Developing the Business Plan

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Introduction

Businesses that fails to plan are planning to fail.
-Peter Drucker

After selecting the venture opportunity that is best for business many people feel they already know a lot about what they want to do, what products or services they want to offer one or more market segments they plan to serve.

Although getting to this point may have taken a lot of time, effort, and thought, but **a lot of decisions still need to be made**.

Preparing a business plan helps to identify questions you need to answer, and provides a framework and timetable for its implementation.

Some people believe they do not need to prepare a business plan if they don't need to borrow money or attract investors. This is a mistake. Business plan is not the same as request for funding. It is your blueprint for building a successful business.

We will focus now on questions:
– **why the business plan is so important to the success of the venture** and
– **why it needs to be grounded in reality**.

The development of a business plan is not the same as writing the business plan.

Developing the business plan involves considerable research and analysis. The opportunity screening process involves very preliminary estimates. The opportunity is merely a business concept at that stage. The development of the business plan, however, requires an in-depth analysis of the factors that will be essential to a successful launch.
The process of writing the actual business plan begins when the research and analysis is completed. The research and analysis that are an integral part of developing the plan provide the documentation needed for the plan when it is written.

The Role of the Business Plan

Developing a business plan forces you to an **in-depth analysis (research) of the issues and factors that will play a crucial role in the success of the venture**.

The preparation of the business plan marks an interesting **change in the role** the entrepreneur plays in the creation and development of a venture:

- until now – you have been doing what **entrepreneurs** do, identifying good opportunity and developing a way to capitalise on it;
- now, research and managerial prowess become critical determinants in whether your venture will successfully be launched; you must become the venture's **CEO**.

A business plan

- may help you to **secure funding** for your business, that's true, but also
- your plan allows you to **take the mental journey before** you commit resources and take the **physical journey**. It identifies the who, what when where, how much, why and how of your proposed venture,
- is a **reflection of your ability to manage**; if you do not have the patience, perseverance, skill, and information needed to prepare a business plan, then you probably lack ability to start and manage a new venture.

Process of developing a business plan incorporates the ***Three I's*** of planning:

- **planning forces you to make <u>inquiries</u>** into what could affect your venture,
- the **inquiries provide <u>insights</u>** into what may be needed,
- **insights in turn provided basis for <u>initiatives</u>** that will need to be taken to enhance the firm's chances for success.

Yes, You Really Need To Prepare a Business Plan!

Most entrepreneurs are not into planning. They face **two dilemmas**:

- the first dilemma is related to their **lack of patience** – most entrepreneurs are anxious to transform their ideas into reality, their desire to make things happen can put them in harm's way; when they see the window of opportunity opening in front of them they want to seize the moment, don't want to hesitate; the lack of patience causes many entrepreneurs to leap before they look; those who do not take the time to think things through are the ones who drive up the new venture failure rate;

- the second dilemma arises because entrepreneurs often **lack the business skills** needed to prepare a comprehensive plan for their new venture – their dreams, ideas, concepts, and ballpark estimates (guesstimates) may have kept them going until now, but developing a business plan forces them to roll up their sleeves and come up with specific answers to probing questions.

Developing a business plan for a new venture is like designing and building the first piano.

Most entrepreneurs start their venture without a business plan.
They do not have a written plan. Mostly, they have rough **concepts in their heads** rather than actual plan.

You plan needs to be a product of deliberate effort, and it needs to be in writing.

Developing a Business Plan Takes Commitment

First-times entrepreneurs often ask: “Do I really need a business plan?” → **Of course you need a business plan.**

Would you take a trip without knowing where you wanted to go, when you wanted to get there, and how much money you would need. Creating even a simplest venture involves hundreds of decisions.

Planning 1) identifies questions that need to be answered, 2) identifies areas where there is uncertainty and risk, 3) may not give you all the answers, but will reduce the likelihood of being blindsided, 4) gives you an edge so you will be better prepared to deal with factors beyond your control.

Business studies identify that **80% of the unsuccessful entrepreneurs had no formal plan** when they opened their business.

Developing business plan is the first real **test of your commitment to starting a new venture**. Only those who are truly committed will be willing to take the time, to deal with the hassles, to do the research, and roll up their sleeves to do what needs to be done.
There is no glory, no glamour – it is work! It is time when you have to temper your passion with reality, to turn your fantasies into facts

Mark Deinon, consultant: **“If writing a good business plan scares you off, may be you should think about a less challenging occupation than entrepreneurship.”**

Crafting a good plan is a difficult task, involving weeks (if not months) of endless drafting and rewriting.

