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DEVELOPING A BUSINESS PLAN

When you're planning a trip, you don't just pull out onto the highway and start traveling at 55 miles per hour, thinking that you'll stop for gas and directions later on. That could get you nowhere. Yet, that's how many small business people approach their businesses—and that's why many never reach their destination.

A workable business plan, however, can help you get where you're going. A business plan is your roadmap for success. No matter where you are in the business cycle, a business plan should always be at hand.

Where do you get one? Not from consultants, or even well intended employees. It comes from your personal experience, a lot of thought, and finally, many hours of putting pen to paper. This article has been designed to teach you the fundamentals of creating your own workable business plan. It will help you to:

- Complete the planning process;
- Write a detailed business plan that works.

Why a Plan

Having an idea of where you want to go with your business isn't enough. You have to be able to communicate your vision to others—both inside and outside your company. A business plan helps you do that, in an organized, credible manner. Also, the process of planning helps you determine if your vision is realistic, and tells you what you need to do in order to achieve it.

What's a Business Plan?

A business plan is a blueprint of your company, presented in standard business format that is logical and well documented. A good business plan is also:

- A strategic vision of your company
- A document to obtain working capital and /or investments
- A tool for measuring and improving performance
- A basis for sound decision-making
- A way to ensure that partnerships last
- A way to motivate employees

Once Is Not Enough

Once you spend the time required to create a business plan, don't file it away in a drawer. A business plan is a living, dynamic document that you should refer to frequently in decision-making, evaluating, and planning. Your business plan should change as your business does. Go back to it often—don't be afraid to revise it. Federal Express holds monthly meetings to monitor progress and evaluate new opportunities that weren't accounted for in the plan.

3 Basics of a Business Plan

A business plan must clearly communicate your ideas and plans. The successful plan must also have:

- Evidence of focus—what one thing (or several things) do you do exceptionally well?
- Understanding of who your target customers are
- An appreciation of investor or lender needs

A. Set goals and objectives. Ask yourself what you want out of the business. Do you want to exercise your people skills or your financial skills? Do you want to pass this business on to your children, or set it up and sell it when the challenge of creating something new is over? Know why you, or you and your partner(s) are in business--and be honest. Resolve any differences with your partner(s), before you write the plan.

B. Develop operating plans. How will you reach those goals? What do you need to produce or sell? How much? At what price? Who are your clients? Where are they? How do you reach them? How much competition do you have, and how will you compete successfully?

C. Develop financials. What are the day-to-day and month-to-month requirements of running your business? What are your "break-even" points? Can you benefit from economies of scale? Do you have the capital required for your business or will you have to raise it? If you have to raise it, can you get it from friends and relatives? Will you have to go to a bank? Or do you have to type of business that appeals to a venture capitalist?

D. Write the business plan document itself. A workable business plan has seven essential elements. Instructions for each follow.

Executive Summary

The Executive Summary is the most important section of your business plan. It provides a concise overview of the entire plan, and a history of your company. This section tells your reader where your company is, and where you want to take it. It's the first thing your readers see, and it's the thing that will either grab their interest and make them want to keep reading—or make them put it down and forget it. The Executive Summary should be the last section you write. After you've worked out all the details of your business plan, you'll be in a better position to summarize it. And it should be a summary — no more than four page.

Contents of the Executive Summary: The Mission Statement. This briefly explains the thrust of your business. It could be two words, two sentences, a paragraph, or even a single image. It should be as direct and focused as possible. And it should leave the reader with a clear picture of what your business is all about.

Example:

Fred Smith started Federal Express in 1973 as an alternative delivery service—in fact, the only overnight delivery service. Since then, the company’s name has become synonymous with “It’ll be there tomorrow.” Once strictly a domestic service, it now spans continents, relying on the latest in technology to monitor the heavy volume of letters and packages. As the company has evolved and grown, so has its mission statement.

