

## A GOOD BUSINESS PLAN

So, you want to prosper in a fast changing and exciting economic market. You cannot lose, you think, because of your background; marketing savvy and commitment to helping others discover the power to be their best. A good business plan can set the foundation for raising new capital and operating a business more profitably.

Just a few years ago, any one of these traits might have been enough to drive your company into the black. Times have changed, margins have shrunk, and sales quotes have risen. Adding significant value to the sale has become the rule and the businesses that find success are those that approach the field with an established game plan.

Five years ago, many firms were carried along by the momentum of industry. However, business is business, and if you look at the organizations that have failed in the last few years, you will find that most did not have a good solid business plan.

Those businesses that succeeded have identified the unique characteristics of their territories or markets and have tailored programs to net results. Some comb far and wide to find small business accounts that have yet to catch the technology wave. Some find the majority of sales within a concentrated area.

At the heart of such winning strategies lies a formal business plan that puts the company's goals along with procedures to attain them - in writing. Vendors often require resellers to complete a formatted plan outlining strategies to move a product. The smart business owner will develop a business plan that goes well beyond such vendor requirements.

In a company's early stages, a detailed business plan acts as a vehicle by which the business firm defines itself and identifies the parameters of the operating region. As the concern grows, the plan is used as a barometer to measure whether the business is performing up to expectations. At any time during the company's life, a properly written plan is essential to attaining outside financing. Banks want to see more than a printout from Excel before lending money. They want to know that the organization has a firm grasp on resources and goals. A business plan is this evidence.

If you are an entrepreneur looking for financing, you should be aware of what potential investors need to know about your business. To successfully compete for available funds, you need a business plan that is concise and complete as well as a strategy for selling that business plan to potential investors. Presented below is an overview of the steps you may follow in developing a good business plan.

Before starting to put together the plan, you should prepare a detailed outline listing all the topics to be covered. This will help you determine the information necessary to develop the business plan and organize it into clearly defined sections. Business plans usually have separate sections discussing the management team, the product/service, marketing and sales plans and financial information. A brief synopsis of each of these topics follows.

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## YOUR MISSION STATEMENT

The first section of the business plan revolves around the mission statement, a sentence or two explaining the company's reason for existing. The more specific the initial definition, the better the owner(s) truly understands the market niche the firm is trying to carve.

"Happy Computers is a microcomputer reseller in Los Angeles, California" is not nearly as refined a starting point as, "Happy Computers, a value added reseller in Los Angeles, is in business to serve the office and field equipment needs of Southern California construction companies with 20 employees or less."

Developing such business descriptions seems simple enough, but according to Carol Anderson, a Norwood, Massachusetts based consultant who helps microcomputer resellers tackle management needs, many resellers never get past this initial planning hurdle.

"When you're in a small business environment with less than 50 employees, it's easy to get caught up in the day-to-day operation and never look up," she says. "Many resellers have a plan in their head, but they're not sure how to implement it. Since the employees don't have a clear cut mission, there's no specific direction for everyone to move in."

A few years ago, Anderson produced a 30-page booklet for the National Office Products Association (NOPA) to help members get the planning ball rolling. Appropriately titled "Blueprint for Business Planning: Marketing and Financial Strategies for Computer Resellers," the booklet defines the process of crystallizing a mission statement and proceeds onward with the details of a business plan. "A good business plan has a life of its own which changes and evolves with the business," writes Anderson in the introduction of the booklet. "It is a compass, setting the course and steering the company."

## THE MANAGEMENT TEAM

This section of the business plan is one of the most important. Before agreeing to finance a company, a professional investor will conduct a thorough reference check on each member of the management team and how the team member's skills or background will contribute to the company's success. This should also be supported by a detailed resume included in the appendix.

Describe the planned organizational structure including officers, directors, board members and consultants, if any. If the team lacks any critical skills, indicate how and when you will recruit people possessing these skills. Include a brief description of any incentive plans, such as stock options or profit sharing plans.

How will you recruit and train personnel? This can be critical if you must deliver good service to your customers.

## THE PRODUCT/SERVICE

The description of the product/service should not be too detailed. However, be prepared to answer many questions about the research, development and manufacturing of the service and, with your permission, send this information to a consultant for evaluation. If you have already built a working model or a prototype of the product, you should include a photograph of it. If not, it would be helpful to include an artist's rendering.

The business plan should also explain how you will manufacture the product or perform the service. If an R&D is required, you should identify key development goals and list the time requirements and approximate costs for meeting them. Any inherent technical risks as well as other technologies that will affect the product or service should also be explained. It is helpful to mention whether the product/service is or can be patented or otherwise protected by trademarks, copyrights or trade secret protection programs.