Most entrepreneurs are afraid to plan. Bruce Posner, *Inc* magazine: “Planning threatens their mystique about themselves. Once they **invite outsiders into their world** – in writing – **the mystery has gone**. All their assumptions can be examined and questioned, leaving the **emperors with no clothe**. They might have to admit that they have no idea where they are going”.

Business Plan Is a Reflection of the Entrepreneur

Developing a business plan demonstrates whether you think like a businessperson. How you approach the business plan **indicates how you will manage the venture.**

If you are thorough in developing the business plan, then you will probably be thorough in making decisions after the business is launched. This thoroughness is the strength of the professional entrepreneur. It separates the purely intuitive type of entrepreneur from the professional entrepreneur **who looks before taking any action**.

If you want your venture to be taken seriously, then you must take the business plan seriously. **You will be judged by the quality of the new venture's business plan.**

A professional business plan can open doors for you.

Example:

A first-time entrepreneur who wanted to start a gourmet food store and café found that the firm leasing the desired retail site was reluctant to do business with a start-up.

When she provided the leasing agent with a copy of her business plan that indicated she (1) had managerial experience, (2) had taken numerous business classes, (3) had researched similar successful ventures in other cities, (4) had a letter of commitment from the primary supplier, and (5) had sufficient capital, the agent went from being reluctant to being excited about the business.

The business plan provided **credibility** and demonstrated she was **not the typical naïve first-timer**.

Basics of the New Venture Business Plan

Dun and Bradstreet: Mismanagement is the number one reason for venture failure. **Planning is integral part of management**.

Joseph Mancuso in *Profile of a Winner*: "**Planning is really no more and less than another word for good management**"

Most entrepreneurs may have a game plan in their heads, but they do not have a real business plan.

It is not a business plan if

- it is **not in writing**,
- it is **not a product of systematic analysis**,
- if it **cannot be handed to someone else** to implement it,
- if it **does not highlight the four or five critical factors for success**.

You have to be a primary architect of the plan.

If you are tempted to delegate the development of the plan to someone else, then you should think about delegating the whole business to someone else!

"If you cannot explain your venture in 25 words or less, it is probably not a good idea."

The Nature of Planning: Constructing a Business Model for the Venture

The first thing entrepreneurs need to know about developing the business plan is that **the goal is not to develop a plan.**

The goal is to develop a plan that when implemented will achieve the desired <u>results</u>.

The plan incorporates the Pareto 80/20 rule.
It should provide an in-depth analysis and discussion of the few (20%) things that are of paramount importance and an overview of the numerous (80%) factors that play a less important role in the success of the venture.

The Nature of Planning: Constructing a Business Model for the Venture

The overall plan can be seen viewed as a **business model** that **identifies the various pieces and how they fit together**.

The plan should **address four fundamental and interdependent issues**:

– should highlight the **people** who are going to be involved in the venture (entrepreneur, management team, board of directors, advisors)

– should profile the **opportunity** and demonstrate that it is attractive and sustainable (target market, competitive advantage),

– should profile the **context** in which the venture will operate (factors over which the firm has little, if any, control),

– should profile the **risks** and rewards associated with the venture (risk analysis and risk management).

The model for the business should also include three other components:

- how the firm will deal with competitive **retaliation**,
- how it plans to **grow**,
- what is its **exit** strategy (to be acquired, go public, stay as a family business).

Some of the most successful firms have used **very simple business models**.

Amazon.com – assumption that people would welcome the opportunity to buy over the Internet,
FedEx – that people and businesses wanted overnight delivery of parcels.

An often used method to develop a business model is Business Model Canvas (you will use it in your exercise).

The Business Plan Puts Things in Perspective

The process of developing the business plan helps to look at the new venture from various dimensions.

The process encourages you to adopt a **bifocal perspective** of the venture.

Having bifocal perspective means that you address
- **strategic** and
- **operational** issues.

Yet the business plan is not the typical strategic plan. Nor is it the typical operational plan.

The plan must identify your **5-year vision** for the firm and how to get there, and it must provide enough details to **fulfill the vision**.

