Plan Now, Succeed Later

Nature of Business Plans

You've got to have one

Look it over

A blueprint for success

Objective A

So What?

Thousands of people in the United States play golf: your parents, your boss, maybe even you. It's unlikely, though, that you know anyone who has played in the Ryder Cup. Instead, Team USA and Team Europe are usually made up of professional golfers like Phil Mickelson, Jack Nicklaus, and Arnold Palmer. Why do the pros get to take part in Ryder Cup Matches, but you don't? Because they have a winning track record; they have proven that they excel at the game of golf.

The same is often true in the business world. Investors prefer to put their money into businesses they believe will be successful. They gauge the likely success of these businesses from past accomplishments, current capabilities, and future expectations. How do they learn about a business's past, present, and future? From one important document—the business plan.

Objectives

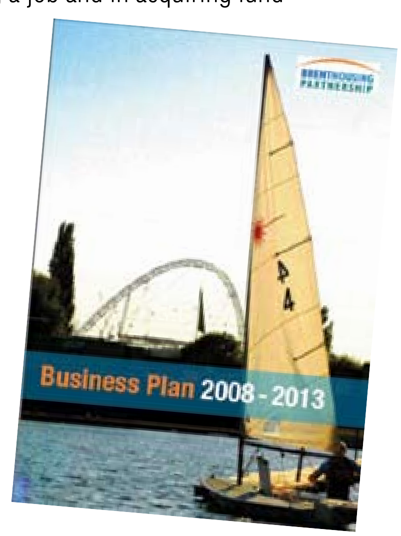
- A. Explain the importance of a business plan.
- B. Describe the components of a business plan.

Good Plan, BIG Benefit

When you screen job applicants, you look at their résumés to determine which applicants are qualified for the job. If several people have the education and experience you desire, you consider them—because they should be able to perform the tasks required.

It's the same when you determine whether or not to lend money to—or invest in—specific businesses. Those that appear to be able to pay back your loan with interest, or earn a significant return on your investment, rise to the top of the list. Those that appear to be unable, however, are excluded.

Capabilities play a big role in landing a job and in acquiring funding from a bank or investor. To examine the capabilities of a potential employee, you look at his/her résumé. To review a company's capabilities, you look at its business plan.



What is a business plan?

A **business plan** is just what it seems—a company's blueprint for success. This blueprint shows how the business works now and how it is intended to work in the future. The business plan includes all of the "subplans" necessary to appropriately describe the company's functions in marketing, finance, production, and human resources. In fact, the business plan is often considered to be the company's business model in written form, describing how each major component participates in the company's success.

A large graphic design firm, for example, will examine its business to determine where it is successful and how to grow the company over time. It will include how it markets itself to other companies, how it funds its ventures, how it carries out its tasks, and how it obtains and keeps good employees.

Since there are many possible formats for a business plan, each will look a little different when you read it. A typical plan is between 10 and 50 pages long, with helpful graphics, charts, and appendices. It can be prepared by hand, with professional assistance, or through a software program. Whatever the method, don't be surprised if you discover that the company spent an entire month putting it together. Writing a thorough plan can take a significant amount of time.

A bank loan allows a business to begin operating, so it can earn money to pay for equipment.

Why have a business plan?

Companies prepare business plans for many reasons. The most obvious reason is to be as successful as possible—since, without a plan, many businesses fail. Surprisingly, though, many businesses do not write a plan until they need funding. "Selling" the company's capabilities to a bank or investor is almost certainly the number one motive for writing a business plan.

Start-up business. Consider the needs of a start-up fitness center. Equipment and labor will cost money, but the business won't have any money until it makes money. A bank loan or investment will allow the business to begin operating, so it can earn the money it needs to pay for equipment, labor, etc. By describing how the company expects to make money, the business plan can potentially convince a bank or investor that the company is prepared to operate successfully.

Sometimes, a start-up firm has a sufficient amount of cash, but its owners or partners do not have clearly identified roles. A business plan can help a company in this situation to establish who is expected to do what. In a new fitness center, for example, two owner-managers without assigned tasks (such as overseeing the company's marketing, accounting, or operations) can benefit from the process of writing a business plan, as they discover and discuss each other's managerial capabilities.

