

# **The Business Plan**

**Marla K. Burns, CPA**

**Rotary Seminar Teams, Project Free Enterprise IV, 1994**

GOOD MORNING!!!

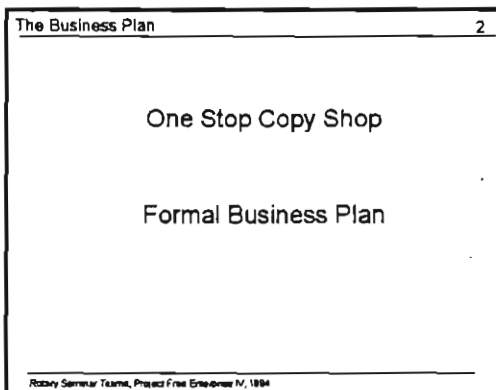
My name is Marla Burns, and I am a certified public accountant. This long designation behind my name means that I graduated from a College, that I have experience in accounting, and that I passed a very difficult, three days exam on all possible accounting and auditing matters. That's the official explanation. But - as one of my professors stated - what's really important about passing a CPA exam, is that I can charge higher hourly rates, and I never, ever, ever have to study again!

Getting a college education, passing the CPA exam, and having my own business were parts of MY business plan. One summer day several years ago I was driving a car from Brownsville to Houston. It's about 330 miles of peaceful drive, and since I didn't have anything better to do, I was thinking. Back then I was in the United States for three years. I started to fully realize that my masters degree in international trade from Warsaw School of Trade was very good in Poland, but basically worthless in the States.



So, I had an option: keep my not very interesting, but paying job, have free evenings and weekends, and live "from the 1st to the 1st" (polish idiom), or go back to college while working and supporting my children, forget about any free time for the next three-four years, and try to achieve the American Dream - financial independence. The decision was not easy, neither were the years that followed. But I did it - and **SO CAN YOU!!!**

OK, so let's talk about what I am here today for: your business plan. I realize that each one of you is in a different stage of your business venture. Some of you are only thinking "maybe I should...". The others are starting to implement the idea of having a business. I am sure there are here owners of existing businesses, operating with or without a plan. You just have to adapt the information we will provide to your specific situation. There is no way we can answer all your questions in a short presentation. My goal is to arouse your curiosity enough that it would make you look for the answers. As a consultant to this business merger we are using the premise that neither partner has ever written a business plan before and that I am to begin by explaining the process.



PLAN - its synonyms are: outline, draft, delineation, project, design, method, scheme, device. No matter what you call it, a plan is a picture of your dream. I am sure that most of you will remember "planning economy" of our previous leaders. You probably are very skeptical about an idea of "planning", and a "five year plan" brings to your mind yet another useless piece of paper. I can understand well all these feelings, but I can also tell you from my own experience that

only **"IF YOU KNOW WHERE YOU ARE GOING, YOU GET THERE".**

It's like an airplane flying high in the sky. If a pilot wouldn't have a plan, a direction, a schedule to follow, he would either run out of gas and crash, or land somewhere - but who knows where? The airport could be big, wonderful, with smooth landing strips, but what if it's not? Of course a plan by itself does not guarantee that an airplane will come to a scheduled destination, but it improves a chance of getting there by providing means for a successful trip (gas, skilled personnel, routing etc.)

Your business plan is a pre-test of your vision of success. Let's say that you have this great idea, the project that will change your life. You cannot sleep at night, thinking about it, building castles in the clouds. You know what? It's good your castles are in the clouds, that's where they're supposed to be! Now it is time to build their foundations. And how are you going to do it without a plan?

A good business plan should state two most important things: WHAT do you want to achieve, and HOW are you going to do it. You see, the plan - just as a paper you write it on - is neutral, doesn't know right from wrong. So you can freely write what your heart dictates to you. If you can convince yourself that your idea is real, that you know how to build the foundations of your castle, and that you will have the means to build it - you will be able to convince everybody else, including your banker and investors.

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Plan.