The Business Plan Puts Things in Perspective

No new venture has unlimited resources, so the plan must **differentiate between the**

- **must-dos,**
- **should-does, and**
- **like-to-does**.

The plan will also need to indicate the **timeline** of the new venture.

You also need to know which activities need to be addresses in a sequential manner and which actions need to be taken concurrently. The **timeline** will also need to address **major milestones for sales, cash flow, expansion, and other key events**.

The plan should include a chronological list of the 10-15 most critical actions you will need to take during the next 6 months.
It is a good idea to have **another person review**.

The plan must also demonstrate that the new venture is environmentally consonant and internally consistent (various components are in synch with one another), that it is in sync with economic conditions, will use the latest technology, government regulations.

Documentation, Documentation, and More Documentation

Ignorance does not give you comfort when starting a new venture. Everything what you don't know can hurt you.

Research and documentation forces you to deal with facts rather than fantasies and assumptions.

Your sales projections will need to identify number of **customers**, their location, the average purchase, seasonality, and the number of sales in receivables.

The plan will have to project the number of **employees**, the wages, benefits program ...

It will need to document team's **qualifications**, capabilities, experience ...

The plan will need to include **cash flow**, the average amount of inventory, **profit** as % of **sales**.

It will also need to provide documentation that **vendors, distributors, prospective customers** will do business with you.

and many more ...

You need facts to have a test drive your projections and assumptions to see if they hold up.

The Business Plan Provides Focus

Some things have to done well. Other things just need to be done.

The key is knowing which things are critical and need ongoing attention.

If the plan is prepared well, then it will **identify the bull's eye of the new venture's objective**.

The **business plan targets performance** and provides a basis for measuring success.

It will be **impossible to monitor every dimension** of the firm at every instant in time. You must determine which are the **truly critical performance measures and monitor them closely**.

You plan should identify the **key metrics** the serve as performance gauge for your venture.

Each metric should have a corresponding range of performance that is considered acceptable.

For example: if projected sales is **$200.000** per month, you might establish an acceptable range of **plus/minus $20.000**. If sales exceed $220.000 or fall below $180.000 for a month then you have an exceptional variance.

Exceptional variances usually require a change in the plan.

If sales are **higher than expected** you will have to **synchronise your support system** to ensure the firm is able to meet higher demand. Will you be able to assure the quality, etc.

If sales is **lower than expected** – look at the effectiveness of your advertising, sales efforts, pricing strategy, competitiveness of your products or services.

Areas that have a high probability of deviation and that have the potential for serious consequences should be monitored frequently.

Identify the Drivers of Success

The plan must separate the substantive issues from all other issues that are part of the operational plan.

It is easy for the entrepreneur to get bogged down in all the stuff that goes into an operational plan.

At this stage you should direct your attention to the drivers of success, to the things that matter most.

You should ask

- “What are the **five most critical things for the successful launch** of the venture?”
- “What are the **five things that can kill the venture** if they are not addressed?”

These two questions represent only 20 percent of the issues that need to be addressed in the development of the business plan, but they may make up 80 percent of the plan.

Separate the Funding from the Plan

Many people focus on the role the plan plays in rising funds. Although funding may play a critical role in the creation of a new venture, it must be put in perspective.

You develop a business plan to increase the odds for new venture success, not just to attract funding.

If you demonstrate there is an opportunity and you have the ability to create and maintain customers for a profit, you will have a higher chance to attract funds.

Three important points need to be kept in mind:

- **you are the most important reader of the business plan**,
- **some entrepreneurs who have sufficient personal funding may conclude that since they do not need any outside funding they do not need to prepare a business plan. That is wrong. Again, you develop the plan to increase the chances for success** (ironically, having sufficient personal funds to start a venture could backfire; seeking investor or bank financing forces you to be more accurate, and their review of your plan may reveal flaws that you missed),
- **having enough money to finance you own venture may also contribute to financial inefficiencies**; you may fall in the wheel of retailing, buying things that add little value to the products and service they offer, furnishing rather than streamlining the order and delivery process, carrying extra inventory rather than finding ways to enhance stock turn, etc.

The business plan may not be seen as a way to separate unsuspecting investors from their money by **hiding the fatal flaw**.

The Plan Evolves Through a Number of Iterations

Developing a business plan may involve **a number of operations**.

The analysis of the market opportunity and the concept's merit from previous phases of analysis of the business opportunity can be viewed as building blocks for developing a very preliminary business plan.