Today it reads:

“Federal Express is committed to our PEOPLE-SERVICE-PROFIT philosophy. We will produce outstanding financial returns by providing totally reliable, competitively superior, global air-ground transportation of high-priority goods and documents that require rapid, time-certain delivery. Equally important, positive control of each package will be maintained utilizing real-time electronic tracking and tracing systems. A complete record of each shipment and delivery will be presented with our request for payment. We will be helpful, courteous and professional to each other and the public. We will strive to have a satisfied customer at the end of each transaction.”

The rest of the information in your Executive Summary should be highlighted in a brief, even bulleted fashion. Remember these facts are laid out in depth further along in the business plan. After the Mission statement, be sure to include:

- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches or subsidiaries
- Description of plant or facilities
- Products manufactured/services rendered
- Banking relationships and information regarding current investors
- Summary of Company growth, including financial or market highlights (e.g. your company doubled its worth in a 12 month period; you became the first company in your industry to provide a certain service)
- Summary of Management’s future plans

Just Starting Out?

If you’re just starting a business, you won’t have a lot of information to plug into the areas mentioned above. Instead, focus on your experience and background, and the decisions that led you to start this particular enterprise. What problems(s) does your target market have? What solution(s) do you provide? Show how this expertise you have will allow you to make significant inroads into the market. Tell your reader what you’re going to do differently or better. Convince the reader that there is a need for your service or product. Then go ahead and address management’s future plans.

Organization & Staffing

Who does what in your business? What is their background and why are you bringing them on board? What are they responsible for? These may seem like unnecessary questions to answer in a one-or-two person organization, but the people reading your business plan want to know who's in charge. So tell them. Give a detailed description of each division or department and its function.

More Than Titles

This section should not only include who's on board, but also how you intend to keep them there; what kind of salary and benefits package do you have for your people? What incentives are you offering? How about promotions? Reassure your reader that the people you have on staff are more than just names on a letterhead.

Organizational Chart

A simple but effective way to lay out the structure of your company is to create an organizational chart; it proves that you're leaving nothing to chance. You've thought out exactly who is doing what; there is someone in charge of every function of your company. Nothing will fall through the cracks, and nothing will be done three or four times over. To a potential investor or employee, that's very important.

Management

Experts agree that one of the strongest factors for success in any growth company is the ability and track record of its management. So let your reader know about the key people in your company and their backgrounds. Provide resumes that include the following information:

- Name
- Age
- Position
- Education
- Special skills
- Prior employment
- Number of years with the company
- Past track record
- Industry recognition
- Community involvement

Be sure you quantify achievements; don't just list titles and duties. Under "Sales Manager," write: "Managed a sales force of ten people, and took the branch office from number five to number one in sales in the country in two years." Or, "Marketing/Direct Mail Manager: Increased response rate on ABC's direct mail campaigns by 22% in first year, with 40% decrease in mailing and list purchasing costs."

Also highlight for the reader how the people surrounding you complement your own skills. If you've just starting out, show how each person's unique experience will contribute to the success of your venture.

Benefits of an Advisory Board

The importance of an unpaid Advisory Board is critical to the success of any start-up business. Ask recognized business leaders to serve and assign specific responsibilities or areas to each member.

Marketing

Marketing is the process of creating customers. And customers are the lifeblood of your business. Because your marketing plan is so vital to the success of your business, seek out advisory board members, or other professionals to provide input to this critical area. Universities, the SBA, and local economic development agencies can often provide assistance.

Service or Product Line

What are you selling? In this section, you talk about the focus of your company. But when describing your service or product, emphasize the benefits, not the features. Don't tell you readers which 89 foods you carry in your "Gourmet To Go" shop. Tell them why busy, two-career couples will prefer shopping in a service-oriented store that records clients' food preferences, and caters even the smallest parties on short notice. Focus on the areas where you have a distinct advantage. Most importantly, identify the problem in your target market for which your service or product provides a solution. Give the reader hard evidence that people are, or will be, willing to pay for your solution versus others. Section Five should include the information listed on the following page.