- Synonyms
  - Outline
  - Draft
  - Project
  - Design
- Method
  - Scheme
  - Device

or

"Picture of your dream"

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"If you know where you are going, you get there"

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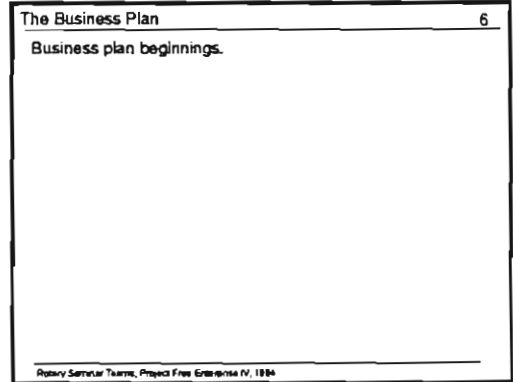
The Business Plan 5

Pre-test of your vision of success.

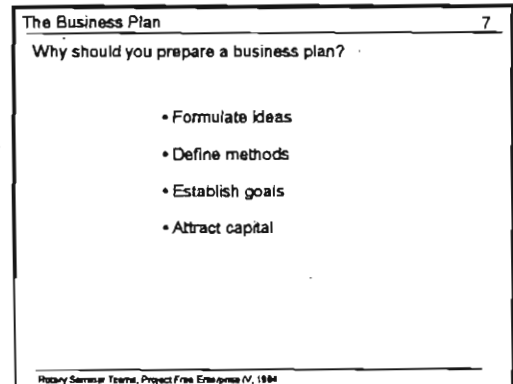
- What do you want to achieve?
- How are you going to achieve it?

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The business plan has usually rather humble beginnings. As you are talking about your plans, as you are waking up from dreaming - take notes! And never throw them away. Remember my "breakthrough" trip? When I decided which option is more appealing to me, I drove off to a parking area and wrote all my thoughts on a piece of paper. These little notes are important elements of your future business plan: making a logo and deciding on the name is the most important part of your marketing plan; registering your business or verifying personnel references will be encompassed in the activities outlined by your organizational plan; opening a bank account goes to the financial part of your plan. And so on.



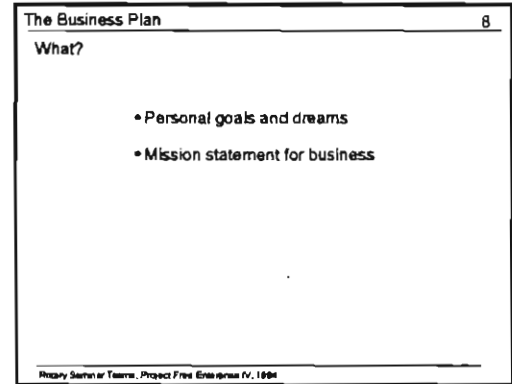
I am sure you noticed that all these memos have a very informal look. That's because they are usually made in very informal situations. But keep them all, they will find their place in the formal version of your plan. you may ask yourself "why do I need a business plan?" Why can't I just keep my notes? It's because you need to organize your thoughts, provide a framework for it.



Look at this list. The process of preparing your business plan will make you formulate ideas. Your ideas are like precious crystals, and just like crystals they are often covered with mud and sand. You have to go through the process of discovering, defining, polishing them. And finally they are here, like crystals shining somewhere in front of you. You can get to them, but it would be so much easier if you have some tracks to follow. Your business plan by defining methods provides those tracks. Next, establish goals, interim and final. The road to the crystals is quite long and sometimes bumpy. If you have benchmarks established, not only will they keep you on track. They would also provide reassurance that you are progressing, that you are closer to success.

And finally, a business plan may help you to attract capital. It may be easier to reach your crystal if you get a ride from somebody else. It won't be a "free ride", but it may be worth it. You will have to pay either as you go (interest rate or dividends), or at the end (sharing the ownership and profits). Just remember that it is dangerous to accept a ride if you don't know where you are going or what it will cost you.

