

Chapter 1

Preparing to Do a Business Plan

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- ▶ Figuring out who needs to work on the plan
- ▶ Laying down some planning ground rules
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Planning is serious business. For many companies, a solid business plan is the difference between success and failure. Many people going into business for the first time want to rush right in, print up business cards, hang up the sign, and start making money — a natural response for anyone excited about a new business idea. But taking a little extra time up front to prepare can pay off in many ways down the line; especially when it comes to writing a business plan. Face it, after your company is up and running, you may not have all the time you need to devote to the major pieces of your plan.

Identifying Your Planning Resources

Having the right resources at the right time can make business planning easier and more successful. Fortunately, you can now find more useful and usable business-planning resources than ever before, from books and software to Internet Web sites and real, live experts. Of course, you may also find plenty of stuff that isn't worth looking at — much less paying for. And you can't always judge a book (or software program) by its cover.

As you begin to put together your business plan, you may discover that you need some additional tools — a book devoted to marketing, for example, or business-planning software that can help you create and maintain your written document.

Hitting the corner bookstore

Obviously, you've already selected one of the best hands-on business-planning books around. But okay, you can also find other useful business-planning books out there — particularly books that concentrate on specific areas, such as marketing or financial planning, and books that focus on particular kinds of businesses, such as not-for-profits or sole proprietorships.

You can find out a lot about a book by reading through its table of contents. You should also try dipping into the first chapter. If you're browsing on the Web, booksellers like Amazon.com often include a detailed table of contents, along with the first chapter, directly on their Web site. Readers' reviews and ratings you can find online can also help steer you toward other particularly useful books. And don't forget to ask your colleagues, business advisers, or investors to list their favorite business books and resources.



The basic principles of business planning may be timeless, but certain subjects — Internet marketing, for example — change rapidly. A three-year-old book may already be ancient history. If you want to find timely information, such as details about tax considerations for a small business, be sure to check the book's publication date.



For the timeliest info, turn to magazines, newspapers, and journals. They offer a terrific way to keep up on what's happening in the world of business in general — and your industry in particular. The business press also provides an efficient way to routinely scan the business environment for trends or new developments that may affect your business plan. If you're not sure what periodicals focus on your particular industry or your region, do a quick search on the Internet (see the next section for more details).

Surfing the Internet

Today, hundreds of Web sites offer information on business planning. Some are free; others tease you with a sample of what they have to offer and then charge you for more details. In our experience, some of the freebies can be just as helpful as the subscription sites, so we suggest that you check first to see what's free for the asking before you plunk down your hard-earned cash. In particular, the federal government offers heaps of solid information on planning, starting, and operating your own business through its Small Business Administration site (www.sba.gov). Even the IRS (www.irs.gov) has helpful planning tips, which are also available on the Web.

Lists of the hottest business-related Web sites have a way of going out of date fast. And a resource that appears hot to one entrepreneur may not be suited for another. Your best bet is to prowl around the Internet yourself, looking for useful resources. On search engine sites the keywords *business* and *plan* lead

you to plenty of generic business-planning information. For a more efficient hunt, tailor your search by using keywords specific to your business area (*technology, retail, travel, financial services*, and so on) along with the words *business plan* and see what you come up with. Make sure to bookmark any promising Web sites so that you can return to explore them later in more detail. Check out the sidebar “Internet hotspots for business-planning info” in this chapter for helpful Web site addresses.



Beyond sharing some basic business-planning tools, the Internet is also a great place to turn for the latest information about competitors, markets, business trends, and new technologies — all the things you need to know to put together a complete picture of your business environment. We’re constantly amazed at how much information you can find in corporate press releases, company home pages, executive bios, online business magazine articles, Securities and Exchange Commission (SEC) registrations, and thousands of other online documents.

