Business Planning: Some General Considerations

Barriers to Business Success

The US Bank reported in August 2003 their top reasons why businesses fail or do not reach their top potential. The percentage numbers may be different today, but the reasons remain constant.

1. 78%—Lack of a well developed business plan, including insufficient research on the business before starting it.
2. 73%—Being overly optimistic about achievable sales, money required and about what needs to be done to be successful.
3. 70%—Not recognizing or ignoring, what they don't do well and not seeking help from those who do.
4. 63%—Insufficient, relevant and applicable business experience.
5. 55%—Not understanding who your competition is or ignoring the competition.

These issues are often exacerbated because: not enough business has been closed; the sales cycle is much too long; cutting the price just to close the deal; poor follow-up systems and personnel are too busy servicing existing business to go after new incremental business.

Why Companies Go Flat (or broke)

Natural market forces

These factors do a lot of damage simply by going unrecognized for too long.

- Economic upheavals
- Changing industry dynamics
- Increased competition

Common (if unanticipated) management dynamics

These factors are all internal, psychological in nature, and highly destructive.

- Lack of consensus among the management team
- Loss of nerve
- Loss of focus
- Marketing inconsistency

Some Functions of a Professional Executive

1. Communicating
   Convey meaning and obtain understanding.
2. Planning
   Develop goals and strategies for future action.
3. Organizing
   Grouping work and resources in relation to goals.
4. Staffing
   Recruiting, selecting and training people.
5. Controlling
   Measuring performance and taking corrective action.
6. Leading
   Inspiring self-motivation in people to achieve goals.

Decision-making is easy when your value system is clear.
Setting Business Goals

1. Set on vital factors.
2. Measurable.
   - Output
   - Cost
   - Quality
   - Time
3. Unambiguous.
4. State as a result.
5. Controllable by you.
6. Contributes to profits or reserves.
7. Challenging but realistic

Identifying The Vital Few: What Is Critical For Success?

1. Planning
2. Productivity
3. Profitability
4. Policy
5. Action to achieve goals
6. Developing people

What Does Success Look Like? (Imagine how you will know when you are there)

Critical questions requiring specific, measurable answers.

1. How will you address the following?
   b. Accountability for execution of your business strategy.
   c. Management characteristics necessary for profitability.
2. Why is success in this business important to you? What does success mean professionally? Personally?
3. Why is success important to the company?
   a. Involve the management team in goal setting?
   b. Guarantee accountability?
   c. Drive execution of your strategies?
   d. Develop a common problem solving methodology?
   e. Develop a sustainable management process or system?

Why Is Business Planning Important?

Whether you’re a new business asking a banker for a loan or an established company, experts say you should have some form of business plan. A key reason to have a business plan is to show the bank how you’ll be able to repay a loan. Formulating a business plan properly can take days or weeks of time and research. “It’s a big exercise” but worth it because it provides a roadmap for success. Also, a good business plan can stave off disaster. For example, while doing a market analysis, the entrepreneur could make the nasty discovery that although he or she has a great idea, the market for that great idea simply doesn’t exist in that state. Maybe the entrepreneur’s idea could be better marketed online or sold through distributors, rather than out of a storefront.

Most people do some form of a plan, but it’s not very well-defined and robust. “They’ll do something on the back of an envelope, or they’ll do it in their head, and they won’t write it down. The rest of the people working with them aren’t really clear on what the plan is.”
If the plan is given to a bank, presentation is important. “If somebody walks into the bank with a plan on a legal pad, I’d think, ‘Is this how somebody is going to run a business? How is he going to pay me back?’”

The business plan should include a table of contents, a narrative and graphics for financial charts. The following U.S. Small Business Administration Web site, www.sba.gov/smallbusinessplanner/index.html provides hundreds of examples of business plans and links to other business-plan Web sites. These web sites contain worksheets on developing marketing, management and financial-management plans, as well as a worksheet for income projections and a balance sheet.

There are software packages that help entrepreneurs write business plans. It’s not necessary to spend money to have a professional do a business plan, nor is it necessary to have one professionally printed.

