

How and Why a Business Plan Can Make a Difference

Nora Dunn, Wise Bread

We have all been told that a business plan is required for the business to fly. But how much attention do we really pay to it? And do all business owners really need one? You have customers, you have a niche, and you don't need bank funding. You know what you know. Who will even read it? In this article, we will discuss why a business plan is quite often a necessary evil, and then we'll go into the basic mechanics of a business plan.

Case Study of Peter and Joe: How you can be on the same starting block together, but run a different race entirely. Peter and Joe are both plumbers. They work together at the same company before deciding they can do better on their own as self-employed professionals. They each have enough contacts and are more than qualified to do a variety of plumbing-related jobs - both residential and industrial. However despite starting in the same place, their businesses evolve very differently.

Why Peter Fails

No Forward Planning: Peter likes to fly by the seat of his pants, and runs his business the same way. He figures his casual attitude will be easy for customers to work with.

No Administrative or Business Skills: Peter is not good with computers, generating invoices, and analytical tasks (and no effort made to develop or outsource them), but he believes he has enough residential contacts who will want plumbing-related jobs and will pay cash that he'll be okay.

No Target Market or Specialization: Despite Peter's preference for working with residential contacts (because they largely pay with cash), he's also incredibly talented with industrial plumbing, so if jobs of that nature come his way, he takes them too. He's basically ready for any and every job that comes his way, rather than deciding to specialize. (The problem is that jobs don't seem to come Peter's way.)

No Market Research: Peter has great ideas for new niches of business, but when he throws everything he has at those niches without researching them first, he consistently underestimates the competition or logistical requirements and suffers for it.

No Polished Elevator Speech: Peter's casual attitude doesn't bode as well for his customers as it did when he was just an employee; he doesn't come off as taking his own business seriously. When you ask him what he does for a living, he does no credit to his talents by simply saying something crude about toilets (even when the person asking is an industrial property manager who could potentially be a good customer).

No Purchasing Plan: Peter regularly puts the cart in front of the horse by insisting he needs some new equipment or an elaborate website in order for his business to turn the corner.

No Marketing Plan: Pursuant to the above point, Peter's purchases fail because he can't even identify how to get the necessary clients to pay off the new equipment that put him in the red, or how to attract potential customers to his website and convert them into paying clients.

Peter's Results: So despite the fact that Peter has the initial contacts and ability to generate enough business to support himself, he ends up going broke and asking for his old job back.

Why Joe Succeeds Specialization: Although Joe can perform any number of plumbing tasks, he decides to specialize in commercial kitchen work.

Research: Joe researches exactly what his costs will be to get set up with equipment and determines how long it will take to pay it back using industry-based estimates.

Know the Competition: Joe knows the competition, and even takes some time to introduce himself to them (in the hopes that they may provide a referral if they have too much work on their plate, as well as to chat about business in the area for his own research purposes).

Outsourcing: Joe recognizes his weakness for accounts receivable and hires a virtual assistant to help him with this and other administrative tasks.

Targeted Marketing: In knowing who his ideal customer is, Joe targets his marketing efforts to them and when asked what he does by a stranger, his "elevator speech" (a 10 second pitch for his business) is polished and concise.

Joe's Results: Joe has a more structured approach to his business and ends up not only supporting himself successfully, but in his second year he revises his business plan and hires employees to help him with the workload and increase his profits.

Business Plan Basics: We have all heard that the business plan is the foundation for every business, and we may try to do one by going through the motions. But until we truly embrace the business plan as our roadmap to entrepreneurial success, we may flounder in a sea of incompetence.

Having this roadmap keeps your goals aligned with your progress. It can be easy to survive with a fly by the seat of your pants model, but to truly succeed and grow a real business, you need something to let you know if you've veered off track.

Your business plan doesn't have to be over-involved or full of statistics that are meaningless to you. But it should be on paper, and incorporate the following components:

Description of Your Business:

- * What do you do?
- * What is your product or service?
- * How is your business run?

Industry Outlook:

- * What is your industry?
- * What state is the industry currently in (i.e.: economics, supply, and demand)?
- * Where is the industry going in the future?
- * Are there any unfilled niches, and if so - how can you fill in those gaps?

Your Market:

- * Exactly who is your customer?
- * Where do you find them?
- * How does your customer like to shop for your services (ie: how will you market to them)?
- * How are you the perfect candidate for your customers?



Competitors:

- * Who is your competitor?
- * How much do they charge?
- * How are they regarded in the industry?
- * How are your services (or customers) different from theirs?
- * Can the market bear the increased supply?

Marketing:

- * Exactly how will you market your services?
- * How much will it cost?
- * How will this help you get new business?
- * What is your return on investment?

Industry Experience: What is your story? Ultimately it is your personal experience and approach to the business that will determine your success.

Financials: This is where many business plans fall apart at the seams, especially in the first year of development, when most of the numbers are estimates. But as the years roll by, having year-over-year figures are the best barometer for your business. Annual financial reports tend to include the following:

- * Profit & Loss Statements
- * Operating Revenue
- * Cash Flow Analysis

Your business plan does not have to be a daunting or insurmountable task, nor a chore to produce. The next crucial step is to review and revise the plan, at least once per year (or more frequently depending on industry changes). With the exception of the financials, much of it can remain similar to previous years.