Internet hotspots for business-planning info

A treasure trove of business-planning information and resources is available online. To help you sort through all the riches, we’ve put together a list of popular sites that provide useful and reliable tips, tools, and examples — including dozens of real-life business plans:

- ✓ www.sba.gov: The Small Business Administration (SBA) site is far and away the best source of information about planning, funding, starting, and running a small business. You find useful FAQs, as well as counseling help and shareware software programs that you can download for a nominal fee.
- ✓ www.irs.gov/smallbiz: A great site if you run a small business or are self-employed. The IRS provides all kinds of useful industry and profession-specific information. The site also includes links to other helpful non-IRS business resources on the Web.
- ✓ www.nfib.com: The National Federation of Independent Business (NFIB) calls itself

the largest advocacy organization to represent small and independent businesses in the U.S. Its Web site features a set of tools and tips that small business owners may find useful.

- ✓ www.score.org: The Service Corps of Retired Executives (SCORE) offers free consulting to start-up business owners. Along with a way to contact SCORE, their Web site includes updated success stories about a variety of small- and medium-sized businesses. Also useful is a list of business-related links.
- ✓ www.nolo.com: You can’t find a better place than Nolo to turn for basic information on the legal aspects of virtually any kind of business. The Web site also offers free advice, including info on insuring your home business, independent contractor arrangements, trademarks and copyrights, debts, bankruptcies, and employment law.



The Internet may be a gold mine of business information, but you may also find plenty of fool's gold. Unlike magazine articles, which are typically checked for accuracy, much of the info on the Web hasn't been validated. Often the Web site providing the info is also trying to sell you something.

Follow three simple rules when you use the Web for business research:

- ✓ **Make sure the material is current.** Many Web documents aren't dated, so you may not know whether what you read is the latest scoop or ancient history. Look for a date. If you can't find one, dig a little further to make sure that the information is still relevant; you can often do this by confirming the facts on another Web site.
- ✓ **Know your sources.** In the wide world of the World Wide Web, you may be hard-pressed to know exactly where the stuff you read comes from. If you read a rave review of a new business-software program, and the review comes from a respected business magazine, you can put your faith in it. If it appears without a source, however, on the software company's Web site, be suspicious.
- ✓ **Double-check key facts and statistics.** If you use specific pieces of information — about business trends, markets, competitors, technology, and so on — as the central building blocks of your business plan, make darn sure that they're correct. If you build your financial projections on a forecast that the market for digital widgets will grow at 40 percent a year, for example, you better make sure that information is true and not some widget inventor's private dream.

Installing business-planning software

Business-planning software allows you to automatically assemble all the components of a business plan, turning them into a printer-ready, spiffy looking document. The best programs also make easy work of the financial parts of business planning — creating income statements and cash-flow statements, for example, or making financial projections. Some software programs add graphics, such as tables and charts, which provide an easy way for your audience to see what you describe in the written document.



Business-planning software programs can sometimes make the job of business planning *too* easy. With all their bells and whistles, they may trick you into skipping the serious (that is, difficult) work of creating and writing an effective plan. Remember, the best software-planning tools guide you through the important aspects of business planning and then keep track of your words, sentences, and paragraphs. But they don't think for you. You should still do the serious mental work yourself.



Investors and bankers who make a living reviewing and funding business plans are all too familiar with the look and feel of the most popular software-generated business-planning documents. If you use one of these programs, make sure you customize your plan to make it unique. The last thing you want is for your business plan to look exactly like a hundred others that cross a venture capitalist's desk every month.

Seeking professional help

No one knows the ins and outs of planning and running a business better than people who have done it. And most business people are happy to share their experience and expertise, as long as you don't plan on becoming a competitor! Many are even willing to mentor first-time entrepreneurs. Don't be afraid to turn to a grizzled veteran for advice if you run into questions you can't answer or run out of ideas to get your business off the ground.

Finding expert advice is surprisingly easy. The first place to look is in your own address book. You may have an easier time getting help from someone you already know on a personal level. Ask your friends and colleagues for suggestions. Other good places to look for help are the Chamber of Commerce, a local college or university, or the business section of your newspaper. Of course, you may end up paying for expert advice. But when you really need help, the advice is well worth it. Later on, your advisers may pay you back by becoming your advocates, cheering your business on as you search for funding or your first customers.