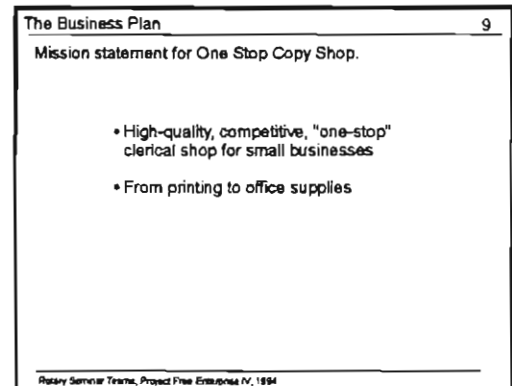
**WHAT** do you want to achieve? To answer this question, start with your personal goals and dreams. You will never be successful in pursuing a business plan that would be in conflict with your personal goals. You may need to postpone some of the dreams, schedule their realization in accordance with your business plans, but make sure to keep them there like a guiding light at the end of the horizon. List your personal goals and objectives, and number them from 1 to 10, where 10 is the highest priority. You don't need to include this list in your final version, but keep it in front of you all the time as you are working on the plan for your business.



Now you are ready to describe what business venture you want to start (or develop). Although the official version of a business plan should start with a "Mission statement" or a "Management summary", this first section should be written last.

Once you have all the other parts of the plan prepared, a mission statement would formulate almost by itself.

This is an example of mission statement for the newly formed business my predecessor was talking about. It basically states everything that a business plan contains: market (small businesses), product (from printing to office supplies), competitors, quality... You may want to add some excitement and enthusiasm to it, like "Our copies are like originals". What you want to accomplish by this short mission statement is to attract attention of the reader, make him interested enough to go through the next pages of your plan. You also need it to guide you in decisions about your business, so that they are consistent with your mission.



The next question to answer is **HOW** are you going to achieve it?

## The Business Plan

You may do it by yourself or take a partner. If so, just keep in mind what one of the richest businessmen of the world said: "A friendship founded on business is better than a business founded on friendship". You don't want your business venture to end up like so many marriages do: in a bitter divorce. I believe that a partner, if any, should provide complimentary skills to yours, and that your areas of expertise and responsibilities should be clearly defined from the very beginning of the business. Never "we'll manage..." (dogadamy sie...)

The Business Plan	10
How?	
• With whom?	
• "A friendship founded on business is better than a business founded on friendship" (John D. Rockefeller)	
• Where?	
• What will it take?	
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The other matter to decide in your HOW TO part is where are you going to do it? That, of course, depends on many factors, one of them is: what kind of business will you be in. In the retail business, location is THE MOST important factor of success.

If you are going to provide a service to the public, your office has to be easily accessible, although not as visible as retail business. If you will do it in a city like Houston, adequate parking is a must!

Then, there is a factor of cost of space, and its availability. Just keep in mind that a bad location, even if it's cheap and available, may kill your business...

Now, what will it take. That's where you have to do your homework, use your calculator, go to the libraries, talk to business associates and competitors. That's organizational, marketing, and financial parts of your plan. It's all coming...

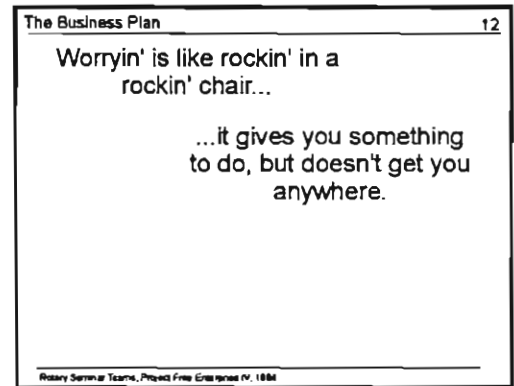
This little illustration encompasses everything I have said so far - your business plan provides a framework for all the elements necessary to achieve your success (point to the slide and read the titles. Briefly explain if time permits). Do you like it?

The Business Plan	11
It's all in the plan.	
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I have another one:

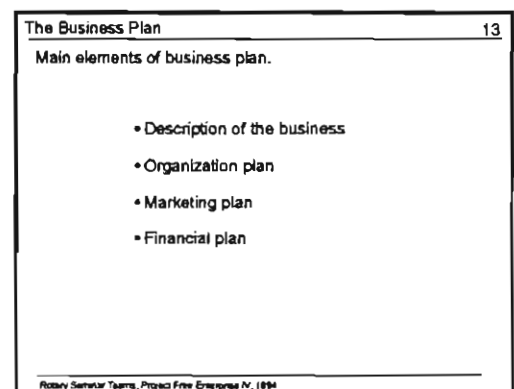
Read the slide.