Developing the actual business plan takes the process much farther.

Each iteration represents a gate.

Each iteration rises questions that require additional information and documentation.

If the proposed venture passes through the series of planning gates, then the plan should be implemented.

The Comprehensive Business Business Plan Will Require Additional Brain Power

Developing the comprehensive business plan usually involves **considerable research and analysis**.

Development of the comprehensive business plan **should involve the people who will be involved in the venture if it is started**.

Various other people can play an important role in the development of the plan and the launch of the venture.

Their depth of knowledge and perceptiveness can provide insights that will increase the venture's chances for success.

Who can be the additional brain power for development of the plan?

- Mentors
- Advisors
- Accountants
- Layers
- Bankers
- Consultants

Find a Mentor Who Will Help You

Many successful entrepreneurs note that having a **mentor** before starting a new venture and in its early days of operations contributed to their success.

The process of starting a venture can be very lonely and frustrating. Having someone whom you can call or sit down with who can listen can be extremely helpful.

Successful entrepreneurs usually are the best mentors.

The best mentors avoid making decisions for the entrepreneur; instead they ask probing questions, challenge assumptions, encourage the entrepreneur to explore other alternatives.

Objectivity a key role in a mentoring relationship.

The mentor must be able to share his or her thoughts freely. The entrepreneur will benefit from a mentor if he or she has a **genuine interest** in getting assistance, values mentor's opinions, and welcomes constructive criticism.

The **mentor** who assisted during the period of start-up **can become a member of the board of directors.**

External Advisors

External advisors may play a key role in the development of a business plan.

The need for professional advisors depends on the entrepreneur's knowledge, the depth and breadth of the management team, and the nature and complexity of the proposed venture.

It is impossible for any entrepreneur to know all that needs to be known about starting and running a venture.

Even if the entrepreneur had extensive experience, there are not enough hours in the day to review every situation and to stay abreast of recent developments in the field of accounting, commercial law, insurance, banking, and other business practices.

The entrepreneur should **contact external advisors as early as possible** in the process of starting a venture. Professional advisors may be helpful sources of information. They may also identify potential pitfalls that should be avoided.

The best way to select advisors is to ask successful businesspeople whom they recommend — then interview at least three for each area — if you select the attorney first, then ask that person whom he or she recommends and make that one of the people you interview.

The use of professional advisors is a test of the entrepreneur's commitment to doing things right and willingness to pay for quality assistance.

People who have a professional background are accustomed to using professional services.

People with strong egos rarely seek the advice of others and are usually reluctant to pay others for their services.

Certified Public Accountant – a very important issue

Many first-time entrepreneurs underestimate the assistance that a CPA can provide prior to start-up. You need to make sure you are starting off on the right foot. Do not try to save a few dollars by hiring a bookkeeper rather than a CPA.

You start the process by **selecting the right accounting firm**. This is important for three reasons:

- certain accounting firms have accountants on their staffs that **specialize in entrepreneurial ventures**. You should have an accountant that truly grasps the challenges associated with starting a new venture. These firms can also help you in your search for funding and talent,
- if you go with a small accounting firm, then you may have to look for a new accountant if that accountant is no longer available
- **your venture will be judged by** other potential stakeholders—particularly investors—by the **accounting firm you use**. Although it might cost a little more for a premium accounting firm, you will send a signal you are committed to getting the best advice.

Ironically, using one of the premier accounting firms might *not* cost you more money. You may be able to negotiate a lower rate for the first year or two. Most accounting firms are willing to lower their rates if they want to have the inside position when you grow. The rates charged by premier firms may not be more expensive than smaller firms. Accounting firms that specialize in entrepreneurial ventures are in a better position to provide you with advice, so they do not have to charge you to learn.

Many entrepreneurs enter business without appreciation of the value of external advisors. They use them out of necessity or desperation. Unfortunately, **many businesses fail—not because the business lacks potential, but for other reasons**. **Two of those reasons can be the failure to get good, practical advice when such advice is needed and the receipt of bad advice.**

The accountant can help you **set up the best method of accounting for your business**, prepare your monthly financial reports, payroll, taxes, and do an audit if is it is required. Your accountant can also help you establish controls.

