

## The Business Plan

Knud B. Jensen

A business plan serves many functions. It's a document setting out the present and future of a going concern, as well as a document formalizing an idea for a new venture. The plan develops the idea and sets out how a business based on this idea could succeed. A business plan maps out the course of an organization, whether it's an entrepreneurial start-up or an ongoing operation.

There are several reasons to prepare a business plan:

1. To raise money. This is the one reason most people think of. Financial institutions often ask for a business plan before lending money, and the first question an investor asks is, "Where is your business plan?"
2. As a template for growth. Many companies have a strong desire to grow. A business plan helps identify potential opportunities in the market and sets out a plan to take advantage of the opportunities, along with the investment necessary.
3. As a document for owners/managers/employees, providing both direction and information. To set out a vision for an organization, some understanding of the external and internal environment is necessary. The business plan becomes the platform to build on.
4. As a way of guiding the company for the next couple of years. Organizations need maps into the future. The business plan is such a map.
5. As a way of clarifying issues. Organizations often face complex decisions. The business plan provides a background for making better decisions.
6. To focus effort. A business plan helps to focus a company's investments.

The SBA (Small Business Administration, [www.sbagov/business-guide/plan](http://www.sbagov/business-guide/plan)) advises that there is no best way to write a plan. The best way is one that is appropriate for you at a particular point in time. There are standard structures and many templates on the web. You need a set of clearly articulated objectives before you start in order stay on the rails. The plan should reveal the organization's ability to create value, solve problems, and make money (*New Venture Creation. Timmons, Spinelli, Ensign. 2010*). There is no doubt that a business plan increases the odds of creating a successful company.

Plans come in many formats and lengths. My preferred format is the "dehydrated" plan or 10-15 pages. Many investor business plans are formatted as slide decks, fitting the current zoom environment. The traditional business plan has the following building blocks:

1. Market/products/service
2. Management/organization
3. Operation, including IP/technology

4. Financials
5. Critical risks, potential problems

A new type of business plan format, the Lean Business Plan, was developed by Alexander Osterwalder, in the book, *Business Model Generation*, Wiley 2010. A free template is available on the web. This planning process focuses on items like gaining competitive advantage, resources and leverage, value proposition, and revenue streams. Many of these valuable concepts can be built into the traditional business plan. The value of Osterwalder's work is that it brings forward a series of interesting questions and concepts. The plan is mainly pictorial and can be done in a couple of pages. The downside is that although the cost side is covered, little attention is paid to financials.

A good illustration of a business plan was written by a successful entrepreneur in the cannabis sector. He had a vision for a new type of cannabis retail store: small (approximately 353 sq. ft. in total, 80 sq. ft. of shop floor), low cost, limited inventory, and quick in and out. His view of the current market is that the average cannabis retail store is too big. After repeated questions about his new venture, he translated his vision to an approximately 20-page slide deck for investors. Since his concept (small cannabis retail stores) was new, he included a limited set of architectural drawings so investors could understand his vision. A key side benefit of putting together the slide deck was a deeper understanding of the project, its potential and its challenges, for the entrepreneur and his team, and they are better prepared. Look for CANNABIS XPRESS in your neighbourhood.

Why plan? Writing a plan takes a deep dive into the often complex details of the venture and exposes the essentials for success. This is a big payoff. It may also unearth barriers that are just too big to overcome and a limited potential for the business, even if it is successful. If the founders are a team, the plan forces agreement on the road ahead. Once the process is put on paper, it becomes more tangible and opens up points for discussion among the team. Even an ongoing company could use a business plan to reboot the company or to form the basics of a one-day planning session to future-proof the company. Not every business or entrepreneur can benefit from a business plan. Sometimes, action takes precedence over planning, and sometimes the environment is so volatile that a plan would be out of date in a month. For example, a new CEO was hired to turn a failing company around. He discovered that the company's product wasn't up to competitive standards, the manufacturing process didn't use new technology, and the sales force was ineffective. Clearly, action was called for, not planning.

### **Common Business Plan Flaws**

Most entrepreneurs and business people are optimistic by nature. They often overstate financial projections (the hockey stick syndrome). Forecasts are often vague and without supporting evidence, strategies are unclear, and timelines are sometimes overly rosy and assume everything goes well. Market acceptance is often assumed.

## **Contents of a Typical Business Plan**

A business plan is really a series of plans, and which sub-plan is emphasized depends on the situation.

1. Executive Summary  
Ties everything together, less than a page (one slide)
2. Marketing Plan  
Contains a snapshot of the industry, market, trends, competitive analysis, target market, growth strategy
3. Product/Service Plan  
Positioning in market, value provided, competitive advantage, technology (R&D), map the product/service, value chain
4. Management Plan  
The team, structure, present, future, compensation
5. Operation Plan  
Facilities, cost, processes, technology
6. Financial Plan  
Capital requirements, income statements (3 years), cash flow, margins, breakeven
7. Critical risks, potential problems, mitigation

A business plan tells a story, so write it like a good story, not a fairy tale (“Hope is not a strategy.”). Keep in mind that less is more, and treat the business plan as a road map to success.

Knud Jensen  
Professor Emeritus  
Entrepreneurship and Strategy  
Ted Rogers School of Management  
Ryerson University

Principal  
Braden-Jensen + Partners Inc.  
Consultants, dedicated to growing entrepreneurship  
and small and medium enterprises