A business plan should include details about your market and competitors, demand for the product or service, marketing information such as how you plan to advertise, income statements, and startup and operation budgets. It’s also important to do balance and cash-flow sheets. The danger is sometimes you don’t collect all your money from your customers on time, but you still have to pay creditors.

In the narrative, it is important to include background about yourself and your banks want to see a record of accomplishment for the person so they know that he or she is capable of executing the plan.

It’s also important to include a human-resources plan. Sometimes companies think of people as just plug and play. Even existing companies need to be thinking about what the organization will look like over the next two years and start thinking about recruiting people to fill those gaps.

Last, a good business plan should be shared. You’ll get a lot more out of your people if they know what the game plan is. It’s like sending a football team out for an offensive play if they don’t know where the ball is going.

Another helpful site is www.bplans.com/sample_business_plans.cfm, which provides hundreds of examples of business plans for companies in many industries and stages of development.

Consider the following when constructing a business plan:

- The business opportunity is presented in a clear, exciting manner.
- The entrepreneur understands that projections are, at best, hopeful guesses and tries to base the projections on realistic assumptions.
- The entrepreneur estimates, as much as possible, the pitfalls of the business as well as its strengths.
- The plan is carefully proofread and edited until it does not contain any errors in grammar or math.
- The entrepreneur knows the plan by heart before making a presentation to a potential lender or investor.
- The company has taken the time to study and understand its competitors and can address their strengths and possible weaknesses.
- The plan contains enough information to tell a complete story about the company, and it is presented in a concise, tight writing style.
- The plan does not make exaggerated claims about the product or the management.
- The plan shows why the company and its products are different and significantly better than what is out there in the marketplace.

Guidelines
Below are guidelines intended to help you develop and write a topical business plan. Your business plan is very important to your success. It represents your "road map" toward a successful venture. These guidelines do not address every aspect of every possible business plan. You should consider more
questions than those that are posed in each section. Be sure to ask many questions - *your success depends on the completeness of your planning process*.

Each numbered section below (I, II, III, etc.) should start a new section of your plan, while other lettered items within each section will each be one to three paragraphs long.

I. Title Page

The title page should be double-spaced, horizontally centered and positioned just above the center of the page. It should contain the following items: business name, address, phone number and owner(s) name(s).

II. Table of Contents

The table of contents should list the title of each section of the document and indicate the page number where each is located. It also should list specific support items (appendices) by name. This page will be done last, since it requires the entire document as input. It allows the reader to quickly locate specific sections.

III. Business Concept or Executive Summary

This section should be a one-page explanation of your business, and its competitive advantage.

Here you will provide a clear description of the industry in which you are competing and a precise explanation of your business' unique qualities that set it apart from others that are competing for the same customers. This section should include key points from marketing, operational and financial plans. Your explanation should answer these questions:

- In what general market does your business compete?
- What quality/price image will it have?
- What customer needs are met?
- What makes it unique from competition?
- Why will it be financially successful?

IV. Marketing Plan

This section should contain a narrative description of these factors:

A. Products/Service
   - What needs/benefits are sought by your customers?
   - Specifically how does your product meet those needs/benefits?
   - How is your product/service unique from the competition?
   - What customer services do you provide to support the central product?

B. Target market
   - First, determine if your focus is on consumers (end-users) or other businesses.
   - Then tailor your responses to the appropriate category below.
   - What needs/benefits are sought by your customers that your product/service satisfies?
   - When and under what circumstances does your customer buy your product or service?
   - Describe the volume and frequency of your customer's purchases.
   - Based on available data, what is the expected volume of your target market?
   - Of that target market, what is the projected volume of actual paying customers?
   - Describe your customer base.
Consumers:
It is important for you to develop a clear, mental picture of your ideal consumer or customer. Describe your potential customers using the following factors: age, sex, income, education, location, occupation, interests, buying habits, and goals and aspirations.

Businesses:
If selling to a business, your description should include: type of business; size of business; priority placed on purchasing your product; projected image of the business; markets that the business services; its trade organizations and memberships; and the trade publications read.