A list of your company's services or products. Attach any marketing/promotional materials

- A. Detail regarding:
 - 1. suppliers
 - 2. availability of services/products
 - 3. service or product cost
 - 4. the purchasing department (where applicable) with an overview of it's organization and staff
- B. Information addressing new services or products to be added to the company's line

Just For Manufacturing

If your business is manufacturing, you'll need two additional sections to describe Production Strategy, and Research and Development.

Production Strategy should include:

- A. The process and/or technology that is, or will be, used to produce and deliver the product
- B. A production schedule (actual or projected) for a twelve-month period

- C. The cost to produce the quantity and quality of product required to achieve the company's sales and revenue goals
 - D. A production budget (actual or projected) for a twelve-month period
 - E. Future requirements (based on your projections of the company's growth) for:
 - Staffing
 - Materials
 - Equipment
 - Facilities
- Research and Development Strategy should include:
- A. Your company's immediate and long range objectives
 - B. Efforts to be expended to improve existing products
 - C. Efforts to be expended to develop new products and product levels
 - D. A detailed report on the progress of prior and current R & D projects
 - E. An R & D budget for a twelve-month period
 - F. Information regarding the Departments:
 - 1. Staff
 - 2. Equipment
 - 3. Facilities
 - G. Product acceptance and demand
 - H. Customer profile
 - I. Pricing policy

While the last three items may seem to fall more in the domain of marketing than research and development, remember that market research is a very important component of both. Your product research should be supported by market data that show it is on the right track.

Speaking of Risks

Up until this point, you've tried to address all of the positive, upbeat, and attractive aspects of your business. In this section, you go looking for problems—for which you'll then present solutions. It's better to know them ahead of time and point them out to your reader, than to have your reader point them out to you. It gives you credibility. When you write this section, think about how elements outside of your control will impact your business—and whether they present obstacles or opportunities. What happens if interest rates go up or if the economy (local, regional, or national) slows down further? What is the impact of the opening of under-developed countries—new markets for exported products? Cheaper labor? What is the impact of work force? New social legislation passed by the State Government? What if the Federal Government lowers trade barriers or cuts back on the XYZ budget? Now is the time to answer “what if?,” not when you're in the middle of a crisis, or have missed an important opportunity.

Issues to think about:

- A. State of economy
- B. Condition of your industry and industry prospects
- C. Current and future demand for the company's products and/or services.
- D. New technologies: How dependent is your business on new technology? Will the costs of new technology increase or decrease? If your business is technology-related, will your market slow down when the economy does?
- E. Labor market/labor union influence
- F. Impact of local and foreign competition
- G. Other relevant demographics such as changing customer profiles

Financials

Your financials should be developed after you've analyzed the market and set clear objectives. That's when you can allocate resources efficiently.

Keeping It Real

Nothing will help you fail faster than unrealistic financial projections. If you've been in business for a while, you probably already understand this. If you're in a business with a sixty-day payment cycle, don't pretend that some clients may pay you in thirty. Not only won't it happen, but you'll also be left out in the cold with no cash. It may even be wise to project a ninety-day turnaround for some invoices. Many new businesses go under because of poor cash flow management.

So, make reasonable assumptions and then document and footnote them. Tell your reader where you got the numbers. Make sure your projections are in line with industry standards. The more realistic you are now about your numbers, the better chance you'll have at making it through the lean times.

Do It Yourself

It's important for you to "crunch the numbers"—at least the first time through. The ease and availability of personal computers and numerous spreadsheet programs makes this task easier than ever. If you're not a "numbers" person, go as far as you can, and then turn to one of the many free resources available.

Try your local branch of the National Federation of Independent Businesses. Or, check with local business schools, colleges, and universities to see what programs they offer.

Painting the Financial Picture

All of the financial statements required in a business plan fall under one of three categories:

- Balance Sheets
- Income Statements (also called Profit and Loss or P&L statements)
- Cash Flow Statements

An overview of each category appears below.