Choose experts with experience in a business similar to the one you're planning. After you identify a person, decide exactly what kind of assistance you need. You can't ask someone to plan your whole business for you, after all. But you can ask them to fine-tune your marketing strategy, for example, or review and critique your financial projections.



Retired business people represent a rich — and underused — source of expertise. By default, they have more experience than almost anyone else, and they often look for ways to use their experiences to help others. Contact the Service Corps of Retired Executives (SCORE), a nationwide organization that works with the Small Business Administration (SBA) to provide help to business owners. SCORE (www.score.org) has a free online newsletter and provides free e-mail counseling. The group also has local chapters around the country, with retired business people ready and willing to help.

Finding friendly advice

Many local communities sport organizations of business people who convene to share ideas, exchange contacts, help each other out, and just plain socialize. Some organizations focus on helping specific groups, like women, Hispanics, homosexuals, or freelancers; others, made up of local people across the business spectrum, are open to the public. Thanks to the Internet, you can find business groups that regularly schedule online support meetings.



Business networking organizations are an invaluable resource for help in planning and running your business. For information about what's available in your community, check with your local Chamber of Commerce. Ask if they have a mentoring program. Because Web sites change so fast, the best way to find a networking organization online is through a search engine.

Assembling Your Planning Team

The first step in creating a business plan is realizing that creating a plan is vital (see Chapter 2 if you're still wavering). The first question you come across after your realization is this: Who's supposed to put the darn thing together? In some sense, the answer depends on how big your company is:

- ✓ **Small businesses:** If your business is really just you — or maybe you and a couple of other people — making a plan for the company is your responsibility. But don't fret: Who better to create a view of the future and set business goals and objectives than the person responsible for reaching the goals and making the future happen?
- ✓ **Medium-size companies:** If your company is a bit bigger, the process of creating your written plan requires more organization — and more people. Putting together a plan is a big job, and involving all your key people has a certain advantage: Everyone involved in the plan has a stake in making sure that your company succeeds.
- ✓ **Large corporations:** If you're part of a big company, you may need to hire people who work on business planning full-time. Make certain, however, that you don't create an independent planning staff: You don't want your plan to take on a life of its own and get completely divorced from what's happening with your business. Remember: You have to make sure that your planners don't create the plan all by themselves. Your planning staff should always work along side the managers and owners who actually have to carry out the business plan.

Setting the ground rules

Putting together a business plan resembles any project that involves teamwork, from building a house to running a relay race. The clearer the ground rules, the smoother the process — and the happier your team. Make sure that your ground rules do three things:

- ✓ **Identify key steps.** Typically, the process of writing a business plan includes five distinct steps: research, first draft, review, revised draft, and final review. You can specify as many or as few of these steps as you think you need. Just make sure that you spell them out up front.
- ✓ **Clearly assign duties.** Everyone involved needs to know exactly what you expect from them. You can use the key steps you identify to create separate sets of tasks, and then you assign each task to members of your team (see the next section, “Delegating responsibility”).
- ✓ **Establish a schedule.** Although writing up a business plan is a big job, the process doesn’t need to be a long and drawn-out affair. A business plan has to be timely, responding to the current business environment — not the way it looked six months ago. After you complete the preliminary research, the rest of the steps are fairly straightforward. To keep your project on track, set due dates for each component of the plan and each step in the process. Give the members of your team as much time as they reasonably need, but no more.

Delegating responsibility

If your company is large enough to boast a management team, you should divvy up the work involved in putting together your written business plan. We’re not suggesting that you delegate responsibility to make your job easier (although it certainly does). Different people bring different perspectives to your plan. With a team in place, you have a group of people ready to read and review drafts, offer suggestions, and fine-tune the document to make it as good as you can possibly can.

We can’t give you a simple formula for putting together your team. Every business is different. We can’t even tell you the ideal number of people to choose — that depends on the size of your company and the complexity of your plan. But here are a few tips that can help you create an efficient and effective team:

- ✓ **Keep your team lean and mean.** Too many planners are like too many chefs in the kitchen — they get in each other’s way. A bloated team can mean endless meetings and too many points of view. Involve only the number of people you think you really need to get the job done.