C. Competition
A description of your competition should answer the following questions:
- Who are your major competitors?
- Why are they successful?
- What alternatives are there to your product?
- How do alternatives affect your sales?
- What distinctive differences separate you from your competitors?
- Why should customers leave your competitors to choose your product?
- What market share do you expect to get?

D. Location analysis
Describe your business location and how it will enhance the sale of your product or service. Your description should answer the following questions:
- What strategic advantages do you have at this location?
- Is there opportunity for expansion?
- What are the neighboring businesses?
- Do they complement/detract from yours?
- Are renovations needed? At what cost?
- What is the zoning classification?
- Is the neighborhood stable, changing, improving, deteriorating? How?
- How is customer access, parking, etc.?

NOTE: Include in the appendix a photograph of the building, a drawing of the immediate area showing road access and identity of adjoining businesses and a drawing of the floor plan of your business.

E. Price determination
A description of the price structure for your product or service will answer the following questions:
- How does the unit cost of your product compare to the relative value seen by the customer?
- How does your price compare with the competition's price?
- Why will customers pay your price?
- What image will this price project?
- What special advantages do your customers get that is included in the price?
- Will you offer credit terms?

F. Marketing approach
A description of your marketing effort should answer the following questions:
- What are the test market results?
- Where do your customers seek information about purchasing your product/service?
- How will your image be clearly and consistently conveyed to potential buyers?
- Which media are most suitable?
- How will you evaluate the effectiveness of each advertising and promotional effort?
V. Management Plan or Operational Plan

This section contains a description of who will run the business and how they will do it, including the following:

A. Management team

A description of how the business will be managed will answer these questions:

- What business management background do you have?
- How will that drive the business?
- How is the experience of key people related to this type of business?
- What legal form will you use - corporation, partnership, proprietorship, etc.?
- Who does what? Who reports to whom?
- What resources are needed and who will provide them (accountant, lawyer, etc.)?

NOTE: Include in the appendix the resumes of key personnel.

B. Employee relations

A description of your methods for hiring, training and communicating with your staff will answer these questions:

- What are your personnel needs?
- What skills will be required?
- How will you hire and train?
- What salary/benefits will be provided? How will you determine wage increases?
- What personnel policies will be provided?

C. Operational controls

A description of the kinds of management systems and how they will be used will answer these questions:

- What is your production capacity?
- What operating advantages do you have?
- What elements are key to your success?
- What will be indicators of success?
- How will you monitor these factors?
- What hazards do you anticipate for your business?
- What protection and/or alternate plans do you have?
- What policies will you establish for the operation of your business?

VI. Financial Plan

A description of how your business will be financed and how you will maintain a sound financial condition will answer the following questions:

A. Current funding requirements

- How much money will be needed for starting your business?
- What will be the sources of startup capital?
- What business and personal assets will be pledged as collateral?

B. Use of funds

- How will the money be spent (working capital, capital expenditures, etc.)?
- How will borrowed funds make your company successful?
C. Long-range financial strategies
   - How will you liquidate your investor(s) position(s)?
   - What terms of repayment are feasible?
   - What will you do if repayment cannot be accomplished as planned?

D. Financial statements
To support this section, several financial statements will be required, such as the following:
   - Personal financial statement of owner.
   - Business startup costs.
   - Pro forma cash flow analysis (expected).
   - Balance sheet (actual or proposed).
   - Income statement (actual or proposed).
   - Capital equipment list.

VII. Strategic Plan
It is very important to include a description of where you want your venture to be in the next few years and how you intend to achieve those goals. This strategic plan should focus on years two through five and include descriptions of the following items:

   - Strengths within your organization (internal).
   - Weaknesses within your organization (internal).
   - Opportunities available to you (external).
   - Threats impeding you (external).

Using these four factors, you should describe strategies that use your strengths to take advantage of opportunities and build on strengths; and strategies to reduce weaknesses and avoid threats to your business. The strategies should identify intermediate goals (yearly) and the marketing, management and financial resources that will be used to achieve these goals.