

## Chapter 6—The Business Plan: Visualizing the Dream

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### TRUE/FALSE

1. As the game plan for a new venture, the business plan focuses on the entrepreneur's bank account and other cash sources.

ANS: F

The business plan crystallizes the hope and dreams that motivated the entrepreneur to propose the start of a new business.

PTS: 1                    REF: p. 165                    OBJ: 6-1 TYPE: C  
NAT: Communication | Finance

2. The business plan is essentially a selling document.

ANS: T                    PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Value Creation

3. The business plan is used primarily to aid in the development of relationships with outsiders and not so much with insiders.

ANS: F

The business plan is used for both outsiders and insiders.

PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Dynamics

4. One of the primary functions of a business plan is to serve as a selling document to convince key individuals that the venture has real potential.

ANS: T                    PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Dynamics

5. A business plan is a written document that sets out the basic idea underlying a business and its related startup considerations.

ANS: T                    PTS: 1                    REF: p. 165                    OBJ: 6-1 TYPE: D  
NAT: Communication | Value Creation

6. A business plan should describe where the entrepreneur is, where they want to go with the company, and how they plan to do so.

ANS: T                    PTS: 1                    REF: p. 165                    OBJ: 6-1 TYPE: D  
NAT: Communication | Dynamics

7. A business plan is used to provide a statement of goals and strategies for use by company outsiders, and aid in the development of relationships with insiders.

ANS: F

The plan provides goals and strategies for insiders to aid in development of relationships with outsiders.

PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Dynamics

8. A business plan should always be written before deciding to go forward with a startup business idea.

ANS: F  
A business plan is not always needed as what matters is not writing a plan, but implementing it.

PTS: 1                    REF: p. 167-168                    OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

9. A written business plan helps to ensure systematic, complete coverage of the important factors to be considered in starting a new business.

ANS: T                    PTS: 1                    REF: p. 168                    OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

10. Once the decision is made to prepare a business plan, it should always be a comprehensive plan.

ANS: F  
A dehydrated plan is best for situations of high uncertainty in the environment or when timing is critical to take advantage of a new opportunity.

PTS: 1                    REF: p. 169                    OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

11. An extensive business plan that is not followed is more valuable than no business plan at all.

ANS: F  
The purpose of the plan is to cause action not write a plan.

PTS: 1                    REF: p. 167                    OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

12. One advantage of preparing a formal written plan for a business is the discipline provided for the prospective entrepreneur.

ANS: T                    PTS: 1                    REF: p. 168                    OBJ: 6-2 TYPE: C  
NAT: Communication | Dynamics

13. A business plan may not be needed for very small companies with owners who have no plans for significant growth.

ANS: T                    PTS: 1                    REF: p. 169                    OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

14. Time and money are factors that affect the extent of business plan preparation.

ANS: T                    PTS: 1                    REF: p. 168                    OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

15. The executive summary of a business plan presents a firm's history and its form of organization.

ANS: F

It is the company description (not the executive summary) that contains this information.

PTS: 1                    REF: p. 172                    OBJ: 6-3 TYPE: D  
NAT: Communication | Value Creation

16. The business plan should never include photographs because these tend to make the plan look unprofessional.

ANS: F

Photographs could be included in the appendix of supporting documents to expand the reader's understanding of the plan.

PTS: 1                    REF: p. 179                    OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

17. The marketing plan should identify user benefits and show evidence of consumer interest.

ANS: T                    PTS: 1                    REF: p. 177                    OBJ: 6-3 TYPE: D  
NAT: Communication | Value Creation

18. Though all financial statements are important, the cash flow statement deserves special attention.

ANS: T                    PTS: 1                    REF: p. 179                    OBJ: 6-3 TYPE: C  
NAT: Communication | Finance

19. Pro forma financial statements reflect the past financial performance of a firm.

ANS: F

Pro forma financial statements are projections of a firm's future financial situation.

PTS: 1                    REF: p. 179                    OBJ: 6-3 TYPE: D  
NAT: Communication | Finance

20. The financial plan section of a business plan should include balance sheets and income statements on an annual basis and cash flow statements on a monthly basis, all projected out for 2-3 years.