You should **select an accounting firm that can help you succeed**. The top accounting firms function more **like consulting firms** than traditional accounting firms. **Select the firm that can improve your decisions and performance.**

Legal Counsel

You should demonstrate **the same amount of diligence** (pracowitość, pilność) **in selecting a law firm as you do in selecting an accounting firm**.

The right legal counsel **will provide useful advice and reduce your risks**.

You should **look for a law firm that has attorneys who specialize in entrepreneurial ventures**. They will be in a position to recommend the right legal form, file the appropriate legal documents, and advise you on how to run the business so it follows proper meeting, decision, and reporting requirements.

Attorneys who specialize in entrepreneurial ventures can be **particularly beneficial if your proposed venture involves intellectual property**. Attorneys can provide advice on copyrights, trademarks, patents, contracts, leases, and hiring practices.

Like accountants, **it may be possible to negotiate lower initial fees** if your venture has the potential to grow and use the firm's services in the future.

It may be worthwhile to **ask other entrepreneurs which firm they would recommend**. If you have selected an accountant, then your accountant may suggest a law firm.

Bankers

Bankers can be very helpful when you are evaluating opportunities and developing your business plan.

Most of the larger banks, like accounting and law firms, **have people on their staffs who specialize in entrepreneurial ventures**. These specialists may be called **commercial loan officers or business bankers**.

Although most banks and bankers are notoriously sceptical about new ventures, the **bankers who specialize in entrepreneurial ventures have a better understanding of the challenges associated with creating a business.**

Unfortunately, **most banks will not loan start-ups any money**. Instead, they usually **wait until a business is actually up and running** before they will consider providing it with a loan.

Yet, business bankers are usually willing to **provide useful advice before you start your venture because they want the venture to do its banking with them**.

Business bankers have access to key operating ratios for certain types of business.

Consultants

Consultants may need to be hired to **provide advice in areas where the entrepreneur does not have sufficient knowledge**.

If you are going to seek the services of a consultant, make sure you **hire a consultant who is in sync with entrepreneurial ventures and your particular type of business**. There are consultants for just about every aspect of business and every type of business.

Some entrepreneurs have found it **more worthwhile to seek the advice of other entrepreneurs than full-time consultants**.

Iris Shur and Jean Sifleet wanted to start a shop selling furniture and home accessories on consignment, but they recognized their limited experience and expertise could jeopardize their venture's success. They approached Jan Hess and Sarah Powers, who had started the Stock Exchange, a consignment store, 15 years earlier. Hess and Powers agreed to spend a day with Shur and Sifleet teaching them the ropes. Their fee was $1,500 and Shur and Sifleet had to sign an agreement to **not set up their store within 30 miles** of the Stock Exchange.

Shur and Sifleet learned how to **choose an ideal location, how to identify good workers, and where to advertise.** They also got lessons in merchandise appraisal, bookkeeping, and store layout, as well as the idiosyncrasies of the consignment business.

Shur noted, **"If we didn't learn from somebody else, it would have taken us a lot longer to get to where we are now."**

Insurance Advisor

First-time entrepreneurs should **seek the advice of a couple of commercial insurance providers as early as possible**.

They can identify key business risks and indicate how they can be addressed.

They can also identify **the type and amount of coverage your venture** should have to cover **property** and **casualty**, **hospitalization**, **medical**, **business interruption**, **product liability**, and various other risks.

It is important that you **seek out agents that specialize in the areas of coverage you need.**

Insurance products are now so diverse and complex that it is difficult to find one agent who has the requisite expertise in all these areas to give you the right product at the best cost.

Management Team

The role of the management team in developing the business plan also presents an interesting question.

Entrepreneurs face the dilemma of whether they should assemble the key people and then develop the plan or develop the plan and then get the key people to implement it. The answer is both. And it depends on the real case.

If the management team is to be composed of people who will also be principal investors, then they will find it in their best interests to be involved from the beginning. **Often entrepreneurs write a business plan way too soon, producing little substance**.

This echoes the chicken-or-the-egg nature of the dilemma. The process of developing the business plan will indicate the need for certain skills, abilities, and levels of experience for the management team. These characteristics and qualities will then serve as the basis for recruiting the management team.

If the prospective team hasn't been identified and won't play an integral role in the development of the comprehensive business plan, then the entrepreneur should seek advice from other people so he or she won't be the sole architect of the plan. This is why it is so important for the entrepreneur to have a mentor, his or her set of professional advisors in place, or an advisory committee from the beginning.

