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Business Planning -- A Roadmap for Success

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What is a Business Plan?

A business plan is a document outlining the key functional areas of a business including operations, management, finance, and marketing. Simply put, a business plan is a roadmap for a business. The traditional business plan is a paper document, although the emergence of electronic media has made paper an option. The depth of detail that a business plan contains will vary depending on the scope of the business and the purpose for which the plan is being prepared. A non-traditional business trying to obtain venture capital will have a much more detailed plan than a more conventional business trying to obtain a small bank loan. Almost all business plans have parts in common, which will be discussed later.

> *"A good business plan can take anywhere from 50 to 100 hours to prepare. This sounds like a lot of time, but not when you are making a five or six figure investment."*

Why prepare a business plan?

Business plans may be prepared for many different reasons including new business start-ups, major changes in existing businesses, or simply to maintain the strategic direction of an ongoing business. Business plans can be used both internally for management purposes, as well as externally to attract investors, obtain financing from creditors, or recruit quality partners or employees. Business plans provide the entrepreneur with a means of evaluating the feasibility of a proposed venture and may uncover previously unconsidered opportunities or limitations. Business plans should evaluate, not promote. Business planning helps take the emotion out of decisions and focuses attention on reality. Business plans may be customized depending on the target audience -- investors, creditors, the board of directors, or some other group.

> *"Those who prepare a business plan are 10 to 20 times more profitable, according to anecdotal evidence."*

Who should prepare the plan?

There is often a question about who should prepare the business plan. Should it be done internally or should someone be hired to do it? Although there are professional consultants who specialize in developing business plans, it is the business owner who will be the one to implement the plan. People are not investing in the consultant, they are investing in the business. At the very least, there should be input from every level of the organization. If it is a family business, both spouses should have input as well as any other family members who have a stake in the business. If it is a large, corporate business, senior management should not have sole responsibility for creating the plan. Everyone from the CEO to the entry-level employee should have a voice. With the proliferation of computers has come a multitude of software programs for creating business plans. These programs are useful for providing a basic framework for the plan. However, their flexibility may be limited. Combining these programs along with individual creativity will make for a better plan.

"The best way for a business plan to fail is to have the CEO and management team develop it."

Do farms and agribusinesses need a business plan?

It is likely that only a small percentage of traditional farming operations have a business plan. For relatively small operations or those with a stable existence, a plan is probably not necessary. However, for larger producers or those in an expansion or transition mode, a business plan can be invaluable. It is important to point out that a financial plan is not a business plan, rather it is just a component of it. Many agricultural producers are turning to alternative crops, employing non-traditional practices, or implementing unproven technology. In these situations, a sound business plan is recommended.

Where can you get information to help in developing a business plan?

Sources such as the Cooperative Extension Service, Small Business Administration, and small business centers can provide general information on business planning as well as guidance on legal requirements such as permits, taxes, licenses, and other issues related to business operations. These organizations may also offer help in obtaining financing or finding investors. For information specific to a particular industry or market, there are numerous primary and secondary sources of data. Primary data would include market surveys, questionnaires, focus groups, or other data collected in-house. Primary data is the most specific to the business's needs, but is also the most difficult and costly to obtain. Secondary data is that obtained from an external source such as census data, magazines, journals, marketing research firms, or other publications. Financial data is available from sources such as Robert Morris Associates Annual Statement Studies. Perhaps the largest single source of secondary data available today is the Internet. A person would be hard pressed not to find some relevant information pertaining to his/her business interest after a small time searching the World Wide Web. One should use caution and evaluate the quality of any secondary data, regardless of where it was obtained.

What are the components of a business plan?

A business plan should be written from a third-person point-of-view. The length of the plan will vary, but most plans will fall between 10 and 50 pages, excluding appendices. The following components for the business plan are suggested only as a **guide** and are by no means set in concrete. The order and emphasis placed on each area will vary depending on the venture and purpose of the plan.

Cover

The cover of a business plan should clearly indicate the name of the business, contact information such as names of key people (principals), addresses, phone numbers, or e-mail addresses, and perhaps most importantly, the date of the plan because revisions are almost always necessary. A good practice is to number the copies of the business plan and keep track of to whom they are distributed. Many great ideas are stolen from the business plans of others.

