

THE BUSINESS PLAN

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A business plan serves many functions. It is a document that sets out the present and the future of a going concern. It is also a document that formalizes an idea for a new venture. The plan develops the idea and sets out how a business based on this idea could succeed. A business plan maps out the course of an organization, whether it is an entrepreneurial start up or an ongoing operation.

There are several reasons to prepare a business plan:

1. To raise money. This is the one reason most people think of. Financial institutions often ask to see a business plan before lending money, and the first question a potential investor asks is, "Where is your business plan?"
2. As a template for growth. Many companies have a strong desire to grow. A business plan helps to identify potential opportunities in the market and sets out a plan to take advantage of the market opportunities, along with the investment necessary.
3. As a document for owners/managers/employees to provide both direction and information. In order to set out a vision for an organization, some understanding of the external and internal environment is necessary. The business plan becomes the platform to build on.
4. As a way of guiding the company in the next couple of years. Organizations need maps into the future. The business plan is such a map.
5. As a way of clarifying issues. Organizations often face complex decisions. The business plan provides a background for making better decisions.
6. As a focus of effort. A business plan helps to focus a company's investments.

TO PLAN OR NOT TO PLAN

Not every business or entrepreneur can benefit from a business plan. Sometimes, action takes precedence over planning; sometimes, the environment is so dynamic that any plan will be out of date within a few weeks. For example, a new CEO sent in to turn a company around discovered that the product was poor, the manufacturing process was outdated, and the sales staff did not sell. It was action, not

a plan, that was required to solve the obvious problems. The style of an organization may not fit a planning framework. The ability of the entrepreneur may make it impossible, even with outside help, to develop a business plan. There may not be time for a thorough plan if being first to market will confer a competitive advantage on the company. The window of opportunity may demand immediate action. The cost of a business plan may be prohibitive for an entrepreneur. Some thought must go into considering whether the timing and environment are such that a business plan will be beneficial. In some organizations, planning becomes a substitute for action.

PLANNING PROBLEMS

There are many problems in the business planning process: No goals or poorly defined goals; failure to anticipate obstacles; lack of milestones; lack of commitment to the plan; failure to revise (set in stone syndrome); and failure to learn from experience.

The Small Business Administration (SBA - US) list the major reasons for failure as:

1. Strategies that are inaccurately defined.
2. The plan cannot be clearly and properly described by management.
3. The lack of information about job descriptions, responsibilities, and operating schedules.
4. The plan does not state goals and objections clearly.
5. The plan fails to specify how all principals in the venture can share a common view of the organization's future (vision).
6. The plan is incomplete.

(Summarized from Cross/Richey, Model Business Plans, Prentice Hall, 1998.)

THE BUILDING BLOCKS OF A BUSINESS PLAN

EXECUTIVE SUMMARY - A one page summary of content.

- INTRODUCTION - Type of product/service, company (history), technology.
- PRODUCT/SERVICE - Offerings.
- MARKET/INDUSTRY ANALYSIS - micro and macro, opportunities, and trends.
- MARKETING PLAN AND SALES FORECASTS - Competition, advantage, budgets, competencies.
- MANAGEMENT - Current and future.
- OPERATIONS - Manufacturing.
- FINANCIALS - Balance sheet, profit and loss, cash flow, start up costs.
- TECHNOLOGY - Proprietary.

WHO SHOULD PREPARE THE BUSINESS PLAN?

The owner/manager or entrepreneur should be responsible for preparing the business plan. Sometimes, it is convenient to have an outside consultant act as a facilitator to shape the plan and to ensure that it covers the appropriate material. Market research, and the financial statements and legal issues, are usually prepared by professionals and then blended into the plan. Involvement by the entrepreneur or the management team is essential in order to generate commitment. Before finalizing a business plan, it should be reviewed by several people who are familiar with the business. Business plans usually go through many edits and changes. A business plan should not exceed 40 pages of content, without financials. Depending on the purpose of the plan, it may be as short as 10-15 pages. The details in the plan should be a function of the purpose of the plan and the needs of the prospective audience. There is no ideal length, however, it should be kept in mind that many professional investors, who may receive several plans every day, read only the executive summary for a quick assessment of fit with the scope of their investment strategies. Only those that fit get further evaluation.

PLANNING FOR THE PLAN

It is often helpful to set out a brief written plan of action for the preparation of the business plan. If the plan involves a team effort, this step is essential. For example:

- Who obtains what information? Deadlines.
- Budget and management of outside professionals. Deadlines.
- An overall schedule with dates and responsibilities.
- Who is responsible for writing the final plan?
- Who will review the plan?