This cartoon, framed, is displayed on the wall in my office. It stays with me ever since I decided to go through CPA certification and start my own business. Worrying sure gives you enough to do, but.....  
So, **JUST DO IT !!!**



OK. Let's get back to our plan.

Here are four main elements every business plan should contain (read the slide). And this little picture in the corner symbolizes the fact that a plan is not so much a product, as it is a process. It may take less than 101 versions, but probably not much less. As you are developing the elements of your plan, your objectives and goals may change, get readjusted to the reality of the market. So your plan changes...



And then the new elements come into play, new partner, new product, new client with new requirements - so you need to change your plan again. And that is good, this is the way it's supposed to be. You create a framework, but you need to leave enough space for necessary moves.

There are no "written in stone" format requirements for a business plan. Its length and content will vary depending on miscellaneous factors (nature and size of business, markets it serves). In working with the companies of small to medium size, I found that a four part format is very effective, and relatively easy to develop. These four main parts as you see it on the slide (point to the slide here) will follow the "Mission statement" or "Management summary" I was talking about before.

Your plan should be more detailed for the first couple of years, and rather general for the next three - four years.

## The Business Plan

The monthly cash flow projection form you see here is one of the required attachments for a loan application from Small Business Administration in the States. You can see how much detailed information a business owner has to provide. But unless you need it to apply for a loan, I would not advise you to attempt a preparation of monthly plans. It is a tedious, difficult work, and you would quickly find out that your detailed monthly plan is impossible to follow.

The Business Plan 14  
Monthly Cash Flow Projection

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Assuming that the vast majority of you are the owners or prospective owners of small to medium size businesses, let's proceed to the elements of the first part of your business plan: the description.

If you already have a business and you wish to develop it, you should start with a brief history of your venture. Describe the products and services offered, stress experience of the founders and their role in the company. Make sure to show everything your company does well! If your company did not do to well but you have sound reasons for believing that the past performance is not a reliable indicator of its potential, cite those reasons in this section.

The Business Plan 15  
Description.

- Functional
  - Brief history
  - What the company does well
- Future goals
  - Where the company wants to be in five years

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Next, state your future goals. Where your company wants to be in 5 years? Outline projected gross revenue, number of employees, whatever data will make the company look the best. You will provide detailed analysis of projections in the financial part of the plan, so here - make your statements brief and very positive.

If you are starting a new company, provide a brief summary of your background, stress your experience in the area of the planned business venture. Write about your education, but only if it is in the same line as your business. A business of washing skyscraper windows, founded by a graduate of medical school, may be very successful, but should he really inform his clients about his background?



Description of product you wish to manufacture or the service you plan to offer is crucially important for you and/or prospective investors. What will you be selling? How does it differ from competition? Is your product/service unique? If not, why will people buy from you?

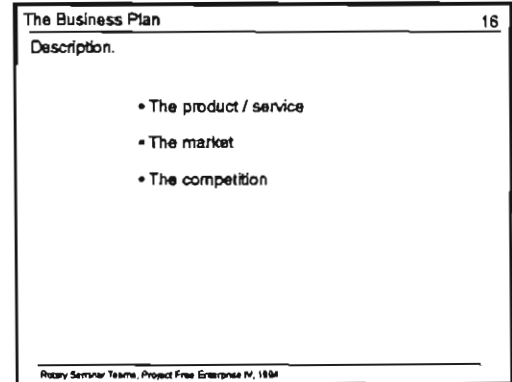
Your descriptive statements in this part of business plan should be brief, as you will go into details in the marketing part of the plan. Just outline your ideas here and develop them in the next parts.

The description of your product or service will also define business demand for equipment, expected and projected capacity, needs for skilled work force, timing for deliveries of materials and supplies. You should attach as appendices any lengthy or detailed diagrams, technical documents or descriptions. If the company needs, or has obtained, any governmental approvals or clearances, you also should discuss those here.

Next comes the description of the market. In gathering information for this part of your plan, you should talk to business people preferably in the same or similar industry, to the potential customers, to your local chamber of commerce, read industry newspapers.