ANS: F

The company's financial statements are presented for at least three years and preferably up to five years. The forecasts ideally include balance sheets, income statements, and statements of cash flows on an annual basis for three to five years, as well as cash budgets on a monthly basis for the first year and on a quarterly basis for the second and third years.

PTS: 1                    REF: p. 179                    OBJ: 6-3 TYPE: D  
NAT: Communication | Finance

21. The executive summary is often the most important section of the business plan.

ANS: T                    PTS: 1                    REF: p. 173                    OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

22. Business plans should be prepared so that they are attractive in appearance and well organized.

ANS: T                    PTS: 1                    REF: p. 183                    OBJ: 6-4 TYPE: C

NAT: Communication | Value Creation

23. Business plans should provide facts to support the statements and not just tell a story.

ANS: T                      PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

24. Describing a product or service should be in lay terms even if the product is technical in nature.

ANS: T                      PTS: 1                      REF: p. 173-174                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

25. Even if the business plan reveals sensitive information (e.g., details of an advanced technology or the specifics of a marketing plan), prospective investors can be trusted with that knowledge.

ANS: F

Highly sensitive information should not be included in the business plan; the entrepreneur should submit only a summary of the plan to avoid exposing important details.

PTS: 1                      REF: p. 183                      OBJ: 6-4 TYPE: C  
NAT: Communication | Dynamics

26. The prospective investor usually plays the role of the encourager, often seeing market potential in a business plan that others overlook.

ANS: F

The prospective investor tends to play the role of the skeptic, thinking more about what could go wrong than about what could go right.

PTS: 1                      REF: p. 182                      OBJ: 6-4 TYPE: C  
NAT: Communication | Dynamics

27. Because prospective investors receive so many business plans, they cannot take time to review each in any detailed fashion.

ANS: T                      PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Dynamics

28. Investors are more product-oriented than market-oriented.

ANS: F

Venture capitalists are more market-oriented than product-oriented.

PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Dynamics

29. A loss leader is a revenue stream where products are sold at a loss to hopefully create demand in a more profitable revenue stream.

ANS: F                      PTS: 1                      REF: p. 186                      OBJ: 6-5 TYPE: C  
NAT: Communication | Finance

30. A business model explains how a business will generate profit and cash flow from its revenue streams considering its cost structure and investment size.

ANS: T                    PTS: 1                    REF: p. 184                    OBJ: 6-5 TYPE: D  
NAT: Communication | Finance

31. A component of the business model that provides a framework for estimating the nature and types of costs and expenses a firm may incur is the maximum investment.

ANS: F  
The cost structure provides the estimate of costs and expenses.

PTS: 1                    REF: p. 185                    OBJ: 6-5 TYPE: D  
NAT: Communication | Finance

32. A restaurant that provides catering would have a single stream of revenue.

ANS: F  
This example is a multiple stream revenue model as income is derived from both daily operations and from catering.

PTS: 1                    REF: p. 187                    OBJ: 6-5 TYPE: A  
NAT: Communication | Finance

33. A computer may properly be used in a new business operation but not in preparation of the business plan.

ANS: F  
Computers can facilitate the preparation of a business plan.

PTS: 1                    REF: p. 188                    OBJ: 6-6 TYPE: C  
NAT: Technology | Information Technologies

34. With the right assistance from professional sources (e.g., attorneys, accounting firms, incubator services), the entrepreneur can avoid direct involvement in developing the business plan.

ANS: F  
The entrepreneur must be the primary planner because his or her ideas are essential to producing a business plan that is realistic and believable.

PTS: 1                    REF: p. 190                    OBJ: 6-6 TYPE: C  
NAT: Communication | Dynamics

35. Incubator organizations can provide advice on structuring a new business.

ANS: T                    PTS: 1                    REF: p. 189                    OBJ: 6-6 TYPE: C  
NAT: Communication | Dynamics

36. Most major accounting firms can guide the development of the written business plan.

ANS: T                    PTS: 1                    REF: p. 189                    OBJ: 6-6 TYPE: C  
NAT: Communication | Dynamics

37. Writing an effective plan is more important for internal purposes than for persons outside of the firm.

ANS: F

It is important for both internal and external purposes.

PTS: 1                    REF: p. 190                    OBJ: 6-7 TYPE: C  
NAT: Communication | Dynamics

38. A good plan will be a means to an end.

ANS: F  
The plan is an ongoing process that is as important as the final outcome.