When developing the business plan, the following points should be kept in mind:

- What is the ultimate purpose of the plan?
- Who will eventually read the plan and how much do they know about the organization?
- What does the reader want to know?
- How will the reader use the plan?
- How do we get the desired audience to read the plan?

THREE ILLUSTRATIONS OF THE CREATION OF A BUSINESS PLAN

(The Illustrations are real, but the names of the companies have been changed)

HOT SAUCE LIMITED

Hot Sauce Ltd. produces sauces for the fast growing specialty food market. The company was founded 15 years ago, and five years ago it was taken over by the daughter of the founder. She expanded the product line and began to sell to major food chains. The new growth put pressure on the manufacturing facilities, which were small. There was no loading dock and an efficient plant layout for production was impossible. A new facility would lead to lower costs, making it possible to create an efficient plant layout. A budget was produced setting out the cost of moving and the cost of creating a suitable plant space. The cost, including investment, came to \$120,000.

The Business Development Bank was approached for a loan. Their first requirement was a business plan that followed their suggested format (see www.bdc.ca). A plan was produced with the help of an outside consultant. The final plan was structured as follows:

- Executive Summary
- The Industry And Market (Canada)
- Potential Sales Based On Industry Analysis
- Competition
- US Export Opportunities (New England, Chicago Area)
- Sales Forecast
- Operations
- Management
- Future Plans
- Appendix: two years of financial statements, three years of forecasted cash flow

Excluding the appendix, the plan was 15 pages. The purpose of this plan was twofold:

- To develop a direction for Hot Sauce for the next two years.
- To acquire a loan from the bank.

NEW BEVERAGE LIMITED

Bill Baker had an idea for a new and different beverage. He did not know how to get the idea turned into a reality and a business. A friend of his suggested that he approach the business faculty at a local university. He did, and the professor suggested that he produce a business plan to serve as a 'game plan' for himself, and to show to potential investors. The professor e-mailed him the following structure for a business plan that he could follow:

- 1.0 Purpose of Company.
 - 1.1 Brief description of product and its uniqueness, especially the competitive advantage.

- 2.0 The industry in broad terms, along with trends and historical and future growth.
 - 2.1 Specific market the product is aimed at - size, growth, geography.
 - 2.2 Description of target consumer, value that product brings to the consumer, current consumption habits of target consumer.
 - 2.3 Present distribution channels.

- 3.0 Competition - who, where, and how do they operate? Volume and estimated market share.
 - 3.1 The advantage/disadvantage of competition.

- 4.0 The market available for the product and estimated volume/revenue for three years.
 - 4.1 How will the product be marketed? Marketing plan (distribution, pricing, promotion).

5. Manufacturing - Who will manufacture the product? Investment necessary to get production going. Cost structure and margins expected.

6. How will the company operate and who will operate it?

7. Current status of product. Product development to date. What will it take to get the product market ready? What investment will be needed and how long will it take?
8. Brief budget of start up costs (product development, manufacturing, operations, and marketing).
10. Current ownership, structure, and investment to date.
- 10.1 Financing needed.

BIG ISLAND LIMITED (BIL)

BIL is a 20 year old software company. The firm has reinvented itself three times. The current iteration of the organization needs an equity investment in order to execute the marketing plan in the Canadian and US markets. Advisors to the owner recommended that she prepare a business plan for potential investors.

The first draft of the business plan was 75 pages. This plan was shown to a number of advisors, who concluded that it was too long. After a series of drafts, the plan was finalized at 30 pages and an appendix of 18 pages, and the equity investment required was \$300,000.

The Table of Contents read as follows:

0. Executive Summary
1. Overview
2. BIL Software - Building the Foundation
3. Product/Services - What's it all about?
4. The Market
5. Product and Services
6. Marketing
7. Sales
8. Competition
9. Financial Summary
10. Management and Organization
11. Corporate and Business Structure
12. Critical Risks

13. Financing Required

Appendix

- A. Planning Assumptions
- B. Detailed Financials
 - balance sheet
 - income and expenses
 - cash flow
- C. Operational Plan - Key Events

SOURCES FOR FURTHER READINGS ON HOW TO PREPARE A BUSINESS PLAN

Abrams, Rhonda M. *The Successful Business Plan: Secrets and Strategies 2nd ed.* (Grants Pass, OR: Oasis Press 1993).

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Timmons, Jeffrey A. *New Venture Creation: Entrepreneurship for the 21st Century* (Boston: Irwin 1999).

WEB SITES WITH BUSINESS PLAN INFORMATION

www.ey.com/can	Ernst & Young Management Consultants
www.bdc.ca	Business Development Bank
www.sba.gov	Small Business Administration (U.S.)
http://strategis.ic.gc.ca	Industry Canada Online