

Plan Your Work & Work Your Plan

By Les Lovoy

You've decided to take a trip across the country. You've never driven there before. Do you just say to yourself, "Heck, I don't need a map. I have a good sense of direction. I'll just set off and see what happens."

That's exactly what it's like to start a business without a business plan. That age-old expression that if you fail to plan, then you might as well plan to fail is never truer than if you don't create a business plan.

When someone asks me for advice on starting a business, the first thing I tell them is to sit down and put pen to paper. It is crucial for a potential business owner to create a realistic business plan. Without it, you are just asking for trouble. Simply put, its purpose is to identify what you need to make your businesses function properly and succeed.

Many times starting a business is purely an emotional decision. Someone has been downsized and they simply fall into it. Others enjoy their hobby so much, that they can't think of anything better than creating a business around it, or they've always had the dream of being their own boss and being in control of their own destiny.

That is why most people are very hesitant to ask themselves the hard questions. They don't want to face any bad news. They want to think positive. They over-romanticize owning their own business. And, many times, they have good intentions and simply don't know which questions to ask themselves.

That is why it's so important to have a good CPA, and an attorney who specializes in business start-ups. You might think that they're being negative, but they are paid to ask the hard questions. Examples are: How much money are you going to need to actually start your business? How much is your time going to be worth? How many people are you going to need? Are you going to need experienced personnel, or can you train, and how much salary is it going to take to hire and retain these employees? How much square footage are you going to need and can you afford it? How much is it going to cost to market your business? Often times, when someone is dreaming of starting their own business, they don't think of these questions, and they're the very ones, plus many others, which will determine if a business succeeds or fails.

With all of this said, a business plan does not need to be a 3-inch tome that would give *Gone With the Wind* a run for its money. It doesn't have to begin with "It was a dark and stormy night..." It needs to be concise and business-like. It should include as much realism as possible, without emotional hyperbole. And, there are a lot of resources on how to create a proper and realistic business plan. You will find many examples and tips on the internet. You can purchase instructional CDs, which range from ten dollars to hundreds of dollars. And, you can contact the Small Business Development Center. They are more than happy to set you on the right course.

Bankers just want to know the facts. They already know the odds of a business succeeding in the first five years. All they want to know is that you have done your homework, and are actually looking like this as a business, not some pie-in-the-sky dream that's doomed for failure.

If you're considering starting a business, you do need to remember this. The business plan itself is not going to ensure your success. If you create it and simply stick it in a drawer, never to see the light of day, it will do you no good. You have to stick with it and follow it, as long as economical circumstances dictate.

That is not say that it can never change or evolve. A good business plan is a fluid document. Again, this is where a good CPA or attorney can help. A smart business owner is like an experienced captain of a ship. He or she knows when to change course and directions, according to the weather. A business owner will go a long way in succeeding if he or she is not dogmatic about the plan. Like a ship upon the water, a business has to evolve along with given economic conditions.

Let's talk about the sections of the business plan. Remember, it conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business, and finally, the amount of capital required to finance your venture, and keep it going until it breaks even.

The first section is the **Executive Summary**. It is the first thing the reader sees. Therefore, it must make an immediate impact by clearly stating the nature of the business, and if you're seeking capital, the type of financing you want.

It also describes the business, its legal form of operation (sole, proprietorship, partnership etc.), the amount of loan requested, repayment schedule, the borrower's equity share, debt-to-equity ratio after the loan, security or collateral is offered. The **Executive Summary** should also include biographical information about the key players in the company, as it pertains to their business experience.

The second section is the **Business Description**. It expands on the executive summary, describing your business in much greater detail. It generally starts with a description of your industry. Is it wholesale, retail, food service, manufacturing or service-oriented? It is big or small? Are there any trends, which have made it currently popular? In the **Business Description**, you will also need to discuss the target markets, how the product will be distributed and the business' support systems, that is, its advertising, promotions and customer service strategies. Next, describe your product or service. Discuss its applications and end users. If you're using your plan to attain financing, explain why the loan will make your business more profitable. Will the financing be used to expand, to create a new product or to buy new equipment?

The third section focuses on **Market Strategies**. This is where you define your market—its size, structure, growth prospects, trends and sales potential. It should focus on your customers and competition. This information should be based on research, interviews and sales analysis. **Market Strategies** should be a combination of words and numbers. These facts and figures are important because they will determine pricing strategies and distribution channels.

The next section is the **Competitive Analysis**. It addresses the issue of how does your business relate to the competition. Using the information you gathered from your market research, detail the strengths and weaknesses of your competitors, the strategies that give you a distinct advantage, any barriers you develop to prevent new competition from entering the market, and any weaknesses in your competitor's service or product development that you can take advantage of. The **Competitive Analysis** is very important. Many times business owners believe their product or service is entirely unique. This forces you to admit that there are competitors and makes you address how you are going to compete with them.

The **Design and Development Plan** describes the product's design and charts its development within the context of production, marketing and the company itself. If you are going to create a product, improve an existing product, or if you own a company and are going to introduce a new product, this section is valuable. If your product is already completely designed and developed, you don't need to complete this section.

Design and Development should include any diagrams if applicable, and should cover three areas: product development, market development and organizational development. If you're offering a service, only cover the last two.

The next section concerns **Operation and Management**. Here you describe how your business will function on a daily basis. It explains logistics such as responsibilities of each member of the management team, the tasks assigned to each division of the company and the capital and expense requirements for operating the business. You want to describe the business' managers and their qualifications, and specify what type of support staff will be needed for the business to run efficiently.

The last section concentrates on the **Financial Factors**. These are the backbone of your business plan. They show how profitable your business will be in the short and long term, and should include the following:

The *income statement* details the business' cash-generating ability. You should include such things as revenue, expenses and capital. The *cash flow statement* details the amount of money coming into and going out of the business—monthly for the first year and quarterly for each year thereafter.

The *balance sheet* paints a picture of the business' financial strength in terms of assets, liabilities and equity over a set period. You should generate a balance sheet for each year profiled in the development of the business.

As you can see, a business plan is all business. It truly is a lot of hard work. And, if you're thinking, "I don't want to go through with all of that," then you probably have no business starting a business. Studies show that only 42% of small business owners bother to develop a plan. However, of those who do use a plan 69% say it was a major contributor to their success.

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