

# Preparing a business plan [1]

## What Is a Business Plan?

A business plan is a document that defines in detail a company's objectives and how it plans to achieve its goals. A business plan lays out a written road map for the firm from marketing, financial, and operational standpoints. Both startups and established companies use business plans.

A business plan is an important document aimed at a company's external and internal audiences. For instance, a business plan is used to attract investment before a company has established a proven track record. It can also help to secure lending from financial institutions.

Furthermore, a business plan can serve to keep a company's executive team on the same page about strategic action items and on target for meeting established goals.

Although they're especially useful for new businesses, every company should have a business plan. Ideally, the plan is reviewed and updated periodically to reflect goals that have been met or have changed. Sometimes, a new business plan is created for an established business that has decided to move in a new direction.

### KEY TAKEAWAYS

- A business plan is a document describing a company's core business activities and how it plans to achieve its goals.
- Startup companies use business plans to get off the ground and attract outside investors.
- A business plan can also be used as an internal guide to keep an executive team focused on and working toward short- and long-term objectives.
- Businesses may create a lengthier traditional business plan or a shorter lean startup business plan.
- Good business plans should include an executive summary and sections on products and services, marketing strategy and analysis, financial planning, and a budget.

## Understanding Business Plans

A business plan is a fundamental document that any new business should have in place prior to beginning operations. Indeed, banks and venture capital firms often require a viable business plan before considering whether they'll provide capital to new businesses.

Operating without a business plan usually is not a good idea. In fact, very few companies are able to last very long without one. There are benefits to creating (and sticking to) a good business plan. These include being able to think through ideas before investing too much money in them and working through potential obstacles to success.

A good business plan should outline all the projected costs and possible pitfalls of each decision a company makes. Business plans, even among competitors in the same industry, are rarely identical. However, they can have the same basic elements, such as an executive summary of the business and detailed descriptions of its operations, products and services, and financial projections. A plan also states how the business intends to achieve its goals.

While it's a good idea to give as much detail as possible, it's also important that a plan be concise to keep a reader's attention to the end.

## How to Write a Business Plan

A well-considered and well-written business plan can be of enormous value to a company. While there are templates that you can use to write a business plan, try to avoid producing a generic result. The plan should include an overview and, if possible, details of the industry of which the business will be a part. It should explain how the business will distinguish itself from its competitors.

Start with the essential structure: an executive summary, company description, market analysis, product or service description, marketing strategy, financial projections, and appendix (which include documents and data that support the main sections). These sections or elements of a business plan are outlined below.

When you write your business plan, you don't have to strictly follow a particular business plan outline or template. Use only those sections that make the most sense for your particular business and its needs.

Traditional business plans use some combination of the sections below. Your plan might also include any funding requests you're making. Regardless, try to keep the main body of your plan to around 15-25 pages.

## Elements of a Business Plan

The length of a business plan varies greatly from business to business. Consider fitting the basic information into a 15- to 25-page document. Then, other crucial elements that take up a lot of space—such as applications for patents—can be referenced in the main document and included as appendices.

As mentioned above, no two business plans are the same. Nonetheless, they tend to have the same elements. Below are some of the common and key parts of a business plan.

- **Executive summary:** This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.
- **Products and services:** Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Information about research and development (R&D) can also be included here.
- **Market analysis:** A firm needs a good handle on its industry as well as its target market. This section of the plan will detail a company's competition and how the company fits in the industry, along with its relative strengths and weaknesses. It will also describe the expected consumer demand for a company's products or services and how easy or difficult it may be to grab market share from incumbents.
- **Marketing strategy:** This section describes how the company will attract and keep its customer base and how it intends to reach the consumer. A clear distribution channel must be outlined. The section also spells out advertising and marketing campaign plans and the types of media those campaigns will use.

- **Financial planning:** This section should include a company's financial planning and projections. Financial statements, balance sheets, and other financial information may be included for established businesses. New businesses will include targets and estimates for the first few years plus a description of potential investors.
- **Budget:** Every company needs to have a budget in place. This section should include costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

Tip: The best business plans aren't generic ones created from easily accessed templates. A company should entice readers with a plan that demonstrates its singularity and potential for success.

## Types of Business Plans

Business plans help companies identify their objectives and remain on track to meet goals. They can help companies start, manage themselves, and grow once up and running. They also act as a means to attract lenders and investors.

Although there is no right or wrong business plan, they can fall into two different categories—traditional or lean startup. According to the Small Business Administration (SBA), the traditional business plan is the most common. It contains a lot of detail in each section. These tend to be longer than the lean startup plan and require more work.

Lean startup business plans, on the other hand, use an abbreviated structure that highlights key elements. These business plans aren't as common in the business world because they're short—as short as one page—and lack detail. If a company uses this kind of plan, it should be prepared to provide more detail if an investor or lender requests it.

## Special Considerations

### Financial Projections

A complete business plan must include a set of financial projections for the business. These forward-looking financial statements are often called pro-forma financial statements or simply the "pro-formas." They include an overall budget, current and projected financing needs, a market analysis, and the company's marketing strategy.

### Other Considerations for a Business Plan

A major reason for a business plan is to give owners a clear picture of objectives, goals, resources, potential costs, and drawbacks of certain business decisions. A business plan should help them modify their structures before implementing their ideas. It also allows owners to project the type of financing required to get their businesses up and running.

If there are any especially interesting aspects of the business, they should be highlighted and used to attract financing, if needed. For example, Tesla Motors' electric car business essentially began only as a business plan.

Importantly, a business plan shouldn't be a static document. As a business grows and changes, so too should the business plan. An annual review of the company and its plan allows an entrepreneur or group of owners to update the plan, based on successes, setbacks, and other new information. It provides an opportunity to size up the plan's ability to help the company grow.

Think of the business plan as a living document that evolves with your business.

## **What Is a Business Plan?**

A business plan is a document created by a company that describes the company's goals, operations, industry standing, marketing objectives, and financial projections. The information it contains can be a helpful guide in running the company. What's more, it can be a valuable tool to attract investors and obtain financing from financial institutions.

## **Why Do Business Plans Fail?**

Even if you have a good business plan, your company can still fail, especially if you do not stick to the plan! Having strong leadership with a focus on the plan is always a good strategy. Even when following the plan, if you had poor assumptions going into your projections, you can be caught with cash flow shortages and out-of-control budgets. Markets and the economy can also change. Without flexibility built into your business plan, you may be unable to pivot to a new course as needed.

## **What Does a Lean Startup Business Plan Include?**

The lean startup business plan is an option when a company prefers a quick explanation of its business. The company may feel that it doesn't have a lot of information to provide since it's just getting started.

Sections can include: a value proposition, a company's major activities and advantages, resources such as staff, intellectual property, and capital, a list of partnerships, customer segments, and revenue sources.

References:

- [1] <https://www.investopedia.com/terms/b/business-plan.asp> (last accessed: 2023. 06. 25.)