Remember never to ask for advice from a person that did not experience a business venture. They will always advise you against it. But how can they judge your potential for success, if they never tried to succeed? Ask the people that have been successful, that already went through the pitfalls of starting a business.

And then, you have to mention the competition. Don't be afraid of it. Sooner you acknowledge its existence, better off you will be. You have to position your business and yourself in such a way, that you will become unique - because of your product, or your services, or your knowledge, or just your personality. There is not another YOU (unless you have an identical twin), create your business in same way - UNIQUE.



Well, looked at it! We finished the first major part of your business plan! You can pat yourself on a shoulder, award yourself with a glass of wine, take a break before you proceed to the next three parts (points to the slide and read it): organizational, marketing and financial plans.

So, let's proceed.

The Organizational plan should contain all the elements Tad was talking about in his presentation this morning. It will present the management - that means yours - idea of structure necessary to run the new Company, along with the jobs descriptions, staffing, and quality monitoring.

I would imagine that ONE STOP COPY SHOP will have more than one location. You have to put it in this part of business plan. Where the locations are going to be, how you will organize them, staff them, control them. I believe you got lots of information from the previous presentation, and I will not repeat it.

The next part of your business plan, is the Marketing plan. Wojtek Kic will cover it in details right after the short break. His presentation goes far beyond preparing a marketing part of business plan. It is, however, very important that you develop this part quite well, as marketing will bring clients to your business. And what is a business without clients?

Stress commitment to your clients and their satisfaction in all your advertising (point to the slide). Make sure to secure clients referrals from both merging businesses, and also from your vendors, friends, acquaintances. There is no future in a business without proper marketing.

The marketing part of your business plan will detail what you signal in description: the markets and the competition. As part of your analysis of the market, you should cover the following factors: who are the customers? (manufacturers, institutions, individuals, government); What are the demographics of your area?

The Business Plan	17
Main elements.	
<ul style="list-style-type: none"><li>• Description of the business</li><li>• Organizational plan</li><li>• Marketing plan</li><li>• Financial plan</li></ul>	
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The Business Plan	18
Organization plan.	
<ul style="list-style-type: none"><li>• Structure / management</li><li>• Locations</li><li>• Job descriptions</li><li>• Monitoring</li></ul>	
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The Business Plan	19
Marketing plan.	
<ul style="list-style-type: none"><li>• Image<ul style="list-style-type: none"><li>• Name and logo</li><li>• Stress commitment to clients</li></ul></li><li>• Market<ul style="list-style-type: none"><li>• Secure clients</li><li>• Referrals</li></ul></li><li>• Competition</li></ul>	
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Where are your present and future markets? Does the market have any special characteristics? (seasonal, cyclical, other).

And then, the thorough analysis of your competition. Even if you don't have any right now, sooner or later you will have it. Ignoring prospective new competitors may be a costly oversight, especially in dynamic or not yet mature markets. If you would end up having no competition, it may mean that nobody really wants your product or service.... OUCH! terrible thought.... So, identify your competitors in the business plan. Indicate the share of market you expect to capture in the first three to five years, and spell the rationale for this forecast. It is important to define the niche you expect to fill in the market. Summarize strategy you intend to employ to gain your share of an existing market, and to respond to any marketing ploys your competitors will use against you.

Perhaps the greatest temptation you will face here is to overstate your own competitive strengths, and understate those of others. Try to avoid this pitfall, as the realistic view will better prepare you for the competitive situations faced in launching a new venture.

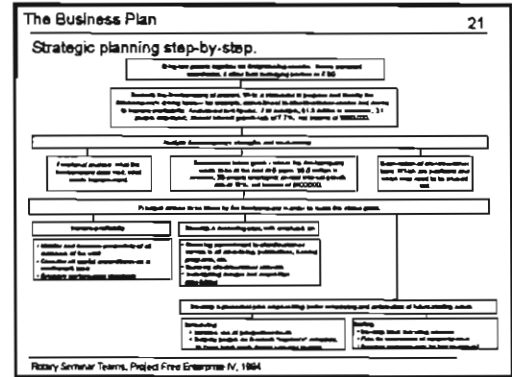
And then comes Financial part of the plan. Here you will analyze your resources and define your needs. You should also list all the financial activities you have to follow - like opening the bank account, securing the line of credit etc. Assign a person who should do it and the time frame. Financial part of your business plan will be most detailed and scheduled of all the parts.