PTS: 1                    REF: p. 190                    OBJ: 6-7 TYPE: C  
NAT: Communication | Value Creation

39. A business plan should represent the entrepreneur's vision and goals for the proposed company.

ANS: T                    PTS: 1                    REF: p. 190                    OBJ: 6-7 TYPE: C  
NAT: Communication | Dynamics

40. Because Jane has written numerous business plans for the same type of proposed business, she may not have to spend as much time on the plan as compared to someone who has never written a plan.

ANS: T                    PTS: 1                    REF: p. 190                    OBJ: 6-7 TYPE: A  
NAT: Communication | Dynamics

## MULTIPLE CHOICE

1. A business plan is best described as a
- crystal ball picture.
  - money plan.
  - contingency plan.
  - game plan.

ANS: D                    PTS: 1                    REF: p. 165                    OBJ: 6-1 TYPE: D  
NAT: Communication | Value Creation

2. Identify a basic objective for a business plan.
- Identify the nature and context of the business opportunity.
  - Outline the approach the entrepreneur intends to use to exploit the opportunity.
  - Recognize factors that will determine whether or not the venture will be successful.
  - All of the above are basic objectives.

ANS: D                    PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Value Creation

3. The primary outside users of business plans are
- employees.
  - investors and lenders.
  - customers.
  - government agencies.

ANS: B                    PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Dynamics

4. Which group would be the most interested in a business plan for a new venture?

- a. Customers
- b. Lenders
- c. Supervisors
- d. The Internal Revenue Service

ANS: B                      PTS: 1                      REF: p. 166                      OBJ: 6-1 TYPE: C  
NAT: Communication | Dynamics

5. A business plan is
- a. a legal document for raising capital.
  - b. a guide for future development.
  - c. a selling document.
  - d. an offering memorandum.

ANS: C                      PTS: 1                      REF: p. 169                      OBJ: 6-1 TYPE: D  
NAT: Communication | Value Creation

6. Jill is writing a business plan for a small home based operation. If well written, the business plan will assist her in determining if
- a. the business aligns with personal goals.
  - b. an investor would be a perfect fit for the proposed company.
  - c. suppliers can be found for the operation.
  - d. outsiders can be made into insiders.

ANS: A                      PTS: 1                      REF: p. 166                      OBJ: 6-1 TYPE A  
NAT: Communication | Dynamics

7. The document that assists an entrepreneur and the management team focus on important issues and activities is
- a. the organization chart.
  - b. the budget.
  - c. the sales analysis.
  - d. the business plan.

ANS: D                      PTS: 1                      REF: p. 168                      OBJ: 6-2 TYPE: C  
NAT: Communication | Dynamics

8. Which outsider does *not* need to read a new venture business plan?
- a. state comptroller
  - b. banker
  - c. individual investor
  - d. venture capitalist

ANS: A                      PTS: 1                      REF: p. 169                      OBJ: 6-2 TYPE: C  
NAT: Communication | Dynamics

9. The dehydrated plan would have the least amount of information about
- a. pricing.
  - b. supporting documentation.
  - c. competition.
  - d. distribution channels.

ANS: B                      PTS: 1                      REF: p. 169                      OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

10. Capital-constrained entrepreneurs cannot afford to do much prior analysis and research because

- a. the affordability of properly conducted research is beyond the means at their disposal.
- b. the costs of any mistakes are lower than the risks of missing out on opportunistic actions.
- c. the limited profit potential and high uncertainty of the opportunity they pursue may make the benefits low compared to the costs.
- d. potential competitors could quickly discern the entrepreneurs' intentions and motives from their research.

ANS: C                      PTS: 1                      REF: p. 168                      OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

11. What should a feasibility analysis show before the entrepreneur moves to the business plan step?
- a. strong market potential
  - b. an attractive industry
  - c. the right team to execute the plan
  - d. All of the above should be should be evident.

ANS: C                      PTS: 1                      REF: p. 170                      OBJ: 6-2 TYPE: D  
NAT: Communication | Value Creation

12. When making a decision regarding the extent of planning, an entrepreneur should consider the
- a. preferences of employees.
  - b. complexity of the environment.
  - c. level of uncertainty of the venture.
  - d. competitiveness of the product.