Executive Summary

An executive summary is a concise overview of the key aspects of the plan including the company's current status, major mission and objectives, products and services, marketing strategy, and financial projections. It should highlight the key elements for success such as breakeven sales or price or market share. The executive summary, which should be no longer than five pages and be written after the plan is complete, gives an interested party a quick overview of the plan. If the summary sparks interest, additional detail is available in the body of the plan. The executive summary should create enthusiasm about the venture by making clear the intentions of the business and the opportunities that exist for the products and services.

Table of Contents

A table of contents will help the reader quickly refer to individual sections of the business plan. The table of contents should include all headings and subheadings within the body of the text.

History and General Description

The history and general description of the existing or proposed company includes the experiences and qualifications of the principals, the reasons for starting the business or adding the new product, and the structure of the business. For an existing business, existing products and their success (or failure) and a discussion of why could be appropriate. This section is the place to include a description of the industry in general.

Mission or Vision Statement

A mission or vision statement states why the business exists. It should be general enough to be flexible, but rigid enough to give the business a strategic direction. The mission statement should be visible; that is, it should be known and recognized by everyone involved in the business. It should be less than fifty words and contain a reference to the business's purpose, the customer, the financial objective, and most importantly, the employees or internal customers. Like the entire business plan, development of the mission statement should include input from all levels in the organization, not just management.

Goals and Objectives

While the mission statement is broad and general, goals and objectives are quantifiable and specific. They should be divided into short and long-term goals. Goals and objectives may be related to sales, profits, efficiency, or may involve expansion or bringing another partner into the business. The goals and objectives should be realistic and obtainable. Some examples of short-term goals may be:

- Increase gross revenues by 5 percent over each of the next three years
- Reduce death loss to under 1 percent next year
- Bring the oldest family member into a management position within two years
- Build working capital to account for at least 25 percent of business expenses by next year

Key Planning Assumptions

Much of business planning is based on logical assumptions rather than hard facts. It is impossible to have data to support every aspect of a business plan. It is critical to outline the key planning assumptions from the start to help avoid bias because of the emotion involved in planning a business venture. Key planning assumptions may include trends in the marketplace or consumer behavior patterns. They may include the potential number of people in a market, an assumption about government policy, or the future of a particular technology. Be sure to document sources of key data as well as price, cost, and market assumptions.

Document, document, document!

Market Analysis

The market analysis is the backbone for most business plans. It is critical to outline what customer needs are being met by the business, why the products or services are unique, and who will be attracted. The target market is a group of potential customers with similar characteristics that will be the focus of the marketing effort. It is important to state the reasoning behind choosing a particular target market. The size of the market, emerging trends, and anticipated market share should be analyzed. Competitive analysis looking at the strengths and weaknesses of the competition indicates what competitive edge a business holds. Strategies for gaining market share from the competition may also be necessary.

Marketing Plan

The marketing plan is a strategy for accomplishing the sales goals in light of the conditions uncovered in the market analysis. A marketing plan includes decisions regarding pricing, distribution, and promotion. Depending upon the nature of the business, it may also involve customer service issues such as warranties, repairs, or technical support. If a product is patented or copyrighted, the marketing plan should discuss how the patent or copyright will be protected and how the product will maintain its uniqueness. A back-up marketing plan is absolutely essential in case the original plan fails.

Operations

Perhaps the most overlooked aspect of a business plan is operations. It addresses issues related to location, facilities and material needs, supplier and distribution factors, staffing, and quality controls. The capacity of facilities to meet expansion needs, the availability of competent employees, and how quality will be measured and maintained are also discussed. A systematic flow diagram showing labor needs, timing, inventories, and scheduling is recommended.

Organization and Management

The business plan should explain how the business is organized, for example, sole proprietorship, partnership, corporation, or limited liability company. The duties and responsibilities of key management personnel should be outlined along with an organizational chart indicating where the decision-making power rests. Details on management compensation and allocation of profits and losses are essential along with a back-up management plan. Readers of the business plan will want to know what qualifications each of the key personnel holds that makes him/her compatible with the venture. If there is not expertise present in a certain area (marketing, sales, finance, etc.), the plan should express concern about this issue and offer ways to compensate for the problem. If professional consultants such as lawyers or accountants are to be used, this section should explain their roles.

Financial Plan

The financial plan determines whether the marketing and operational plans are feasible. The financial plan should include initial financial requirements, historical and projected financial statements, and breakeven analysis. Investors will want answers to four basic questions:

- How much money is needed?
- How long will the money be needed?
- What rate of return can be expected?
- What are the risks?