You may not be able to afford some of the very best management persons, but it pays to **have battletested people in key positions**. This is particularly true if you will be seeking investors or a loan from a bank.

William Sahlman, investor: "**I always read the resume section first**. Not because the people part of the new venture is the most important, but because **without the right team, none of the other parts really matters**.

Building a top quality senior team is hard, time-consuming work. But don't build the team too fast. A bad hire is far worse and more time consuming than leaving an empty chair at the table until you recruit the right candidate."

Advisory Committee

First-time entrepreneurs are finding that it may be well worth their time to **establish an advisory committee** when they are **exploring various business opportunities and developing** their **business plan**.

Having an **advisory committee is like a having a group of mentors at your disposal.**

The beauty of the advisory committee **is its flexibility**.

Your advisory committee should be composed of successful businesspeople.

The advisory committee may be seen as a sceptical ally. It should ask the questions that need to be asked and challenge key assumptions about various issues related to the new venture.

Leslie Brokaw, Inc. magazine:

"**It's shocking how infrequently entrepreneurs seek advice. There ought to be a rule: Before you start a business, find 10 smart people who know the industry and ask them: How am I going to screw up**?"

The people on the advisory committee are not there just to be cynics. They may also be **a source of ideas and contacts**.
They can also be **helpful in exploring possibilities**.

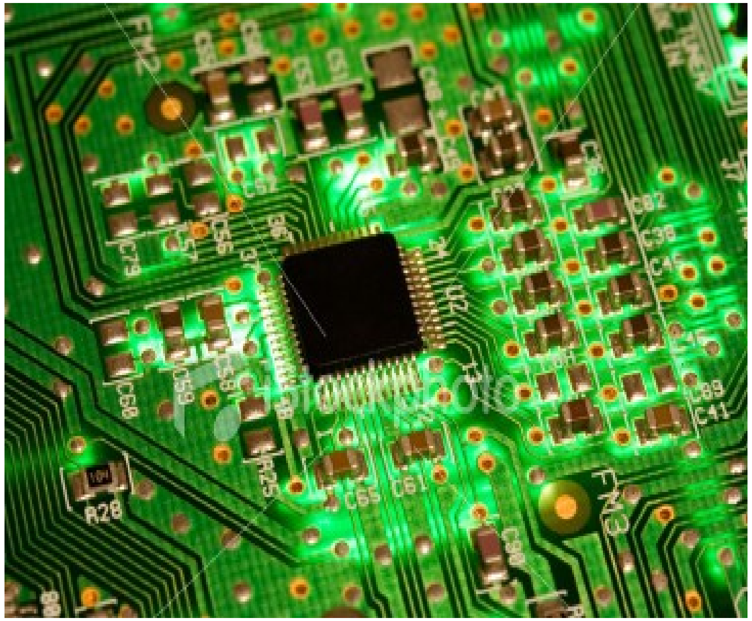
As long as they are not put in a position where they may have a conflict of interest, they should be willing to share their thoughts and their time.

Technical Advisory Committee

If your product/service is related to technology, then you should consider setting up a technology advisory committee.

Sometimes it is called a *board* rather than a *committee,* but it may be advisable to call it a ***committee*** rather than a board so it is **not considered a decision-making unit with corresponding liability**.

A technology advisory board is different than an advisory committee because it **focuses exclusively on technology-related issues rather than ongoing business issues**.



The technology advisory committee should be **composed of people who are at the leading edge of your industry**.

They may be from the supply, distribution channels, or ultimate consumer side.

They **may also be academic researchers** or people who are considered at the leading edge of your field.

Especially important today for e-Businesses, which to a very large extend are technology-based.

Avoid Paralysis by Analysis

You should gather as much information as you can for analysing the market and develop a solid business plan. But ...

Don't let you desire to create the perfect business plan keep you from actually starting your venture.

There is a time to analyse, a time to plan, and time to act. If you try to address every issue to the detail, then the wave may pass by you.

Entrepreneurs need to recognize that **the law of diminishing marginal returns** applies to the time invested in the planning process.

There comes a time when the insights gained from planning decline relative to the time invested in planning.

Bhidé: "Entrepreneurs must recognize that **some critical uncertainties cannot be resolved through more research**. Resolving a few big questions—understanding what things must go right and anticipating the venture-destroying pitfalls—is far more important than investigating many nice-to-do matters. The entrepreneur has to live with critical uncertainties ..."