ANS: C                      PTS: 1                      REF: p. 169                      OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

13. Because Tom is planning a new business with a limited timeframe to capitalize on an opportunity, the best solution would be a \_\_\_\_ business plan.
- a. comprehensive
  - b. narrative
  - c. subjective
  - d. dehydrated

ANS: D                      PTS: 1                      REF: p. 169                      OBJ: 6-2 TYPE: A  
NAT: Communication | Value Creation

14. The most beneficial plan when facing significant change in the external environment is a
- a. comprehensive.
  - b. narrative.
  - c. subjective.
  - d. dehydrated.

ANS: A                      PTS: 1                      REF: p. 169-170                      OBJ: 6-2 TYPE: C  
NAT: Communication | Value Creation

15. Which objective is *not* critical for a business plan?
- a. It identifies the nature and context of the business opportunity.
  - b. It outlines the approaches other entrepreneurs have taken in the same industry.
  - c. It outlines the approach the entrepreneur plans to utilize in exploiting the opportunity.
  - d. It highlights factors that will determine whether the venture will be successful.

ANS: B                      PTS: 1                      REF: p. 166                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

16. A business plan should generally project financial and operational aspects of the proposed business for the first
- six months.
  - one year.
  - three to five years.
  - seven years.

ANS: C                      PTS: 1                      REF: p. 179                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

17. Prior to writing a business plan, the entrepreneur should have completed a(n)
- feasibility study.
  - executive summary.
  - financial projections.
  - mini-plan.

ANS: A                      PTS: 1                      REF: p. 170                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

18. John is a prospective entrepreneur who has just presented his business plan to a venture capitalist, enthusiastically pointing out the unique features of a new invention he is promoting. The most likely question in the venture capitalist's mind is:
- How strong is the patent protection?
  - How costly will it be to produce the product?
  - What is the demand for the product?
  - What management skills does this venture have?

ANS: C                      PTS: 1                      REF: p. 181                      OBJ: 6-3 TYPE: A  
NAT: Communication | Dynamics

19. An overview of the significant points of a business plan appear in the
- financial plan.
  - general company description.
  - executive summary.
  - operating plan.

ANS: C                      PTS: 1                      REF: p. 173                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

20. The executive summary part of a business plan should be written
- first.
  - last.
  - before the finance plan.
  - before the legal plan.

ANS: B                      PTS: 1                      REF: p. 173                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

21. It is most important that the marketing plan
- describe how the firm will reach and service customers.
  - show the degree of patent or copyright protection.
  - summarize the location of potential customers.
  - identify distribution channels.

ANS: A                      PTS: 1                      REF: p. 177                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

22. In a business plan, the legal form of organization would be discussed in the
- financial plan.
  - company description.
  - executive summary.
  - marketing plan.

ANS: B                      PTS: 1                      REF: p. 174                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

23. Ideally, investors like a business plan that shows evidence of
- a management staff that will minimize overhead.
  - a well-balanced managerial team.
  - an entrepreneur who has studied management.
  - an entrepreneur who will spend more time managing than selling.

ANS: B                      PTS: 1                      REF: p. 178-179                      OBJ: 6-3 TYPE: C  
NAT: Communication | Dynamics

24. In a business plan, the discussion of the management plan should detail
- the proposed venture's organizational structure.
  - profiles of employee needs during the first three years of operation.
  - the projected growth of the proposed venture.
  - the intended distribution of ownership in the firm.

ANS: A                      PTS: 1                      REF: p. 178                      OBJ: 6-3 TYPE: C  
NAT: Communication | Dynamics

25. In a business plan, the facilities and location of the proposed venture are described in the
- executive summary.
  - management plan.
  - operating plan.
  - product and service plan.

ANS: C                      PTS: 1                      REF: p. 177                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

26. In a business plan, the key statement in the financial plan is the
- break-even analysis.
  - estimate of returns and allowances.
  - salary expense statement.
  - cash flow statement.

ANS: D                      PTS: 1                      REF: p. 179                      OBJ: 6-3 TYPE: C  
NAT: Communication | Finance

27. In considering the content of a business plan, an entrepreneur should think first and foremost about
- how to present factors related to the opportunity.
  - formulating effective strategies and financial projections.
  - who will be reviewing the plan.
  - how to protect the confidentiality of the plan.

