

Articles

Following the Rainbow to the Pot of Gold: How a Well-Crafted Business Plan Lays the Foundation for Business Success in Good - and Bad - Economic Times

Jeffrey C. O'Brien and Pete May

As we complete one year and begin a new one, many of us are taking stock of what we did (or did not) accomplish in the year just ended and what we hope to accomplish in the year just begun. This process involves a significant amount of thought and personal reflection in order to be meaningful. In other words, advance thought and planning as to personal goals is the key to success in achieving these goals.

A successful small business requires a similar effort. Ask any entrepreneur as to what is the key to business success and most, if not all, of them will say that preparation of a comprehensive business plan is such a determining factor.

The world is full of individuals with interesting business ideas. Taking an interesting concept to the next level (i.e., a successful operating business) requires more than just a good idea. Unfortunately, far too many beginning stage businesses sputter out because of a mistaken expectation that success is determined by the merits of the business concept. Buildings are not built without blueprints, and businesses are no different. It is the execution of the business plan that will decide ultimate success or failure.

What Is a Business Plan?

A business plan is a written document that lays out a comprehensive plan of attack necessary to take a conceptual stage company to profitability or an existing business to its next phase of expansion. Elements of such a plan include the following:

- **A Description of the Business:** Whether the business is service-based or product-based, the starting point for the business plan is a basic description of what the business is (i.e., what services or goods will be provided).
- **Analysis of the Market and the Competition:** Business ideas do not succeed or fail in a vacuum. A successful product or service requires a customer base and the ability to distinguish the business from the competition. Knowledge of the customers and/or potential customers for the product or service is required. In addition, existing or potential competition (including anticipation of how potential competition will react to your entry into the marketplace) will form the impetus for a marketing strategy necessary to distinguish the new business from the competition.
- **Marketing Strategy:** Products and services do not sell themselves. Marketing is a crucial element of the overall business strategy, and a thorough business plan must include the means for distinguishing the new business from existing competition. In addition, marketing involves anticipating the reaction to the business and how the introduction of future competition will be handled. Additionally, the marketing strategy should include growth opportunities for the business, such as additional product lines which should flow from the initial concept. Without such forward thinking, a single great idea might be reduced to a passing fad.
- **Operational Needs:** A thorough business plan will also include a determination of any office and/or equipment needs based upon the description of the business. For example, a widget manufacturing business cannot be operated out of the owner's home. Specific aspects of the business' physical operation - throughout the life of the business -- should be accounted for in the business plan.
- **Management/Personnel Needs:** Some businesses require only a single owner/operator in order to succeed. Many others, however, require a team approach which includes both management and rank-and-file employees. If the business plan is the plan of attack, managers are the generals and employees are the ground troops. Knowing what personnel at both levels are necessary allows the business owner(s) to determine the individuals who can fill those roles. Some industries require special expertise, while other

positions - such as bookkeeping and human resources - can be filled by persons with general expertise in the particular area.

- **Financial Assumptions:** This section of the business plan is the bridge between the plan's narrative and the financial projections. Proper financial assumptions should make sense with the size and scope of operations, describing the quantifiable rationale for the projected revenues, cost of goods sold, fixed expenses, and financing parameters (e.g. loan terms).
- **Sales and Financial Projections:** The pro-forma financial portion of a business plan lays the foundation of the business plan as a management tool, as this portion of the plan provides a measuring stick to gauge actual vs. projected business performance. Typically financial projections cover at least three to five years, with the first 12 to 18 months of the business broken down monthly and later months and years projected on a quarterly or annual basis.

Financial projections also provide ownership and management with a determination of when breakeven will occur (sales equal expenses). This in turn, through cash flow analysis, captures the appropriate amount of working capital the business needs to sustain operations during the ramp-up phase of start up or expansion.

If the business plan is ultimately used to attract investors (as discussed below), the financial portion of the business plan is perhaps the most important portion of the plan.

- **Exit Strategy:** It seems oxymoronic, but the successful business owner plans his/her exit strategy when the company begins. Some businesses are started with a short-term exit strategy (such as acquisition by a larger company), while other businesses focus on an internal ownership succession plan (by employees or family members). Whatever the exit might be, the business plan should address it.

Revisiting and Updating the Business Plan

A business plan is a living, breathing document. As markets change and opportunities arise, a successful business necessarily adapts to these changes and new opportunities.

The Many Functions of a Business Plan

A well written business plan serves multiple functions for a business. First, the business plan lays the groundwork for the business operation. Additionally, if properly drafted, the business plan can be submitted to lenders and/or prospective investors for purposes of obtaining sufficient capital for the business.

Conclusion

Too often entrepreneurs make the mistake of starting or expanding a business without having a proper written plan for the business. While there are exceptions, this myopic approach typically results in the failure of the business. Engaging in the process which leads to a comprehensive business plan is the critical element to operational success. Starting or expanding a business with nothing more than a plan for success focuses on the proverbial "pot of gold." The successful entrepreneur recognizes that the business plan is the rainbow that leads to this pot of gold.

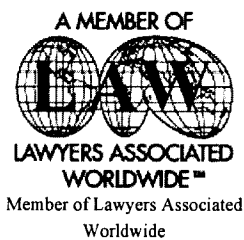
Jeffrey C. O'Brien is an attorney with the Minneapolis-based law firm of Mansfield Tanick & Cohen, P.A., where he oversees the Firm's INCubation Center, a comprehensive program for new and emerging businesses which provides access to essential legal and non-legal business services. He can be reached via email at jobrien@mansfieldtanick.com.

Pete May is a value-added consultant with PEM Business Advisors, where he assists business owners with the completion of fundable business plans. Mr. May's conservative commercial lending background serves as a counter-balance to the typical entrepreneur's over-enthusiasm for their product or service. He can be reached via email at pete@pembusinessadvisors.com

Mansfield, Tanick & Cohen, P.A.
Attorneys at Law

1700 U.S. Bank Plaza South
220 South Sixth Street
Minneapolis, MN 55402

Phone: 612.339.4295
Fax: 612.339.3161



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