

Entrepreneurs Need Business Plans

A business plan isn't just for raising money—it should help focus your efforts and guide your decisions.

By Margaret Reynolds

It's hard for busy entrepreneurs to find the time to write a business plan. After all, you know what you're doing, right? And you work with a small staff, so how hard is it for all of you to be on the same page? Sometimes it's hard to appreciate the value of a good business plan until you need it—and then it can be too late.

A good business plan can help you be proactive about business opportunities and prepared to make tough decisions. A business plan provides focus, streamlining business operations. And finally, it is the tool potential investors rely on to decide if your business has a bright future.

The good news is that business plans don't have to be written every year—just updated regularly as the market evolves. Take the time to do it well the first time and reap the rewards of greater productivity for years to come.

An Effective Plan

Here are the components of an effective plan:

- **Strategic positioning.** Define how your business will compete in the market. Or as Jim Collins asks in his bestseller, *Good to Great*, "What can this business be best at?" This requires a choice, because a business can't be best at everything. This clarity of focus allows you to make decisions about potential customers, partners and investments.
- **Targeted customer.** Determine which customer group is the best fit with your strategic position. Who is

most likely to appreciate your company's competitive strength? Often these first two topics are answered in tandem. You want to be sure that your chosen position resonates strongly with a financially viable target group. Knowing your customer target allows your business to be laser sharp in your marketing efforts—defining the message and the methods used to communicate it.

- **The distribution channel.** Clarify how goods and services will reach customers. This may be an area of competitive advantage and an inherent part of your business model as it is for Dell, which provides a better value by selling direct.
- **The profit driver.** Understand the key variable that defines your company's profitability. It varies by type of business. For some, it is revenue or profit/customer. Others may rely on smaller transactions across broad segments and track number of customers, while still others rely on product production advantages such as dollar profit per product. Know what makes the most difference to your bottom line based on the business model and competitive factors in your industry—and be sure the plan enables the profit driver.

For business plans being written for an investor, include a detailed analysis of the industry, profiles of key competitors, the plan for growing in the industry environment, including the evaluation of risks and the development of contingency plans. A common concern of investors, after determining the business concept is sound, is the experience of the management team. Include profiles and relevant experiences of all key management personnel, the board and advisors.

Following the Plan

The next important step in a successful and useful plan is integrating it into the organizations's daily activities. For a plan to work, it must be followed. However, CEOs commonly concur that

most plans fail due to poor execution.

- **Communicate the plan.** Determine who needs to know the plan, what each group needs to know and what is expected of them. People are generally willing to support the plan if they know what they need to do. And remember, a plan can't be over-communicated, so regularly share information about plan progress.
- **Link the plan to resource allocation decisions.** Only invest in things that fit the chosen strategic position, including equipment, technology, people and product development.
- **Develop dashboard measures.** Identify key measures that will allow the company to track progress of the plan. These measures include outcomes such as revenue and profit, internal goals such as percentage of revenue from new products and external measures like customer satisfaction. Set a target for each measure and report progress regularly.
- **Create an action plan.** Break down each key initiative into specific steps with time frames and accountabilities. Remember, not all aspects of the plan will be accomplished right away. Because a business plan may be a three-to-five year plan, create a sequence or a critical path for activities for they can be absorbed by the organization in a realistic way.

A good business plan saves time and money by connecting the plan for the business's future with the organization's current activities. And that makes the business more productive and the hectic life of the business owner more manageable.

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