ANS: A                      PTS: 1                      REF: p. 170                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

28. The type of executive summary that briefly covers all aspects of the business plan giving each topic relatively equal treatment is the \_\_\_\_ executive summary.
- narrative
  - synopsis
  - dehydrated
  - comprehensive

ANS: B                      PTS: 1                      REF: p. 174                      OBJ: 6-3 TYPE: D  
NAT: Communication | Value Creation

29. The narrative form of an executive summary
- is more straightforward than the synopsis form.
  - allows the author to include hyperbole that builds enthusiasm.
  - is a better format for ventures that have one dominant advantage.
  - gives each topic relatively equal treatment.

ANS: C                      PTS: 1                      REF: p. 174                      OBJ: 6-3 TYPE: C  
NAT: Communication | Value Creation

30. A potential investor's single goal is to
- make as much money as possible.
  - minimize taxes and minimize losses.
  - avoid risk at all costs.
  - maximize returns while minimizing personal risk.

ANS: D                      PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Dynamics

31. When describing the product in the business plan, the entrepreneur should
- use technical terms.
  - state that product will sell itself.
  - use layman terms.
  - assume that others will like the product.

ANS: C                      PTS: 1                      REF: p. 183                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

32. When dealing with weaknesses in a business plan, the entrepreneur should
- use technical jargon to confuse reader.
  - ignore the weakness as this might not attract investors.
  - assume that investors will not find them.
  - be straightforward with them and have an action plan.

ANS: D                      PTS: 1                      REF: p. 182                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

33. In writing the business plan, an entrepreneur should remember that
- interested investors will commit the time necessary to fully understand the proposed venture.
  - certain features will be appealing to investors, while others are distinctly unappealing.
  - investors are too busy to read through the business plans that come across their desk.
  - the quality of this plan has little bearing on the potential for success in the startup.

ANS: B                      PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

34. Investors who review business plans typically
- cannot read through all they receive.
  - read about one-half of a plan.
  - read plans thoroughly.
  - read only the marketing and finance sections.

ANS: A                      PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Dynamics

35. Plans that appeal effectively to investors are
- long and thorough.
  - market-oriented.
  - product-oriented.
  - ten or fewer pages.

ANS: B                      PTS: 1                      REF: p. 181                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

36. A business model
- is only important for startups with a large amount of uncertainty.
  - is intended to provide evidence on whether a concept is viable not if it can be profitable.
  - is made up of a revenue structure, a cost investment, and a maximum model.
  - forces the entrepreneur to be more discipline about financial projections.

ANS: C                      PTS: 1                      REF: p. 185                      OBJ: 6-5 TYPE: C  
NAT: Communication | Value Creation

37. The cost structure of a business model
- defines the types of income.
  - determines how much money is needed for positive cash flow.
  - drives the company's cost and expenses.
  - is the most critical component for long term success.

ANS: C                      PTS: 1                      REF: p. 185                      OBJ: 6-5 TYPE: A  
NAT: Communication | Finance

38. The volume revenue model would require customers to pay
- a fraction of the true value of the product.
  - a fixed amount at regular intervals before receiving the product.
  - a fixed price per unit for a product.
  - a one time fee to use a product.

ANS: C                      PTS: 1                      REF: p. 186                      OBJ: 6-5 TYPE: D  
NAT: Communication | Finance

39. Jamie has decided to start a franchise. Typically, the business type would require a \_\_\_\_\_ revenue model.
- volume
  - subscription
  - advertising
  - licensing

ANS: D                      PTS: 1                      REF: p. 186                      OBJ: 6-5 TYPE: A  
NAT: Communication | Finance

40. Which question is key for forecasting revenues?

- a. Who are the most likely customers?
- b. What events will cause the customer to need the product?
- c. How will the product compare to the competition?
- d. All of the answers to the above questions are important to forecast revenues.