Jeffry Timmons, in *New Venture Creation*: "Remember that the **plan is not the business** and that an ounce of can-do implementation is worth two pounds of planning."

He also noted the preparation time/**opportunity cost** nature of the time spent on planning when he stated.
"Don't waste time writing a plan when you could be closing sales and collecting cash."

The Business Plan Must Be a Living Document

No entrepreneur is all knowing, and no business plan is flawless.

Although business plans attempt to identify what needs to be done to enhance the odds for success, no plan can predict what the future holds. **Life is full of surprises**.

“The only thing that is certain about the future is that it is uncertain.”

The words “**This plan is subject to change**” should be printed **on the cover of every business plan**.

Business plans for new ventures must be flexible and evolve with the times.

Plans need to adapt to new challenges or the realization that assumptions don’t reflect reality.

Bhidé: “Business plans lead such brief but important lives ... **Initial analyses only provide plausible hypotheses, which must be tested and modified**.”

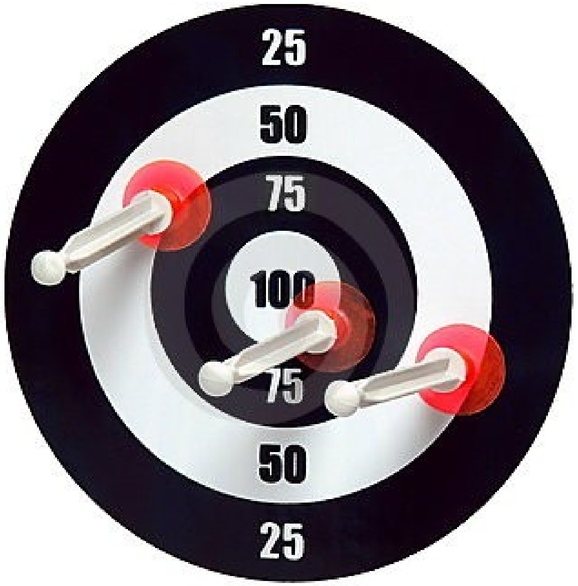
“**Nothing happens according to the plan, and what’s worse, things happen in discrete bundles, not in small increments**. Sales and most expenses come in lumps, the timing of which is unpredictable at the start.

The lesson: **Don’t count on your cash projection; plan for the worst**.”

The Business Plan Emphasises Hitting the Target, Not Hitting the Bull's Eye

The world is changing so rapidly, it makes it more difficult to plan for the future.

But, the rate and nature of change make planning for the future more important that ever.



There is criticism that business plans need to be more realistic.

It is true that too many established firms are fixated on hitting a specific sales target, a specific return on investment target, and/or market share target.

Instead of trying to hit a specific point in the future, the firms should shoot for a general destination.

There is the need for **business plans** to be **more flexible**. Instead of being linear, they should be more **adaptive and opportunistic** (entrepreneurs should keep their eyes and ears open for opportunities that may come by suggestions from customers, suppliers, distributors; business plan should not be a straitjacket that keeps the venture from exploring emerging opportunities).

The need for adaptability, whether it is the result of an unexpected opportunity or an unanticipated problem, means that your venture needs to be perceptive, to have early warning systems, and to be able to adapt to new realities.

What needs to be done to succeed under ever-changing conditions may be more important than what was planned.

You can write a plan that makes your business look fabulous and gets the money, but you can still go broke."

The Business Plan Should Provide a Compelling Reason for Creating the Venture

Business plan should provide a compelling reason for customers, distributors, investors and personnel to seek out the venture.

Your business plan should indicate why your venture should be perceived as the provider of choice, the employer of choice, and the investor of choice.

It should also convey why customers should stop buying from their current providers and do business with your venture. Why they will want your goods/services, why they will want them now, and why they will not be price sensitive to what you have to offer.

If you want to be a provider of choice, then your plan must indicate why your target market will be delighted to do business with you firm.

Entrepreneurs need to recognise that **while they are risking their time and money, customers, investors, bankers, suppliers, distributors, and prospective personnel are also taking a risk if they become involved in new ventures.**

Customers – take a risk when they switch to a new venture.

Investors – commit funds that could be put into other investments.

Suppliers – run the risk the new venture may not be able to pay its invoices.