A. BALANCE SHEET

The Balance Sheet shows at a glance your company's financial position at a given point in time. Your Balance Sheet lists your assets and liabilities, from which you derive your company's net worth. Assets include: cash, accounts receivable, inventories, plant, and equipment. Liabilities include: accounts payable, and all other debts. When you subtract liabilities from assets and owners' equity, the difference is your company's net worth. You create your balance sheet after you've completed your income statement. For example, in November you go back and tally your income statement for October. After you've plugged in the numbers, you then create a balance sheet for the last day of October. If you are just starting out, you will need to include projected year-end balance sheets. These tell your reader what you project your company will be worth at the end of the first year.

B. INCOME STATEMENT

An Income Statement is a concise record of what happened to your business during an interval of time (a month, quarter, or year). What was your total income? What were your total expenses? Add everything up. When you subtract your expenses from your income, you'll have your net profit or loss for the period. If your business is established, you can work with actual numbers and provide historical data. If you're just starting out, you will need to create a projected Income Statement. Again, gather information on industry standards—your reader may consult this information even if you don't. If you expect your business to differ significantly from the standard, be sure to explain why.

C. CASH FLOW STATEMENT

The cash flow statement is the heart of every business. Essentially it's a depiction of what money's coming in, what's going out, and when. We recommend that, when possible, cash flow projections be done on a cash rather than accrual basis.

1. **Cash Method:** Company recognizes income when the cash is actually received, and recognizes an expense when an item is actually paid.
2. **Accrual Method:** Company recognizes income when it is earned, or billed, and an expense when it is incurred, or the invoice is received.

When you've finished your cash flow projections for an upcoming period, you should know whether you need to establish a line of credit with the bank to help you over the rough spots. It's better to know ahead of time, so that you don't have to run to the bank for a loan on Thursday, in order to meet Friday's payroll. Virtually all businesses experience an occasional cash crunch. It's only an emergency if it hasn't been anticipated, and catches you unprepared.

Breakdown Statements

Ideally, your plan will have all the schedules listed below. They are not as overwhelming as they might look to the novice financial planner. Keep in mind that no matter what it's called, a statement is either a Balance Sheet, Income Statement, or a Cash Flow Statement. Also, remember that each schedule demonstrates either historical data, a budget for the upcoming twelve months, or a projected look at the next five years.

Staying Balanced

Balance sheets let you and others know the net worth of the company at a given point in time.

- A. **Historic Balance Sheets:** An historical view of annual assets, liabilities, and net worth for the past five years.
- B. **Projected Performance & Balance Sheets:** Portrays assets and liabilities at the beginning and end of this year, and the upcoming five years.

Income Statements

Income statements reflect the activities of operations such as sales, production, and administration. There are five schedules that fall under the category of Income Statements:

- A. **Historic Income Statements** - a record of the year-end income statements for the past five years.
- B. **Projected Monthly Income Statements** - a month by month look at all income and expense for the upcoming period.
- C. **Monthly Sales Analysis and Budget** - a monthly breakdown of historic sales revenues. Used to project next year's sales budget, on a month by month basis, based on actual figures from previous years.
- D. **Income Statement Analysis and Budget** - consolidates the sales analysis and budget, and the projected cost of sales together with an expense summary, to create a projected monthly income and expense budget for the next year.

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task easier than ever. If you're not a "numbers" person, go as far as you can, and then turn to one of the many free resources available.

Cash Flow Statements

Cash flow statements assist in anticipating cash requirements.

A. **Projected Monthly Cash Flow:** Provides a month by month view of "money in –money out," and the timing of that flow.

B. **Income Statement and Cash Flow Forecast:** Creates a bottom line analysis of cash flow generated by operations (sales). It is an annual Performa budget for each of the next five years, based on data from the income and expense budget. It's important for you to "crunch the numbers"— and be able to talk numbers and justify your calculations.