

An Introduction to Business Plans

Why is a business plan so vital to the health of your business?

A business plan is a written description of your business's future. That's all there is to it--a document that describes what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan.

Business plans can help perform a number of tasks for those who write and read them. They're used by investment-seeking entrepreneurs to convey their vision to potential investors. They may also be used by firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better.

So what's included in a business plan, and how do you put one together? Simply stated, a business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.

Sound impressive? It can be, if put together properly. A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

- The first is the *business concept*, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
- The second is the *marketplace section*, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
- Finally, the *financial section* contains your [income](#) and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.

Breaking these three major sections down even further, a business plan consists of seven key components:

1. Executive summary
2. Business description
3. Market strategies

4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

In addition to these sections, a business plan should also have a cover, title page and table of contents.

How Long Should Your Business Plan Be?

Depending on what you're using it for, a useful business plan can be any length, from a scrawl on the back of an envelope to, in the case of an especially detailed plan describing a complex enterprise, more than 100 pages. A typical business plan runs 15 to 20 pages, but there's room for wide variation from that norm.

Much will depend on the nature of your business. If you have a simple concept, you may be able to express it in very few words. On the other hand, if you're proposing a new kind of business or even a new industry, it may require quite a bit of explanation to get the message across.

The purpose of your plan also determines its length. If you want to use your plan to seek millions of dollars in seed capital to start a risky venture, you may have to do a lot of explaining and convincing. If you're just going to use your plan for internal purposes to manage an ongoing business, a much more abbreviated version should be fine.

About the only person who doesn't need a business plan is one who's not going into business. You don't need a plan to start a hobby or to moonlight from your regular job. But anybody beginning or extending a venture that will consume significant resources of money, energy or time, and that is expected to return a profit, should take the time to draft some kind of plan.

- *Startups.* The classic business plan writer is an entrepreneur seeking funds to help start a new venture. Many, many great companies had their starts on paper, in the form of a plan that was used to convince investors to put up the capital necessary to get them under way.

Most books on business planning seem to be aimed at these startup business owners. There's one good reason for that: As the least experienced of the potential plan writers, they're probably most appreciative of the guidance. However, it's a mistake to think that only cash-starved startups need business plans. Business owners find plans useful at all stages of their companies' existence, whether they're seeking financing or trying to figure out how to invest a surplus.

- *Established firms seeking help.* Not all business plans are written by starry-eyed entrepreneurs. Many are written by and for companies that are long past the startup stage. WalkerGroup/Designs, for instance, was already well-established as a designer of stores for major retailers when founder Ken Walker got the idea of trademarking and licensing to apparel makers and others the symbols 01-01-00 as a sort of numeric shorthand for the approaching millennium. Before beginning the arduous and costly task of trademarking it worldwide, Walker used a business plan complete with sales forecasts to convince big retailers it would be a good idea to promise to carry the 01-01-00 goods. It helped make the new venture a winner long before the big day arrived. "As a result of the retail support up front," Walker says, "we had over 45 licensees running the gamut of product lines almost from the beginning."

These middle-stage enterprises may draft plans to help them find funding for growth just as the startups do, although the amounts they seek may be larger and the investors more willing. They may feel the need for a written plan to help manage an already rapidly growing business. Or a plan may be seen as a valuable tool to be used to convey the mission and prospects of the business to customers, suppliers or others.