

The Business Plan – A Basic Overview

The following content was obtained with express permission from Mike Volker and can be found at <http://www.sfu.ca/~mvolker/biz/index.htm>. Enterprize Canada does not claim any rights to the authorship of the following content.

What is a Business Plan and Why Bother?

When I started my first company fresh from University, we were up and running and selling our products for two years before we even heard the words, "business plan". Mind you, that was in 1975 and some business plan tools like the spreadsheet hadn't even been invented! In order to work on a large order we received, I approached a local banker for a small loan to finance production (i.e. buy materials) to fill this new order. The banker said, "I'd be happy to help you. But first, give me a copy of your business plan". Of course, I told him that I would bring it in in a few days. So, in just a few days, I learned all about the process - more or less! Most entrepreneurs seeking financing find themselves in this situation. Because of this, most people believe that the purpose for a business plan is to raise capital. Whereas that may be true, the **real reason for writing a business plan is to articulate the vision and strategy -at the highest level - for a company**. From this, the financial projections and other details can be worked out and then the document will also be useful as a financing document.

Most entrepreneurs actually have a plan or vision, but it is internal and simply hasn't been put into writing. This is especially important when working in a team with others. The exercise of preparing a plan will cause the team to work through the issues and produce a common vision and strategy - one that they all subscribe to. This is very important if they are the ones to carry it out. Many times I have found that, after doing this as a team, certain team members may have very different ideas and goals for the business. If these are in conflict with one another, the business may be doomed from the start.

Some people advocate the use of a consultant to write a plan. It may be OK to use such a person to assist in the process, but the CEO and the team which is going to implement and follow the plan should also be the ones to prepare it. If a suitable CEO has not been identified, as is often the case with a technical or scientific person who has a great idea (or a patent or breakthrough technology) but no interest in being a CEO, then it would make sense to not spend too much time worrying about a business plan. Worry about the CEO first. Then s/he can write the plan. If a plan is needed to attract a suitable CEO, it would be better to just prepare a simple overview document describing the product and market opportunity without the same level of detail.

Putting It All Together

There are many clichés like the one quoted above to remind managers and entrepreneurs that having a road map helps when setting out on uncharted trips. The Business Plan is a management tool used by well-run companies of all sizes and at all stages of growth to set down business objectives and goals and the details as to how these can be achieved. These details answer the who, what, when and why questions about the company.

The Business Plan serves as a useful document for the management team and the board of directors in communicating the company's plans and direction - effectively ensuring that all participants are "on the same page".

The 4M's of Business Planning

You've heard about the 4P's of marketing. Now let's talk about the 4M's of Business and Business Plans.

There are many books and papers written on the subject of how to write a business plan and what should you include in such a plan. In fact, you can even get business plan templates or software to help you in writing a plan. For example, the B.C. Ministry of Small Business has an on-line workshop with some very good information as well as an "interactive business planner". Similarly, Industry Canada with its "Strategis" website has tons of useful info. So as not to reinvent the wheel, this discussion will focus on some practical issues which you should bear in mind.

Business Plans are often regarded as one of those "nuisance" things that one must do in order to get funding for one's business. And indeed, they are a nuisance because they do take a great deal of time and work to do properly. However, the payoff is not so much that a plan is a useful instrument to have when seeking capital, but it really makes one THINK about the business. If you cannot clearly articulate and lay out your plans, won't you have difficulty in implementing them? By going through the planning process, one can avoid a great amount of costly trial and error approaches.

Content and Style

Many people will mean slightly different things when they use the word "business plan". A financier will generally be referring to the financial aspects and will think of the plan as the financial plan. A manager may think of the plan more in terms of the operational aspects thereof. These people will have different viewpoints as to how a plan should be presented and organized and they will have different perspectives as to what is really important.

In a sense, you have to satisfy all these people. A good plan will be one that all contributors to the venture understand and hopefully have had a hand in creating.