Distributors – their reputation is tied to their ability to provide what their customers want; if a new venture is unable to meet its commitments then distributors may also suffer

Entrepreneurs need to be very effective salespeople if they want other stakeholders to accept the risk in doing business with a new venture.

If you do not have the skills to promote your business, then you should not be the one to lead it.

The Business Plan Shows How You Plan to Deal with Risk

Mass Mutual: **“You cannot predict the future, but you can prepare for it.”**

Entrepreneurs need to use **SWOT analysis to identify current and prospective threats**.

The threats can include changing economic conditions, competition, government regulation or deregulation, technology, weather, consumer tastes and buying patterns, and so forth.

Although entrepreneurs cannot predict the future, they can run scenarios to identify possible futures. **Scenarios are like mental radar.** They help identify what may be possible. Effort should then be directed to identifying the **probabilities** such events may occur. The consequences (both favourable and unfavourable) should then be identified.

***Risk analysis* can be seen as a form of anticipatory management.**

By asking *what if?* questions, you may be in a position to **develop contingency plans** for dealing constructively with situations that could hinder your venture’s success.

Insurance plays a key role in how you deal with risk. But the analysis should provide insights into which risks can be handled through preparedness and which need to be covered by insurance.

Rob Ryan: “The harder you work, the luckier you get.”

Software is Not a Panacea

Entrepreneurs are tempted to look for easier and quicker ways to prepare the plan. They either

- run down to the office supply store to **buy software package** for developing a business plan of a new venture or
- call around to see if they can **outsource** the plan to some consulting firm.

Inexpensive software packages are available for preparing business plans. These plans may save you some time because they are formatted to look like a sophisticated business plan. A closer look reveals that most software packages are nothing more than **a set of templates** wrapped around an electronic spreadsheet and words in a text format where you fill in the blanks.

The software may ask a number of very important questions, **but you still have to come up with the answers to the questions, you still have to do research and analysis** to figure out what numbers go into the corresponding calculations.

You still need to put all the critical information into the software. A software-driven plan will only be as good as the data you put into it

One way bankers check quality of a business plan it to look for sloppy numbers in financials, which are often software-generated.

The only **real advantage** of software is that electronic spreadsheets **can run various scenarios** once you have entered key data. Electronic spreadsheets enable you to see the effect that varying levels of sales have on expenses and profits. Your plan should run the best-case, most-likely case, and worst-case revenue scenarios each of the first five years. These scenarios can reflect the consequences of different prices, different cost structures, and different financing packages on the firm's income statements and balance sheets. Electronic spreadsheets can also indicate the impact that varying levels of sales, accounts receivable, and collection periods can have on cash flow.

Resist the Temptation to Outsource the Business Plan

You must be the primary architect of the plan. You have to know the plan inside and out.

You can and should **use the services of professionals** (accountants, attorneys, etc.) where they can provide guidance and insights, but that **doesn't mean that you should outsource the development of the business plan to a consultant** even if you have an abundant supply of money.

The need for you to be the principal architect is particularly evident if you are seeking external financing. It is generally recognized that **banks don't lend money to businesses. They lend money to people who will make the right decisions** that, in turn, will pay off the loans.

Investors may be even more concerned about the entrepreneur's ability to make the right decisions because investors are at the end of the line when trying to recover their money if the business goes down.

Timothy Dineen, founder of Leprechaun Capital:

"**Investors can spot canned business plans a mile away. The most important thing a venture capitalist is looking for is quality management.**

Entrepreneurs should recognize one of the facts of financing, "The slicker the packaging, the weaker the plan."

If the bankers and/or investors suspect that your plan was drafted by a consultant, then don't be surprised if they devalue its contents.

Summary/Conclusions: Predicting Rain versus Building Arks

The business plan should provide insight into **whether the opportunity under consideration has merit**, as well as **identify the factors that must be addressed** for the venture to capitalize on the opportunity.

The business plan should also serve as a **flexible blueprint** for creating the venture.

No plan will be fail-safe and no amount of planning can foresee every eventuality.

The key to the planning process is to **force you to look before you leap**, to **get facts rather than to rely on assumptions**, to recognize the **prerequisites for success**, and to do what you can do to **increase the likelihood your venture will succeed**.

Part of me relished the fact that so many people said my plan couldn't be done.

– Howard Schultz, Founder of Starbucks