A projected balance sheet should show the initial financial position of the business with the relative investment levels of the owners, investors, and creditors. The impact of initial cost overruns on the amount of capital needs should be addressed. Projected income (profit and loss) statements and projected cash flows should be prepared. Sensitivity analysis of the best, worse, and average cases should show the impact of deviations in revenue and expense projections on income and cash flow. Properly prepared cash flow projections will uncover the need for and timing of short-term financing (operating loans). This is essential to an effective operational plan.

Appendices

Any relevant and supporting information that does not fit appropriately into the body of the business plan may be placed in appendices. Examples include management charts, resumes, brochures, letters of recommendation, or details on markets, finances, or operations. Placing irrelevant or excessive amounts of material in the appendices should be avoided

Common Pitfalls in Business Planning

- *Too much detail* - There is a fine line between too little and too much detail in a business plan. Minute or trivial items that dilute or mask the critical aspects of the plan should be avoided.

- *Graphics without substance* - With the sophisticated computer software available to the average user today, it is easy to over-emphasize aesthetics while compromising substance. Graphics can be a complement to, but not a substitute for, logic and reasoning.

- *No executive summary* - Many readers of business plans will not read past the executive summary, if it does not exist, they may not read the plan at all.

- *Inability to communicate the plan* - The business plan should clearly outline the proposal in understandable terms. Monumental ideas are worthless if they cannot be communicated.

> *"If you can't communicate your plan over a napkin, it's probably too complex."*

- *No sensitivity analysis* - All quantitative aspects of a business plan should be tested for sensitivity. The most common areas tested a revenues and expenses. However, sensitivity analysis can be conducted on interest rates, yields, production variables, or any other quantitative measure that is relevant to business success.

- *Failing to anticipate problems* - A good business plan will recognize potential roadblocks that could arise in implementing the plan and provide contingency plans to overcome them.

- *Lack of involvement* - The business plan should be a team effort and involve not only management but also spouses, children, staff, and any other stakeholders. Careful consideration should be given before making the decision to have someone outside the business prepare the plan.

- *Infatuation with product or service* - Although a business plan should clearly explain the attributes of the business's key product or service, it should focus on the marketing plan. An entrepreneur can often become so intrigued by his/her idea that he/she forgets about the big picture.

- *Focusing on production estimates* - When making projections, the focus needs to be on sales estimates, not production estimates. Production is irrelevant if there are no buyers.

- *Unrealistic financial projections* - Potential investors are certainly interested in profitability so that they may earn a return on investment. However, unrealistic financial projections can quickly cause a plan to lose credibility in the eyes of investors.

- *Technical language and jargon* - Technical language, acronyms, and jargon that would be unfamiliar to a person without experience in a particular industry should be avoided. The reader will be more impressed if he/she understands the plan.

- *Lack of commitment* - The entrepreneur must show commitment to his/her business if he/she expects a commitment from others. Commitment is exhibited by timeliness and following up on all professional appointments. Investment of personal money is looked upon favorably because it shows that the owner is willing to make a financial commitment.

Presenting the Plan

The culmination of a well-prepared business plan is the presentation of the plan. A primary consideration in the presentation is that the organization of the written document is not necessarily the best way to organize the presentation. Factors influencing the arrangement include the amount of time allocated for the presentation, the complexity of the plan, and whether the audience has had an opportunity to review the plan ahead of time. A formal presentation should not be made until an impartial party has reviewed and critiqued the plan. Another set of eyes can often find critical flaws and prevent an embarrassing moment. Perhaps the most critical consideration is presentation skills. Technical expertise and presentation skills are not always traits that are packaged together. If there is more than one presenter, carefully assess which individual should present each part of the plan.

The plan should be presented from the listener's point of view, not the entrepreneur's. Visuals are important to effectively communicate the plan, especially for very technical information. However, the visuals should not distract from the content of the presentation. They should be clear, type should be large, and only one idea communicated on each overhead. The presenters should be ready for questions relating to the following:

- Adequacy and validity of market research
- Financial projections
- Priority of objectives
- Owner's ability to implement
- Keys to success
- Alternatives if plan "A" fails

" A business plan is an overview of your journey, not the destination."

"Failing to prepare is preparing to fail."
(John Wooden, UCLA basketball coach, Nov. 1983)

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