Existing business. New businesses are not the only companies that need a business plan. Existing businesses often compile a business plan, so they can accomplish things such as these:

- **Acquire funding.** Putting a new idea (such as an expanded sales force) into action requires money. Sometimes that money comes from company profits, but other times it comes from a loan or investment. A business plan helps bankers and investors to determine how involved they want to be.
- **Implement a strategic plan.** Every company needs to know how it plans to reach its goals. These methods, or strategies, are typically determined during the process of writing a business plan.
- **Assess a new product or promotion.** When a company has introduced a new good, service, or product promotion, it usually wants to know how the product or promotion has fared. Writing a business plan forces the company to analyze the effectiveness of each.
- **Prepare for an expansion.** A company that hopes to expand its product line, office space, or workforce can prepare for the change by planning ahead. In a similar way, a business that wants to join with another firm to meet a common goal needs a plan to communicate its intent.
- **Obtain a specific contract or agreement.** To snag a valuable client account, companies can write a business plan that describes how successful they intend to be.
- **Place a value on the business.** In some cases, business owners need to know how much the company is worth. If they want to sell the business, for example, a business plan can help them set the value.

Objective A

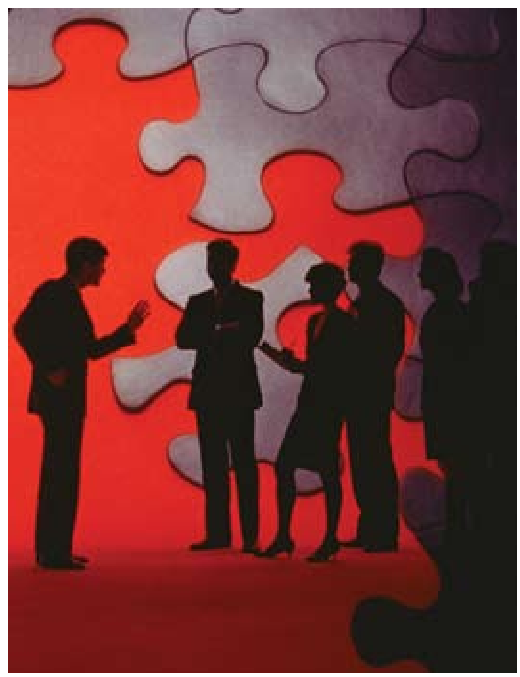
Summary

There are many reasons to have a business plan. Although the most obvious reason is to be successful, the most common reason for writing a business plan is to obtain funding from a bank or investor. Both start-up and existing companies can benefit from the planning process.

1. What is a business plan?
2. Explain the most common reason for having a business plan.
3. How does a business plan benefit a start-up business that needs funding?
4. Discuss four ways in which a business plan can benefit an existing business.

Objective B

All the Necessary Parts

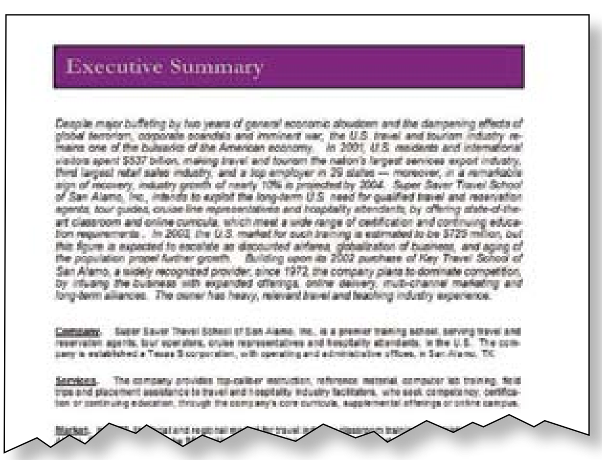


When you open a business plan to evaluate its contents, you typically see the following parts:

- Executive summary
- Table of contents
- Company description
- Product(s) offered
- Market analysis
- Strategy and implementation
- Management plan
- Financial plan
- Appendices

Each part fulfills a particular purpose within the business plan. Let's take a look at each.

Executive summary. Besides the cover, the first thing you see is the executive summary. This section is the most important part of the business plan because it gives an overview of the entire document. Every section that follows, except for the table of contents and appendices, is summarized in this piece.