As for style, there are many ways of putting ink to paper. Keeping in mind that the plan is both a selling document as well as a "compass" for management, it would be helpful to start off with an "Executive Summary" which points out, at a minimum, what the market opportunity is (expressed in dollar terms), what the overall goals and objectives are (e.g. get to \$100 million in year #4 with annual net profit margins before tax of 12%), and why this is a good investment of time (your time) and money (the investor's money).

As for content, a sample "index" follows. This index is typical of what you will find on this subject. However, in order to get started and to focus on what's really important, I advocate the use of the "4M's" as a way to start. Then you can fill in the other details in as many chapters or sections as you wish.

The 4M's

The 4M's in order of importance are:

- **Management** - who is going to do it?
- **Marketing** - what is the opportunity and how will it be seized?
- **Money** - how much money will it take, and who will finance it?
- **Money Machine** - how will the business operate as a "money machine"?

This covers all the really important points. Of course there are many minute details which one has to also think about, but chances are that such details can be grouped under one of the 4M's.

Business Plan Organization

There is no "right" way to organize a plan. What is right is what works for you and for your company. What is important, though, is that the plan at least touches on the following topics. The order presented here is a suggested one only - and one which emphasizes the people (management) and marketing aspects by placing these high on the list of contents. The [executive summary](#) is a very important part of the business plan. Think of this as your "elevator pitch" - i.e. you've only got a minute to tell your story and get someone's interest. So, it has to not only garner attention, but summarize the salient facts. If not properly done, the reader may not even be inclined to go through the rest of the document.

- [Executive Summary](#)
 - The Mission statement
 - Statement of the opportunity
 - Key features (management, intellectual property, etc)
 - Statement of sales and profit potential
 - Investment highlights (if appropriate)

- [The Company](#)
 - People (management) involved (relevant experience)
 - History (background) of company
 - [Ownership structure](#)
 - Capitalization Table (see [XLS template](#))
 - [Board of Directors](#) and/or advisors

- [Marketing](#)
 - The Opportunity (industry, market size, potential, niche)
 - The product(s) or services offered - intellectual property and IP Strategy
 - The 4Ps of marketing (i.e. the marketing mix)
 - [Sales "forecast"](#)
 - Competitive strategy and competitive analysis

- [Operations](#)
 - Internal organization (who does what?)
 - Facilities (offices, plant, equipment and physical assets)
 - Details on how the product is to be produced or sourced
 - Research and development activities (if applicable)
 - Logistics

- [Financial](#)
 - Discussion of assumptions made in preparing financial statements
 - [Profit and Loss Statements](#) (2-5 years) (Summary only)
 - [Balance Sheets](#) (summary)
 - [Cash Flow](#) statements (include sensitivity analysis)
 - Break-even analysis
 - Funding requirements (worst case, best case)
 - [Sources of funding](#)
 - Uses and applications of funding

- The "deal", i.e. the financing proposal
- Risk Factors
 - Identification of risks
 - Potential problems
 - Contingency plans
 - Protection of [intellectual property](#)
- Appendices
 - Product [Brochures](#)/specifications
 - Financial Spreadsheets (download [XLS template](#))
 - Historical information (if applicable, e.g. recent financial statements)

It is suggested that certain details, such as complete management resumes and product specifications, be put into Appendices to keep the plan itself from being too voluminous. There will also be worksheets and analysis which are used in doing the planning which should be kept and updated internally.

A Living Document

A business plan is not static. It grows and changes with the business. Undoubtedly, as soon as you have "completed" the plan, there will be some reason to change. Most successful companies have not achieved their original business plan. Instead, they have changed their plans along the way as they learn more about the market and their own capabilities. However, I don't know of any companies that became successful without a plan.

More Links:

Here are a few other useful sites with business plan tips and suggestions:

Angel Blog www.angelblog.net

Industry Canada www.ic.gc.ca (search for "business plan")

Small Business B.C. www.smallbusinessbc.ca/

New Ventures BC: www.newventuresbc.com

Business Basics for Engineers: www.sfu.ca/~mvolker/biz/

*Copyright 1996-2008 Michael C. Volker
Last Update: 2008-09-09*