ANS: D                      PTS: 1                      REF: p. 186                      OBJ: 6-5 TYPE: C  
NAT: Communication | Finance

41. When determining a cost structure for a business model, insurance would be an example of a \_\_\_\_\_ cost.
- a. fixed
  - b. variable
  - c. semi-variable
  - d. static

ANS: D                      PTS: 1                      REF: p. 188                      OBJ: 6-5 TYPE: D  
NAT: Communication | Finance

42. The owner of Allison Sportswear, a small manufacturer of women's tennis apparel, uses a computer in preparing a business plan. She finds that a major advantage of using a computer is that
- a. the planner can easily generate reams of material.
  - b. spreadsheets are helpful for preparing financial reports.
  - c. the programs are easy to load and use.
  - d. it eliminates the need for proofreading the final product.

ANS: B                      PTS: 1                      REF: p. 188                      OBJ: 6-6 TYPE: A  
NAT: Technology | Information Technologies

43. Software packages for business plans are the most helpful in assisting the entrepreneur in preparing
- a. financial statements.
  - b. creative products
  - c. a flexible plan.
  - d. a unique plan.

ANS: A                      PTS: 1                      REF: p. 188                      OBJ: 6-6 TYPE: C  
NAT: Technology | Information Technologies

44. Business plan software packages
- a. focus mostly on preparing slides to present the business concept to prospective investors.
  - b. spawn creativity and flexibility on the part of the entrepreneur.
  - c. help an entrepreneur think through the important issues in starting a new company.
  - d. offer a simple formula that leads startups to success.

ANS: C                      PTS: 1                      REF: p. 188                      OBJ: 6-6 TYPE: C  
NAT: Technology | Information Technologies

45. Which group is least likely to provide assistance in preparing a business plan?
- a. An accounting firm
  - b. An incubator organization
  - c. An industrial park
  - d. A marketing specialist

ANS: C                      PTS: 1                      REF: p. 189                      OBJ: 6-6 TYPE: C  
NAT: Communication | Dynamics

46. Business planning

- a. is an ongoing process.
- b. is an exacting science.
- c. equals business success.
- d. will prevent unexpected events.

ANS: A                      PTS: 1                      REF: p. 190                      OBJ: 6-7 TYPE: C  
NAT: Communication | Value Creation

47. A business plan
- a. is best for telling insiders about the company.
  - b. is more important than the final outcome.
  - c. is not the business.
  - d. will ensure success.

ANS: C                      PTS: 1                      REF: p. 190                      OBJ: 6-7 TYPE: C  
NAT: Communication | Value Creation

48. A good business plan leads to a successful company when the entrepreneur and management team
- a. identify all unexpected events.
  - b. make decisions realizing that change may hurt the new company.
  - c. understand the plan is static.
  - d. effectively execute the plan.

ANS: D                      PTS: 1                      REF: p. 190                      OBJ: 6-7 TYPE: C  
NAT: Communication | Dynamics

49. Jim is developing a business plan and has limited funds. Which group would be best?
- a. a lawyer specializing in business plans
  - b. a SCORE representative
  - c. a consultant in the industry Jim is trying to enter
  - d. an accountant

ANS: B                      PTS: 1                      REF: p. 189                      OBJ: 6-6 TYPE: A  
NAT: Communication | Dynamics

50. Julie has decided to hire a consultant to review her business plan. Which suggestion is the most critical?
- a. Get referrals for consultants who specialize in comprehensive business plans.
  - b. Check references with the Better Business Bureau.
  - c. Find a consultant who is not knowledgeable in the selected industry but is in general business so as to have a fresh perspective.
  - d. Have a legal contract that specifies exactly will be done for what price.

ANS: D                      PTS: 1                      REF: p. 190                      OBJ: 6-6 TYPE: A  
NAT: Communication | Dynamics

## ESSAY

1. Identify the three basic objectives of preparing a written plan prior to starting a new venture.

ANS:

The three basic objectives are :

- to identify the nature and context of the business opportunity—why does such an opportunity exist?
- to present the approach the entrepreneur plans to take to exploit the opportunity.

- to recognize the factors that will determine whether the venture will be successful.

PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: C  
NAT: Communication | Value Creation

2. Jerry is starting an athletic apparel store with his brother-in-law providing all funding. Identify how possible insiders and outsiders would use a business plan.

ANS:

Insiders would include Jerry and his management team. Outsiders could include potential customers, apparel wholesalers and his lender if he will have a bank loan. Outsiders would also include his brother-in-law and other investors such as his family, friends, private investors and/or a venture capitalist.

Jerry's business plan should provide a statement of goals and strategies to company insiders. It should also help in developing a relationship with any outsiders for the proposal.