- ✓ **Appoint people who want the job.** Sure, you may have trouble finding volunteers who jump up and down at the chance to work on a business plan. But you need to make sure that whomever you choose is at least willing and able to complete the task. To spark your peoples' enthusiasm, take time to explain why creating a written business plan is so important. Refer to Chapter 2 if you need help convincing your team of the importance of a plan.
- ✓ **Organize your team around the plan.** By accomplishing this, you make sure that your people know the purpose of their task and how their work fits into the larger picture. Some of the assignments are straightforward. Your financial person takes charge of the financial review. Your marketing head puts together the business environment section. However, if certain pieces of the plan are more complex than others, think about assigning a small group to work on them.
- ✓ **Put one person in charge.** Keeping track of the whole process can be a job in itself, especially if you have a large team or a complicated plan. Name one person the project director to manage the team and ensure that employees complete tasks on schedule. Make sure every person on the team understands that the person you choose has the ultimate authority.
- ✓ **Appoint a wordsmith.** A business plan is a written document. If you're lucky, you have someone on your team who enjoys writing — or at least has the talent to put words down on paper. Pick a lucky person to be in charge of writing key sections of your plan, such as the executive summary. He or she can also serve as senior plan editor, checking grammar and spelling and making sure that the writing style is clear and consistent throughout the plan.

Putting Your Plan on Paper

When you first set out to create a business plan, the task seems overwhelming. Right off the bat, you need to answer fundamental and sometimes difficult questions about your company and what you see for the future. You have to decide what targets to aim for as you look ahead and set business goals and objectives. To succeed, you have to take the time to know your

- ✓ Industry
- ✓ Customers
- ✓ Competitors
- ✓ Company resources
- ✓ Company's unique qualities

- ✓ Company's advantages
- ✓ Basic financial condition
- ✓ Financial forecast and a budget

You also have to prepare for changes you will make to this list down the road. That means thinking through other options and alternatives and being on the lookout for new ways to make your company prosper.



You don't want to scare people — yourself included — with a giant written plan. The longer your plan is, in fact, the less likely people are to read it. Ideally, your written plan should be 15 or 20 pages maximum. Remember that you can always support the main text with all the exhibits, appendixes, and references that you think it needs. If you want to glance at a sample business plan, check out the Appendix.



To remind yourself and others that your written plan is forever a work in progress, you may want to keep it in a three-ring binder. You can also keep an up-to-date version of your plan on your company's internal Web site or Intranet. That way, you can add or delete pages and swap entire sections in or out as your business plan changes — and it *will* change. Fortunately, however, the format you use — all the major sections of a business plan — stays the same.

To avoid becoming overwhelmed, and to keep the business-planning process in perspective, break the plan up into the basic sections that every good business plan needs to include. Take a moment to review the sections of a business plan.

Executive summary

Your executive summary touches on every important part of your business plan. It's more than just a simple introduction; it's the whole plan, only shorter. In many cases, the people who read your plan don't need to go any further than the executive summary; if they do, however, the summary points them to the right place.

The executive summary isn't much longer than a page or two, and you can wait until you complete the rest of the business plan before you write it; that way, all you have to do is review the plan to identify the key ideas you want to cover.



If you want to make sure that people remember what you tell them, you have to summarize what you're going to say, say it, and then reiterate what you've just said. The executive summary is the place where you summarize what your business plan says.

Company overview

The company overview provides a place to make general observations about the nature of your business. In the overview, you highlight the most important aspects of your industry, your customers, and the products and services you offer or plan to develop. Although you should touch on your company's business history and major activities in the overview, you can leave many of the details for the later sections.

