SEVEN STEPS TO A SUCCESSFUL BUSINESS PLAN

By Janet Wikler

"Where's the business plan?" How many ideas have been stopped in their tracks by those words? The fact is that most investors – whether corporate executives or venture capitalists – will not put money into a business without a plan.

While some people consider this a bureaucratic burden, developing a business plan is essential because it forces you to think through a business before taking financial risk.

There are seven steps in developing a good business plan:

1. **Describe the customer.**

   Most people talk about "the market" when writing a business plan; but markets don't buy products -- people do.

   Visualize the person who will buy or use your product. (If more than one kind of person will buy or use your product, visualize a typical person in each category.)

   What need will your product meet for this person? How urgent is that need? How is the need being met now? What does the person spend to meet the need? How satisfied is he or she with the current solution?

   Where does this person live? How old is he or she? Is the person male or female? What kind of job does the person have?

   How will the person learn about your product? Where will he or she buy it? How is the purchase decision made? Does someone other than the buyer influence the purchase decision? Is the buyer of the product the person who will use it?

   If you don't have the answers to these questions, do some research with prospective customers before developing a business plan.

2. **Dissect the competition.**

   If others are offering products similar to yours, find out as much as possible about them. Even if there is no comparable product, people are currently meeting the needs you want to meet in some way.

   Suppose, for example, you are considering developing a fitness newsletter. There may or may not be other fitness newsletters in the marketplace; but people get fitness information and advice from many sources. Some get it from friends, trainers, or physicians, others from television, magazines, groups, or clubs. Some of these solutions cost money; others are free. They will all compete with the fitness newsletter because they meet some of the same needs that the newsletter will meet.

3. **Define the product.**

Now describe your product or product line. (The term "product" includes services delivered in non-physical ways as well as offerings embodied in physical formats.)

What is the nature of your product or product line? What is its format? What does it do, look like, feel like, taste like, sound like, etc.? What will it do for the customer?

Try building a matrix that identifies each product feature and links it to a customer benefit. For the fitness newsletter, for example, the matrix might look like this:

Feature	Benefit to the customer
Monthly printed publication	Predictability, portability, ease of use
4 articles per issue on nutrition	Learn what foods to eat and which to avoid
4 articles per issue on exercise	Maximize benefits of exercise; avoid injury
2 articles per issue on medical news	Stay current with new developments
Expert medical advisory board	Get knowledgeable advice you can trust
Web access to newsletter	Convenient access any time, anywhere
Searchable electronic archive	Find what you need when you need it
Electronic discussion forum	Connect with others of similar interests
Personalized fitness assessment tool	Create a personal fitness program

4. **Determine your advantage.**

Whether your competition is direct or indirect, you need to determine how what you will offer is different from or better than the other options your customers have for meeting the same need. This is your "unique selling proposition," or USP.

What distinguishes your offering? Is it price? Design? Personalization? Ease of use? Level of service? Your company's reputation? Your distribution channels?

Once you have identified your USP, make sure that it matters to customers. Many companies invest heavily in features that are of marginal value to customers or under-invest in features that customers prize.

Years ago I met a CD ROM developer who told me proudly that she had used all 600 megabytes on the disk. She was so product-focused that she thought the number of megabytes would matter to the customer. She never stopped to consider that what people wanted from a CD ROM was entertainment, education, information, or productivity tools, whether it took six megabytes or 600 to provide them.

While this is an extreme example, you'd be surprised at the number of people who are so blindsided by product features they think are important that they fail to align their investments with what customers value most.

If you know what matters to your customers, take the feature-benefit matrix developed earlier. Opposite each feature indicate what percentage it represents of the total cost of product development, production, and delivery. In the next column, indicate what percentage of the product's total value that feature represents to the customer. The example below for the fitness newsletter illustrates the use of this tool.

Feature	% of total cost	% of total value
Monthly printed publication	20%	5%
4 articles per issue on nutrition	10%	15%
4 articles per issue on exercise	10%	10%
2 articles per issue on medical news	5%	10%
Expert medical advisory board	5%	5%
Web access to newsletter	15%	20%
Searchable electronic archive	15%	15%
Electronic discussion forum	5%	5%
Personalized fitness assessment tool	15%	15%

In this example, note that printing and mailing the newsletter every month comprises 20% of the total cost, but that customers consider Web access, a searchable archive, and a personalized fitness assessment tool much more valuable than the printed publication. This might lead the publisher to decide not to print the newsletter at all but to offer it only electronically. The money that would have been spent on printing and mailing can be invested in other ways or saved to reduce cost and increase profit.

5. **Design the operations.**

You've zeroed in on the customer, analyzed the competition, figured out how your product is different and how those differences matters to the customer, and made sure that your proposed investments are aligned to your customers' values. Now you need an operating plan.

The operating plan is the road map that you will follow to get from where you are to where you want to be. It describes ***what*** will be done, ***how*** it will be done, ***when*** it will be done, ***who*** will do it, ***how much*** it will cost, and ***how much*** it will yield.

Imagine that you have the money you need to start your business. What will you do tomorrow that is different from what you did today? What skills will you need to start and operate your business? How do they translate into staff positions or relationships with outside vendors or partners?