PTS: 1                    REF: p. 166                    OBJ: 6-1 TYPE: A  
NAT: Communication | Dynamics

3. Describe the two types of business plans and state which plan would be appropriate for a proposal for a new bed and breakfast inn for a rural area.

ANS:

Dehydrated plans are a short form of a business plan that presents only the most important issues and projections for the business.

A comprehensive plan is a full business plan that provides an in-depth analysis of the critical factors that will determine a firm's success or failure, along with all the underlying assumptions. Considering the complexity of starting an inn, the comprehensive plan would be best.

PTS: 1                    REF: p. 169                    OBJ: 6-2 TYPE: A  
NAT: Communication | Value Creation

4. Why is the executive summary so important for a business plan?

ANS:

Prospective investors typically allocate a short amount of time to any business plan. Therefore an executive summary should describe the business succinctly and highlight significant points in no more than three pages. It should also create enough excitement to motivate the potential investor to continue reading the plan. The executive summary is located at the beginning of the overall plan and is written after the plan is completed.

PTS: 1                    REF: p. 173                    OBJ: 6-3 TYPE: C  
NAT: Reflective Thinking | Value Creation

5. Discuss each pro forma statement in the financial plan in terms of time frame. Identify important considerations in the construction of these pro forma statements.

ANS:

The key pro forma statements (which should be projected out for three to five years) include an annual statements for the balance sheet, income statement, and statements of cash flow. Cash budgets are monthly for the first year and quarterly for years two and three and possibly up to five years.

Supporting financial projections should be backed up with well-substantiated assumptions and an explanation of computations. Statements of cash flows are especially important because a business can be profitable while failing to produce positive cash flows. These statements should identify sources of cash, intended investments, and the purpose of any investments. Investors will want to know when they can expect to cash out of the investment, so the financial plan should outline mechanisms for an exit.

PTS: 1                      REF: p. 179                      OBJ: 6-3 TYPE: C  
NAT: Communication | Finance

6. List five questions that a possible investor would want answered concerning the market of the new business.

ANS:

What is the target market?

How large is the target market?

What problems concern the target market?

Are any of these problems greater than the problem addressed in the above question?

How does the product or service fix the problem?

Who will buy the product or service?

How much are is the target market willing to pay for it?

Why do they need it?

Why would they buy from you?

Who are the competitors?

What are their strengths and weaknesses?

PTS: 1                      REF: p. 180                      OBJ: 6-4 TYPE: C  
NAT: Communication | Value Creation

7. Janice is opening a golf shop and is trying to identify how the company would gain revenue. What type of revenue stream could Janice's Golf Shop have?

ANS:

A golf shop could have a single stream if only apparel. However if Janice offers lessons at the store, then the shop has multiple streams. Interdependent streams might result if golf equipment especially golf balls as this item is often replaced by the golfer. Janice may have a loss leader revenue stream if she decides to offer an item at a low price (that results in a loss for the store) in hopes that other income could be made by the golfer buying other higher profit items.

PTS: 1                      REF: p. 186                      OBJ: 6-5 TYPE: A  
NAT: Communication | Finance

8. List and briefly suggestions for avoiding costly mistakes when hiring a business plan consultant.

ANS:

1. Get referrals. Ask colleagues, acquaintances and professionals such as bankers and accountants.
2. Look for a fit. Find a consultant who is an expert in the industry for which the plan is being written.
3. Check references. Get names of at least three former clients.
4. Get details in writing. Have a legal contract outlining the consultant's services and what each party is expected to complete..

PTS: 1                      REF: p. 190                      OBJ: 6-6 TYPE: C  
NAT: Communication | Dynamics

9. Discuss the statement "Writing a business plan is primarily an ongoing process and only secondarily the means to an outcome."

ANS:

The writing process is just as important as the final outcome which is hard for some entrepreneurs to understand when the purpose of a business is to make a profit. The process is just as important as—if not more so than—the finished product as it can help an entrepreneur clarify what they wish to achieve both at the end of the business plan but serve as a springboard for the company's future and how both insiders and outsiders will be involved.

PTS: 1                      REF: p. 190                      OBJ: 6-7 TYPE: C  
NAT: Reflective Thinking | Dynamics