Executive Summary

Despite major buffeting by two years of general economic slowdown and the dampening effects of global terrorism, corporate scandals and imminent war, the U.S. travel and tourism industry remains one of the bulwarks of the American economy. In 2001, U.S. residents and international visitors spent $537 billion, making travel and tourism the nation's largest services export industry, third largest retail sales industry, and a top employer in 29 states — moreover, in a remarkable sign of recovery, industry growth of nearly 10% is projected by 2004. Super Saver Travel School of San Alamo, Inc., intends to exploit the long-term U.S. need for qualified travel and reservation agents, tour guides, cruise line representatives and hospitality attendants, by offering state-of-the-art classroom and online curricula, which meet a wide range of certification and continuing education requirements. In 2002, the U.S. market for such training is estimated to be $725 million, but this figure is expected to escalate as discounted airfares, globalization of business, and aging of the population propel further growth. Building upon its 2002 purchase of Key Travel School of San Alamo, a widely recognized provider since 1972, the company plans to dominate competition, by infusing the business with expanded offerings, online delivery, multi-channel marketing and long-term alliances. The owner has heavy, relevant travel and teaching industry experience.

Company. Super Saver Travel School of San Alamo, Inc., is a premier training school, serving travel and reservation agents, tour operators, cruise representatives and hospitality attendants, in the U.S. The company is established a Texas S corporation, with operating and administrative offices, in San Alamo, TX.

Services. The company provides top-caliber instruction, reference material, computer lab training, field trips and placement assistance to travel and hospitality industry facilitators, who seek competency, certification or continuing education, through the company's core curricula, supplemental offerings or online campus.

Market.

Within the executive summary, the company emphasizes its main point—its reason for writing the plan. If the company is looking for funding, the plan shows how that funding will enhance its business operations or increase its bottom line.

From the executive summary, you—as a banker, investor, etc.—can determine whether it is worthwhile to read any further. A banker is typically looking for evidence that the company is stable and can pay its bills on time, while a potential investor wants to see that the business is (or soon will be) growing significantly.

The executive summary is usually two to three pages long and concisely written. The main points of each section are brief and to the point—but not too short. The key supporting points are included so that you see a snapshot of the entire business plan.

Table of contents. After you read the executive summary, you are likely to pick a section or two to examine in further detail. To do this, you simply consult the table of contents. Here, all the sections are listed with their page numbers. Without this organized method of structuring the document for easy access, you might become frustrated in searching for information.

Company description. In the company description, the business accurately portrays the new company or venture. This is where a start-up business explains what the company is all about, and an existing business includes how its venture fits into the company's current operations.

A history of the business is an important part of the company description. Not all the details are included, but the information is usually thorough enough to give you a complete understanding of how the company began and the intent of the business owner(s). When you read the history up to the present day, you see that the current business structure is identified—to show you how the company is organized now and which key roles are (or are not) filled.

Since the company's resources indicate how competent the business is likely to be, notice whether or not the company has enough physical resources, human resources, and financial resources to accomplish its goals. If the company doesn't have a resource it needs, then the plan should show how that resource is to be acquired.

Finally, look at how the company or venture compares to similar companies or ventures that have been successful—even ventures within the business, if applicable.

The Gray Zone

Smart or Shady?