To put together a general company overview, you need to draw on several key planning documents, including the following:

- ✓ **Values statement:** The set of beliefs and principles that guide your company's actions and activities
- ✓ **Vision statement:** A phrase that announces where your company wants to go or paints a broad picture of what you want your company to become
- ✓ **Mission statement:** A statement of your company's purpose; establishes what it is and what it does
- ✓ **Goals and objectives:** A list of all the major goals that you set for your company, along with the objectives that you have to meet to achieve those goals

To begin constructing these statements, turn to Chapters 3 and 4.

Business environment

Your business environment section covers all the major aspects of your company's situation that are beyond your immediate control, including the nature of your industry, the direction of the marketplace, and the intensity of your competition. Look at each of these areas in detail to come up with lists of both the opportunities that your business environment offers and the threats that your company faces. Based on your observations, you can describe what it takes to be a successful company.



Pay special attention to how your industry operates. Describe the primary business forces that you see, as well as the key industry relationships that determine how business gets done. Talk about your marketplace and your customers in more detail, perhaps even dividing the market into segments that represent the kinds of customers you plan to serve. Finally, spend some time describing your competition: Their characteristics, how they work, and what you think you may see from them in the future.

For more information on how to explore your business circumstances and the overall environment that your company competes in, check out Chapters 5, 6, 7, and 8.

Company description

This section should go into much more detail about what your company has to offer. The description includes information about your management, the organization, new technology, your products and services, company operations, your marketing potential — in short, anything special that you bring to your industry.

In particular, look carefully and objectively at the long list of your company's capabilities and resources. Sort out the capabilities that represent strengths from the ones that show weaknesses. In the process, try to point out where you have real advantages over your competitors.

Examining your company through your customers' eyes helps. With a consumer viewpoint, you can sometimes discover customer value that you didn't know you provide, and as a result, you can come up with additional long-term ways to compete in the market.

To start to put together all the things that your company brings to the table, flip to Chapters 9 and 10.

Company strategy

Company strategy brings together everything that you know about your business environment and your company to come up with future projections.



Map out your basic strategies for dealing with the major parts of your business, including the industry, your markets, and competition. Talk about why your strategy is the right one, given your business situation. Describe how the strategy is to play out in the future. Finally, point out specifically what your company needs to do to ensure that the strategy succeeds.

Everybody knows that the future is uncertain, so you need to talk about the ways your business world may be different in the future. List alternative possibilities for action, and in each case, describe what your company is doing to anticipate the changes and take advantage of new opportunities.

To prepare for change in your business world and to get info on how to think strategically about your company's future, turn to Chapters 13, 14, and 15.

Financial review

Your financial review covers both where you stand today and where you expect to be in the future.

Describe your current financial situation by using several standard financial statements. True, these statements don't make for the liveliest reading, but the people who are interested in the financial part of your business plan expect to see them. For everyone else, make certain that your financial statements are referenced and support the assumptions and arguments that you make in the other sections of the business plan. The basic financial statements include the following:

- ✓ **Income statement:** A list of numbers that adds up all the revenue that your company brings in over a month, a quarter, or a year and then subtracts the total costs involved in running your business. The total is your *bottom line* — the profit that you make during the period.
- ✓ **Balance sheet:** A snapshot of your financial condition at a particular moment, showing exactly what assets your company owns, what money it owes, and its net worth.
- ✓ **Cash-flow statement:** A record that traces the flow of cash in and out of your company over a given period, tracking where the money comes from and where it ends up. The cash-flow statement only tracks money when you actually receive it or spend it.

Your projections about your future financial situation use exactly the same kind of financial statements. But for projections, you estimate all the numbers in the statements based on your understanding of what may happen. Make sure to include all the assumptions you made to come up with your estimates in the first place.

To get a head start on your financial planning, flip to Chapters 11 and 12.

Action plan

Your action plan lays out how you intend to carry out your business plan. It points out proposed changes in management or the organization, for example, as well as new policies or procedures that you expect to put in place. Also include any additional skills that you, your managers, and your employees may need to make the plan work. Finally, you want to talk about how you plan to generate excitement for your business plan inside your company, creating a culture that supports what you want to accomplish. Only then can you have real confidence that your business plan is going to succeed.

For more background on how to make your business plan work, head to Chapters 16 and 17.