## RESEARCHING THE MARKET

Once a firm has clarified specifically why it is in business, the next stage is to identify the market. What is the demographic make-up of the territory? Is it dominated by small, medium or Fortune 500 size companies?

If a firm has been operating up until now without doing such research, the leaders might be surprised by what they learn in the planning process. A variety of references can be called upon to help in market research: local Chambers of Commerce; the Small Business Administration; trade associations; even the public library. Make value judgments about the data, however, for often statistics alone can be misleading.

If you are looking at very large opportunities, it is easy to get statistics to justify expectations. Business consultants know that new and old firms can easily become mired in terms of personnel and resources without any great payoff. They fail to understand the market well enough to deliver a measurable result.

Thoroughly research the competition. What are their strengths and weaknesses? Do not be surprised to find some formidable opponents.

## MARKETING AND SALES PLANS

This section of the business plan must convince prospective investors that there is a market for the product/service. Include a description of the market, an explanation of what drives the market (why customers will buy), how it is segmented and distributed, market size (in dollar volume and number of customers) and how you expect to achieve a level of market penetration.

In addition, include a list of major competitors and assess their respective strengths and weaknesses. If the product will compete directly with another company's products/services, compare their performance and price.

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Generally, the price charged should be determined by how much the market will pay for the product, not the cost to manufacture and sell it. If the maximum selling price will not enable you to sell the product or service at a profit, it may be necessary to modify the product/service.

Every successful competitor will have identified an edge, and you should do the same. How will you differentiate yourself? What are your marketing plans? Short-term vertical opportunities may be hot for only a month or two, so it is imperative to move quickly. The business plan notes this. For more long term markets, the plan details how to plan to develop solid leads.

## **FINANCIAL STATEMENTS**

The most critical chapter in a thorough business plan cuts right to the bottom line. Every aspect of the operation's financials - budgets, balance sheets, profit-and-loss statements - will be spelled out. Projections should also be made and the operation's financial health should be reviewed regularly.

These figures should be used not only as a guideline but also to measure actual performance. Too many owners do not get directly involved in accounting. Instead, they turn the responsibility over to a bookkeeper. The business owners then do not have a real understanding of profit margins and inventory management.

One thing that usually stands out in companies that fail is an inventory problem. Either the business is not buying properly or it is not selling at the right margins. Both areas can be monitored with the business plan.

Try to look at the month as it stacks up against the business plan, after discounting unusual big orders or bonuses. For instance, at the beginning of a year, one firm had not invested heavily in its service department but the amount of money it was making was higher than projected. It was time to take another look at service and adjust the business plan. It invested capital, adjusted its rates to match those of competitors and never missed a beat - but profits increased.

## **FUNDING REQUEST**

The funding request section of the business plan should state how much money is needed, why it is needed and what will be done with it. The explanation of what will be done with the funds should be consistent with financial projections. If you are seeking "seed" capital, sales, income and cash flow projections as well as information on manufacturing, selling and administrative costs should be included.

If, however, you are seeking a subsequent round of financing, five-year cash flow, profit-and-loss and balance sheet projections will be required, as well as current audited financial statements. By having the statements audited by an independent accounting firm, potential investors probably will be more inclined to place reliance on the figures.

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## THE EXECUTIVE SUMMARY

Because investors may not be willing to search through an entire business plan to locate its essential elements, the highlights of the plan should be presented in the “Executive Summary.” A well-written summary should occupy no more than one or two pages and enable a prospective investor to quickly determine whether the plan deserves further study.

It also can serve another important use if you are planning to send the business plan to investors with whom you are not acquainted. You may want to send just the summary with a cover letter. This will protect the confidential details of the plan and can save printing and postage costs.

## ADDITIONAL SOURCES

A variety of sources can help develop a business plan. A firm may receive assistance from a franchiser or strategic planning program sponsored by a major vendor. Personalized consultants may be enlisted, such as the Hamilton, New York based American Management Association that offers the Strategic Planning Process, an intensive program that analyzes every nook and cranny of planning for profit.

Such programs take a substantial financial investment, in the thousands for the AMA’s one to three-day seminars, but when finished, a detailed business plan will be in place.

The important thing in developing a business plan is that you do it and do it right. A mid-approach is to retain a local financial planner trained in guiding small businesses in the development of the business plan.

The former Director of Planning at ITT, Andrew Batchelor, has developed a software program, supplemented by text, to develop a business plan. The techniques in “VentureTrac” are the same that was used by Harold Gineen to control 128 subsidiaries. It is designed for use by the financial advisor who is assisting a business in developing its plan, but can be used by a “do-it-yourself” entrepreneur. For further information, call 800 666 1656.