to determine the cost of producing an individual HOT SEAT in order to determine a competitive selling price. HOT SEATS, Inc. estimates that the selling price of each HOT SEAT will range from \$1,500 to \$2,500 depending on size and color. Buyers will be offered discount prices if a large quantity of HOT SEATS is ordered over a period of time.

### III. Financial Plan

<b>A. Revenue</b> 1. Year 1 2. Year 2 3. Year 3	Revenue 1. Year 1: \$20 million (based on 10,000 units) 2. Year 2: \$32.5 million (based on 15,000 units) 3. Year 3: \$45 million (based on 25,000 units)
<b>B. Cost of manufacture</b> 1. Year 1 2. Year 2 3. Year 3	Cost to Manufacture 1. Year 1: \$12 million (based on 10,000 units) 2. Year 2: \$18 million (based on 15,000 units) 3. Year 3: \$23 million (based on 25,000 units)
<b>C. Operating expenses (includes wages, employee benefits, rent, insurance, advertising and utilities)</b> 1. Year 1 2. Year 2 3. Year 3	Operating Expenses 1. Year 1: \$4 million 2. Year 2: \$5.275 million 3. Year 3: \$6.75 million
<b>D. Net profit</b> 1. Year 1 2. Year 2 3. Year 3	Net Profit 1. Year 1: \$4 million 2. Year 2: \$9.225 million 3. Year 3: \$15.25 million

## Name of Your New Product or Service, and a Brief Description:

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Company Name: \_\_\_\_\_

### I. Strategic Plan

A. Mission statement Goals, objectives, purpose	
B. Strategy #1 1. Method of implementation	
C. Strategy #2 1. Method of implementation	
D. Strategy #3 1. Method of implementation	

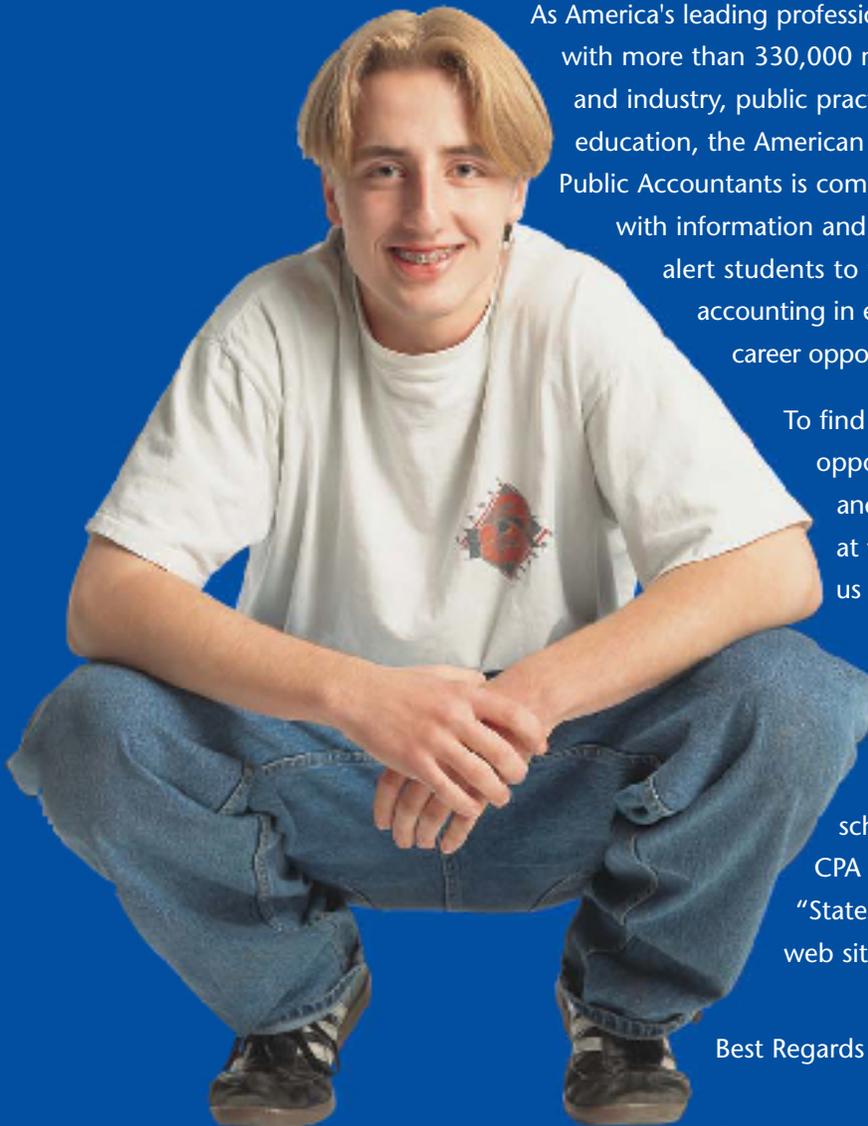
### II. Marketing Plan

A. Target market 1. Description 2. Customer needs vs. customer wants	
B. Place 1. Location(s) 2. Distribution channels	
C. Promotion 1. Advertising 2. Key benefits 3. Target market	
D. Product 1. Description 2. Unique qualities	
E. Price 1. Rationale & considerations a. Competitors price b. Cost estimate	

### III. Financial Plan

A. Revenue 1. Year 1 2. Year 2 3. Year 3	
B. Cost of manufacture 1. Year 1 2. Year 2 3. Year 3	
C. Operating expenses (includes wages, employee benefits, rent, insurance, advertising and utilities) 1. Year 1 2. Year 2 3. Year 3	
D. Net profit 1. Year 1 2. Year 2 3. Year 3	

# AICPA



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In addition, for information about becoming a CPA in your state, or to have a CPA visit your school, contact your State CPA Society through the "States" section of the AICPA web site.

Best Regards

The AICPA Academic and  
Career Development Team