Again, I will not go into details, as Mike Bourke is supposed to talk about it this morning. Just keep in mind what William Blake said "No bird soars too high if he soars with his own wings". My business philosophy is (and was) to grow on my own resources. Taking loans means paying it back with an interest. Analyze all aspects of financing before you sign the loan. That basically covers a process of preparation of a business plan for a small company.

The Business Plan	20
Financial plan.	
• Resources	
• Needs	
<i>"No bird soars too high if he soars with his own wings"</i>	
- William Blake	
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Now, if you are an owner or a Chief Executive Officer of a large company, your process of preparing a business plan will start with "strategic plan" and involve much more people in the planning process.

First, you will name a project coordinator, and you certainly should be able to hire an outside market research and analysis firm, and highly specialized and well paid business consultant (you can talk to me after the seminar...).



Before we take a break I would like to share with you the results of a study conducted by Dun and Bradstreet on American businesses.

Back in 1981, over 17,000 companies failed during one year. That was over 46 businesses a day. Today, these numbers are tripled. Although business failures cannot be eliminated in the free enterprise system, the chances of failure can be greatly reduced if causes are identified, and preventive action taken. (point to the slide)

- The Business Plan 22
- Why small business fail.
- Financial pitfalls
  - Excessive optimism
  - Inability to change
  - Rapid growth
  - Improper organization
  - Poor management
- Rotary Seminar Teams, Project Free Enterprise IV, 1984

Financial pitfalls. Often, the blame for business failure is put on insufficient capital. While this is a major stumbling block for newly formed businesses, the financial pitfalls of most established companies lie in other areas: dependence on debt, inadequate financial planning, improper cash management, excessively liberal credit policies, poor billing system, etc. (ex. Info, Mico)

Excessive optimism (point to the slide) - while optimism is a necessary ingredient of a successful business, excessive optimism can lead to failure. A realistic approach will help to recognize early warnings of potential major problems, and force the management to deal with them before they become disasters. (ex. C&A in Pearland)

Inability to change.(point to the slide). Change is unavoidable - companies either grow, adjust to the new conditions of the market, or die. Even the changes associated with growth are often unwelcome. Growth demands complexity, and complexity demands specialization. This in turn forces yesterday managers to step aside and let other specialist to run the company. Some of them cannot adjust to the change, and their attitude forces a company to fail. (ex. AMA)

Rapid growth (point to the slide) is another reason for failure of small and mid-size companies. Studies show that companies that increase their workforce by 20% a year for four to five years normally develop major problems directly related to uncontrolled growth. Rapid growth not only consumes financial resources, it places great strain on both management and employees. Job responsibilities expand, decision making is increased, pressure and stress result in management burnout.

Another very important reason of failure is (point to the slide) Improper organizational structure. As a general rule, a company with less than \$250,000 a year in sales requires little, if any, specialized organizational structure. At \$500,000 annually, organizational structure takes an added importance. At \$1 to \$3 million annually, two or three formal department structures are normally necessary. These figures are averages, with large variances due to the nature of the business. But the point is that small businesses should organize conservatively and avoid structuring themselves to death. Organizational structures should be instituted only when benefits have been carefully analyzed, and they outweigh the disadvantages.

Too much structure and control can prohibit employees from performing up to their capabilities. Smaller companies in particular must strive toward gaining the most from their employees, rather than trying to get them to passively conform.

And finally (point to the slide) - Poor management and failure to delegate. Often, the management of small companies are individuals with highly technical skills. But as a business grows, technical skills must take a back seat to managerial skills such as coordinating, organizing, and directing. Management, including owners, must learn to get things done by others, rather than doing them first hand.

I sure hope that you will avoid the pitfalls here presented. I wish all of you GOOD LUCK in your personal and business ventures, and if you have questions, please do not hesitate to present them to me. Remember, there are no stupid questions, only inadequate answers!