Insight Solutions Success

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Every Journey Begins With a Plan

One of the biggest obstacles to starting or expanding a business is fear of the unknown. If we knew that all of our business decisions guaranteed success, we would be very wealthy. In reality, we know that every decision involves risk.

Successful entrepreneurs manage risk to a more acceptable level through planning.

A business plan is very much like a road map that guides your decision-making. The process of preparing a plan helps you anticipate the potential and risk of a business opportunity. What risks would cause you to lose an opportunity? Some examples are: insufficient money to capitalize and operate the business; poor timing and inability to produce a marketable product or service; too few customers (or, conversely, too many competitors); inadequately trained labor pool; inaccurate and poorly managed records; and a lack of business savvy and management skills .

A written business plan is an opportunity to create structure for your ideas. The plan enables you to objectively set goals, focus your energies, develop tactics, and monitor progress. Throughout the process of writing a plan, you will gain an understanding of what is required of you and how you can design the business to fit with your values, lifestyle, abilities, and resources.

Most business plans consist of six components: Purpose and mission, market analysis, product or service and operations, market strategy, management and organizational structure, and finance. A written plan will require a cover page, table of contents, executive summary, and exhibits.

Prior to any business venture, you must be able to articulate why you will risk your current and future resources for the business. Reasons will vary. However, this soul-searching is important because the business will occupy a large amount of time, money, and energy. At the onset, be clear about your goals. If you plan to invest in a business, operate it for a number of years, and sell it at a high rate of return, you will need to develop a strategy to increase its value. If you want the business to give you an immediate return, you may choose a different strategy. While goals point direction, objectives are more specific. They must be attainable, observable, measurable, and timely. They will form the foundation of your business strategy.

A market analysis will help you size up the competitive environment. You will need to be familiar with the industry in which you operate to know how to assess its risks. Spend time researching industry trends, competitors, consumers' needs, government regulations, and the local economy. You will gain information about developing a product or service that will sell, creating a competitive advantage, and timing.

It is tempting to offer a product or service that you, personally, want to do and really enjoy. In fact, you should enjoy it. You might, however, take another approach and let the customer define the product or service for you. Your market analysis will help you identify gaps in the way customers are getting their needs or desires met.

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You can shape your product or service to fill the gaps while taking the most advantage of your skills, knowledge, and resources. You will be able to quantify the type of equipment and materials, facility, employees, and distribution methods needed to meet those needs.

Armed with your definition of the product, target market, and production requirements, you can develop a market strategy. Your data from the market analysis and your plans for the product/service will enable you to define your place in the competitive environment. The knowledge will guide your decisions in pricing, distribution, promotion, and advertising. By this time, you should have a realistic idea of the share of the market you can expect, how long it will take to realize that share, and what resources are needed to capture it.

You will also be able to evaluate the skills needed to manage the business. Your management skills are probably strong in some areas and weak in others. Minimize the risk of making poor management decisions by offsetting the weak areas. For example, attorneys, accountants, bankers and insurance agents can offer you expertise in areas in which you lack knowledge. You may need a mentor or a business counselor with whom you can discuss strategies or share ideas. You can gain much by employing people who complement your skills and abilities and provide a source of new ideas and perspectives.

The finance section of the business plan ties everything together in financial terms. An existing business has the advantage of history to demonstrate stability and help predict the future. Projected financial statements are based on the assumptions you have made about what capital resources are required, the size and buying behavior of the market, and the resources needed to operate the business monthly. While you may or may not need to borrow money, you will want to translate your assumptions into a month-by-month cash flow statement. You can compare your estimates with actual numbers to monitor your progress and make adjustments along the way. The main thing is to understand that the business will have a demand for cash—especially in a growth mode. You will want to be prepared to cover shortfalls in anticipation of excess cash in later months. Since cash is the lifeblood of the business, you want to minimize the risk of running out.

When you have completed the business plan, you will, no doubt, still have some fear of the unknown. However, you will also have assured yourself that realistic goals and a good understanding of the competitive environment guide your decisions. If you decide the risks are still too great, you have saved your investment for another use. If not, you have mapped out a path to reap the rewards.

This article was written by Janet A. Harte. Janet was an SBDC Certified Business Advisor for the Vancouver Small Business Development Center. The Washington SBDC is a network of 25 centers in Washington managed by Washington State University. Advisors provide in-depth, confidential, and no-cost customized advising to businesses within Washington State. To locate your local SBDC advisor please visit the SBDC web site www.wsbdc.org/contact-an-advisor.