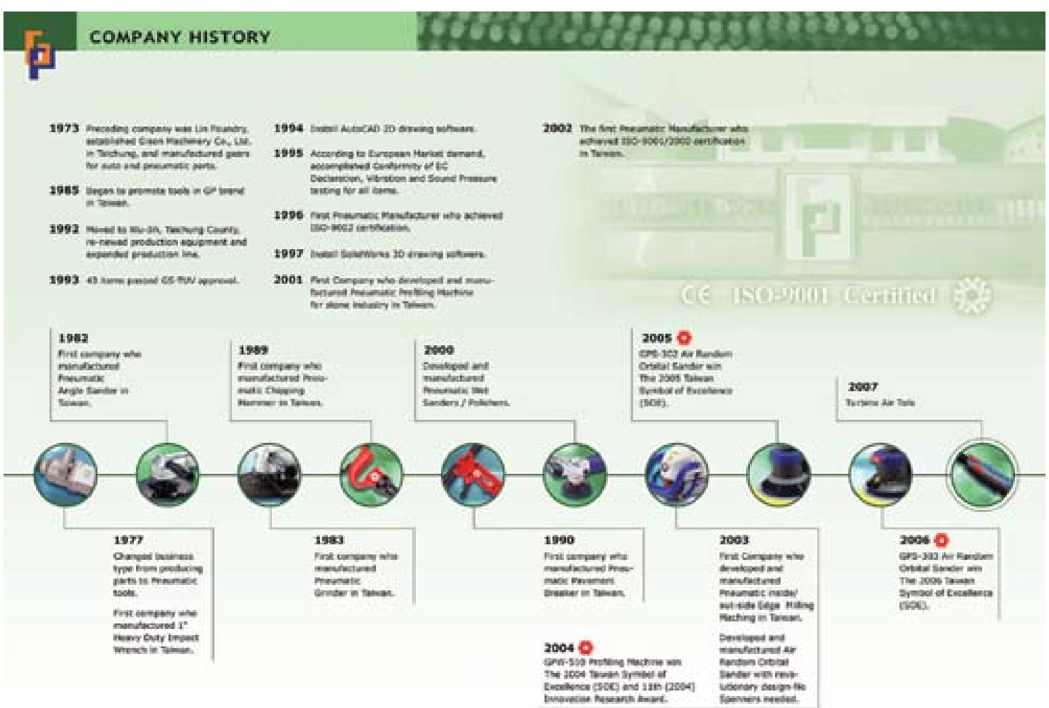
Janae's business is about to take off. Although it has been in existence for two years, the company needs some extra funding to give it a real boost in the market. Unfortunately, Janae does not have much time to compile a business plan for potential investors.

Since a competitor has a recent, well-written plan, some of the market analysis, etc., should be very similar. Would it be a wise use of Janae's time to borrow pertinent pieces from the competitor's business plan? Why or why not?

Product(s) offered. As the company describes its goods and services, you see everything the business offers its customers. This overall view of the company's products helps you to picture how customers might perceive or respond to what the company is doing right now.

If a new product is the "venture" an existing company is undertaking, this section describes that product in terms that are easy to understand. It describes the technology on which the product is based and provides an analysis of the product's effectiveness. A critical part of the product description is pinpointing the unique advantage it offers customers—the distinct way it meets customers' needs.

Of course, the description of the product will include the technical obstacles to be overcome, where the product is in the development process, and the expected life cycle of the product. Any patents or copyrights are mentioned as well, so you can rest assured that the company's product will not be reproduced by a competitor. If a critical component cannot be copyrighted or patented, that will be noted in this section.



In some cases, it is beneficial to see the methods used in the development of the product. How a good is designed and manufactured—and whether or not the process is effectively meeting its milestones—can be compared to how competitors are faring (or have fared) in a similar situation. Any risks in product development, such as cost overruns or time delays, are pointed out here.

Market analysis. In the market analysis, you see how the market has responded (or is likely to respond) to the new company or product/venture. Say a candy manufacturer wants to know if its new mint chocolate bar is (or will be) a big hit. Market analysis will help the company to know if it should move forward with mass-producing the new chocolate bar.

The market analysis section includes information about the industry and target market—identifying the target market in specific terms. It defines the target market's key characteristics and trends and identifies key customers (or customer groups). It discusses the niche within the target market, if applicable, and describes the extent of reliance on key participants—such as the government. A company that imports a particular type of coffee bean from a foreign country will need to know how governmental rules affect its business, for example.

The market analysis section will likely tell you that the target market *needs* the product. If so, you want to see evidence of customer interest. And, you want to see how the product uniquely meets the customers' need(s). When you're considering the level of demand for the product, look for answers to these questions:

- Has the product been in demand before?
- What is the current demand?
- What is the projected demand for the next five years?

In addition, you want to be sure that any claims and projections are supported by credible sources, such as analysis from an independent research firm. If the plan says there are contracts in the works or letters of intent, take it as a good sign. Any industry-published observations are noteworthy, too.

At this point, it's important to examine how competitors' activities compare to those of the business. Notice the strengths and weaknesses of competing technologies and products. Consider the current market position and any barriers to enter the market. Also, look for how the business intends to achieve and maintain its desired position in the market.