How will you find the people you need? What will it cost to recruit them, and how long will it take? What will you need to pay each person?

How will you organize the team? How will it grow over time? How will you find the vendors or partners you need? How will you work with them? What will it cost?

How will you develop your product or product line? How long will it take? How will you produce, manufacture, and deliver your product or products?

What technologies will be needed to create and deliver your product or products and support your operations? What will it cost? Who will be responsible for technology?

How will you manage administrative functions, such as human resources, finance and accounting, and tax preparation? How will that change over time?

How many potential customers are there for your product or products? How many different groups, or "segments," do they fall into? What do they spend today, in the aggregate, to meet the needs you plan to meet? How much of that spending can you capture? What will you need to do and spend to capture it? What are your competitors likely to do, and how will you anticipate and respond to their actions?

How will you position your product or product line in the marketplace? How will you price, publicize, advertise, and promote it? How much will you spend on marketing?

How will you sell and distribute your product or product line? How long will a typical sale take, and how much money will it generate? What kinds of service will you need to provide to customers, and how will you provide the needed service?

How many people will buy a product from you in the first year? The second year? The third year? How much will each person pay? How often will each person buy? How will the mix of sales to new customers and sales to existing customers change over time?

6. **Do the numbers.**

At the heart of every good business plan is a detailed model. This is the financial expression of the operating plan, the foundation on which the road map is built.

The model consists of spreadsheets that build the business from the bottom up. It reflects an understanding of the details that will drive revenues and expenses and expresses the relationships among variables (for example, how staffing assumptions drive salary expenses and how volume and price assumptions drive revenues).

Develop your model early in the business planning process. It will enable you to test and refine your concept by letting you see how various assumptions and scenarios affect results. The model should include the development period and at least five years of operations to demonstrate how the business is likely to evolve over time.

First develop the model on a cash-flow basis. How much cash will it take to develop the product (or each product, if there is more than one) and start operating the business? How long after you launch operations will cash begin to come in? How long will customers typically wait to pay you after placing their orders or receiving their products? How can you accelerate collections?

Once you have completed the cash flow model, adapt it to reflect accounting conventions. This is important not only to smooth the hills and valleys of the cash flow picture but also to calculate the impact of taxes in each year.

As you create your financial model, think about which costs are incurred regardless of how much you sell and which are incurred only if and when a unit is sold. In building your model, separate these kinds of costs so you can see how variations in price and volume will affect profitability.

The price received for a unit sold minus the cost incurred only if a unit is sold is called the ***contribution margin***. In a business with a high contribution margin most costs are fixed; a relatively high sales volume is needed to break even but profit rises sharply as volume grows. In a low contribution margin business, it takes less volume to break even but additional volume contributes less to profit.

The examples below illustrate this concept.

	Product A	Product B
Price realized	$50	$50
Incremental cost per unit	$5	$30
Contribution margin	$45	$20
Contribution margin percentage	90%	40%
Fixed cost	$ 1,000,000	$ 200,000
Units needed to break even	22,222	10,000
Profit at 20,000 units	$ (100,000)	$ 200,000
Profit at 200,000 units	$ 8,000,000	$ 3,800,000

The contribution margin percentage may affect the way you manage a business or price a product and will certainly affect your financial expectations.

Whether you are seeking funding from internal corporate sponsors or from outside investors, you will need to forecast cash flows and profits or losses by year for at least five years to demonstrate the potential return on investment.

The return on investment is a function of the yearly cash flows and the value of the business at the end of the plan period. Future cash flows must be discounted by a factor to account for the time value of money. (Money has a “time value” that reflects the income that the cash could have earned in an alternative investment.)

To estimate the final value of the business at the end of the plan period, find out what prices are being paid for the stock of comparable companies in relation to the companies' revenues and earnings. Then apply those multiples to the projected earnings and revenues of your company at the end of the plan period. Take a look at whether the multiples paid for companies in your industry have been changing over time so you can take into consideration the possible effects of price trends.

Outside investors will need an exit strategy that enables them to get back the money they put in to the company plus their return on the investment. Typical exit strategies include a public stock offering or sale of the company to a corporate buyer.

The return your investors expect will be related to how risky they perceive the investment to be. Most people seek high returns on investments in start-up companies because they know that a high percentage of them will fail. Developing a good business plan reduces the risk of failure because it forces you to think through the details of the business and map out a course of action that optimizes the chances of success. Letting investors see that you have planned the business carefully will help them feel comfortable with the risk you are asking them to take.

7. **Document the story.**

Now write the plan. Start with a 3-5 page executive summary that describes each element of the business briefly and provides a financial summary.

Follow the executive summary with a brief but more substantive narrative covering each topic more fully. Include more detailed financial projections and key assumptions. Identify risks and opportunities and talk about how you would approach them. Describe the management team, including your relevant experience and qualifications and those of each team member. Many investors base decisions more on people more than on products.

Including appendices is a useful way to keep the plan short but provide all the detail that some readers may want. Appendices may include more detail about products, technologies, markets, or competitors; reports on market research findings; or more spreadsheets to back up the financial projections shown in the body of the plan.

A business plan is a story that you want to make come true. While you need to approach it in a systematic way, don't forget to communicate the enthusiasm and conviction that made you want to create your business in the first place.

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