Strategy and implementation. By the time you're ready to read the strategy and implementation section, you know a lot about the business. This section shows *how* the business intends to do what it has planned. It shows, for example, how the company expects to:

- Carry out its overall marketing plan—by describing a clear, goal-attaining method with well-defined steps
- Reach its customers—by explaining the roles of advertising and direct mail in effectively communicating with potential and current customers
- Sell to its customers—by discussing the need for an in-house sales force, an outside sales force, or a combination of the two
- Handle public relations—by showing the selected ways of meeting the company's public relations needs (through in-house employees or through a public relations firm)

Management plan. Since the quality of the management team is often considered the single most important indicator of success, take some time to read the management section to learn about the manager (or management team)—including the identification of key employees and a description of their experience, skills, and accomplishments. Pay special attention to how the managers' competencies provide a competitive edge for the business, and notice whether or not the company's success relies on a few key personnel.

Consider which vacant positions need to be filled for the company to perform at its optimal ability. Find out what the timetable is to fill these positions, so you can evaluate if the business is ready to achieve success. Any letters of interest or other commitments from prospective candidates can be viewed as progress toward the company's goal of having all appropriate managers in place.

Financial plan. A popular section to read is the financial one. Here, the business shows how it has performed (or is likely to perform) financially. Examine the company's current financial position by looking for answers to the following questions:

- Can the company generate enough cash to keep itself in business—and make a significant profit?
- Is the venture likely to generate the cash flow necessary to achieve project success?
- What are the venture's financing needs?
- Where will the funding come from?

Be sure to look at the cost estimates. Find out how the company will be affected by paying for the expansion of its facilities, fixed assets, start-up costs, or other relevant expenses. An example would be a bicycle-repair service that plans to expand into three additional cities. While its financial plan should show how the business will afford the expansion, it should also show how the company will maintain operations (and revenues) during the expansion.

Then, look through the financials—the income statement, the balance sheet, and the cash flow statement. Notice the changes, either positive or negative, over the past five years—both for the company and for the venture, if applicable. You want to see steady movement forward, of course.

Now, look at the projected financial statements for the next five years. The projected income statement, balance sheet, and cash flow statement should look *even better* for the coming years. You should see steady growth and an ever-increasing bottom line.

In addition, take note of where the financing of specific projects will come from. Examine any commitments from funding sources. Look at how the capital structure is laid out, and determine how much equity is at risk. The bicycle-repair service should communicate the specifics about how it will pay for its expansion—including how much funding will come from the company's equity and how much will come from outside sources.

If there are third-party agreements or royalty terms, they will be discussed here briefly. You should also see calculations of projections, such as return on investment and return on equity. The timing of these returns should be discussed, too, including how certain factors might change the calculations over time, such as:

- Sales volume
- Production expenses
- Capital investment costs
- Time delays
- Costs of financing

In bicycle repair, a delay in receiving parts or in performing the necessary labor can mean a reduced price for the customer—or an unhappy customer who does not return for future repairs. In this way, time delays can negatively affect production expenses, sales volume, and the return on the money an investor has put into the business.

Of course, it's helpful to see a risk management plan somewhere in the financial section. Here, the company should discuss its potential liabilities and any issues concerning insurance providers. If the company is not able to obtain reasonably priced insurance, the reasons should be thoroughly explained in this segment.

Finally, you want to see the key assumptions underlying all of the financial reports and projections. This will help you put all of the information into perspective. You don't want to presume that the company has included an item that it actually hasn't.

Appendices. At the end of the document are the appendices—the extra bits of information that describe or lend support to a point made in the document. The purpose is to provide details for further investigation. Included are management résumés, specific charts or diagrams, market research results, contracts, licenses, and letters of intent.

Summary

Every business plan is a little different, but almost all business plans cover the same topics. These topics are the executive summary, company description, product(s) offered, market analysis, strategy and implementation, management plan, and financial plan. The appendices are at the end of the document for further investigation, while the table of contents is near the beginning for easy access to the organized information.

TOTAL RECALL

1. Describe the purpose of each part of a business plan:
   a. Executive summary
   b. Table of contents
   c. Company description
   d. Product(s) offered
   e. Market analysis
   f. Strategy and implementation
   g. Management plan
   h. Financial plan
   i. Appendices

Make It Pay!

Consider what might happen to a prominent business in your community if it had no business plan. List three to five ways you think it might operate differently without the business plan in place.

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