

Writing a Successful Business Plan

An Overview

by Annette B. Haag, MA, RN, COHN-S/CM, FAAOHN

ABSTRACT

In creating and building a business, the entrepreneur assumes all the responsibilities for development and management, as well as the risks and rewards. Many businesses do not survive because business owners fail to develop an effective plan. The business plan focuses on major areas of concern and their contribution to the success of a new business. The finished plan communicates the product or service to others and provides the basis for the financial proposal.

American corporations are downsizing, outsourcing, and flattening their hierarchies. As a result, advancement opportunities are shrinking. Conversely, workers are looking for security, new opportunities, and rewards from their work. In search of a more rewarding lifestyle, increasing numbers of individuals are determined to become their own bosses or to work more independently by starting their own businesses and becoming entrepreneurs.

Entrepreneurs are considered the catalysts for change in today's business world (Bangs, 1995). Most businesses in the United States are small, with 20 or fewer employees. Yet, in total, small businesses account for most of the new jobs created each decade. New business owners are becoming the life blood of the Ameri-

can economy. They are developing new ideas, products, and services that are on the "cutting edge" of the economy. Their success brings profits and a competitive environment spawning more ideas and innovation. This entrepreneurial spirit is evident in occupational health and safety including safety personnel, industrial hygienists, physicians, and occupational health nurses forming their own businesses.

About 600,000 new businesses are started each year in the United States, not including all the small home online businesses. Of these, approximately 200,000, or 1 in 5, will survive to see their fifth anniversary. Considerable time, energy, and resources go into staffing a business, so why do so few survive the first 5 years? Most of these business owners did not have a business plan. Although business and industry have found no simple equation for success, one basic rule holds true: "A business owner who fails to plan, plans to fail" (Covello & Hazelgren, 1995, p. 2).

The author recently attended a meeting at her local Chamber of Commerce during which the importance of developing a business plan was discussed. When entrepreneurs were asked why they did not develop a business

ABOUT THE AUTHOR

Ms. Haag is occupational health nurse, Drug Delivery Systems Division, 3M, Northridge, CA.

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Address correspondence to Annette B. Haag, MA, RN, COHN-S/CM, FAAOHN, Drug Delivery Systems Division, 3M, 19901 Nordhoff Street, Northridge, CA 91324. E-mail: ahaag@mmm.com.

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plan, typical responses included, “It requires a lot of hard work and time,” “I am able to self-fund my business and developing a plan is not critical at this time,” and “I have my plan in my head.” Many felt that the rapidly changing economic environment invalidated their plans. The discussion concluded that although no plan will ever be 100% accurate or current, an effective business plan enables an entrepreneur to quickly make necessary changes to meet competitive environmental changes.

Success requires hard work and careful planning. A business plan is the owner’s road map for a successful enterprise—a blueprint, a statement of goals and hopes, a compass, and a guideline to planned action. It is the current and futuristic image of the business.

A business plan is key to securing financing, maintaining focus, communicating, and preparing for the unexpected. “Your business plan is the heart and soul of your operation and the most important set of documents provided by you to any lending institution or potential investor” (Covello & Hazelgren, 1995, p. 2). The business plan is evidence of the business owner’s initiative and allows the owner to communicate a step-by-step agenda for reaching goals. It enables the owner to take an objective, critical, unemotional look at the business in its entirety. Developing a business plan forces the owner to assess the competition and establish competitive alternatives and advantages.

The plan incorporates the possibility of uncertain outcomes and provides for contingency strategies. Bankers and investors expect to see negatives as well as positives in the business plan. They are further impressed when the entrepreneur has included a plan to handle the unexpected.

THE BUSINESS PLAN PROCESS

Many individuals believe that a business plan is only needed to raise funds and document business parameters for investors. However, business plans are actually the road maps that enable individuals to execute excellence. Many entrepreneurs establish their businesses without business plans; however, this may take more time and result in higher costs. Without a business plan, the owner has no concrete foundation or direction to keep the business focused. The owner might not even know when the business is headed in the wrong direction. The business plan should clearly and concisely define the mission, values, strategy, measurable objectives, and key results the owner expects.

It is important to set aside enough time to formulate the plan. Experts recommend starting the planning process at least 6 months before initiating a new business. The owner should not wait until resigning from a current workplace. Many individuals start researching their ideas and writing their business plan during evenings and weekends while they are employed in another position. The employment situation today is not as secure as it once was. Since the 2008 stock market crash, many individuals have unexpectedly lost their jobs. For many it has taken years to find a new position, and often the new position is not the job they want. They just need a job to

pay the bills. On the positive side, for many individuals losing a job is the impetus to start the business they had wanted to start for many years.

An effective plan may take from 50 to 100 hours to research, document, analyze, and review. Some consultants may accomplish the task in a shorter period. However, a poorly conceived plan can set the company back several months or years, or can result in business failure. Building a business plan is a dynamic process; execution is the primary task. Once it is formulated, the plan is fine-tuned and updated on a continuous basis. The business planning process entails a variety of steps.

Define the Business Concept

During this stage, business owners must determine the types of services and products they will provide, who will buy the services and products, and how these products and services will be different from those provided by competitors. Even Thomas Edison recognized this fact when he said, “Anything that won’t sell, I don’t want to invent” (Abrams, 2010, p. 4). Questions for the business owner to ask include:

- Is this something new?
- Is it something better?
- Does it have a niche in an underserved or new market?
- Would I buy it or use it?

Gather Data on the Feasibility and Specifics of the Concept

Before an owner can develop the body of a business plan, information and reliable data about all aspects of the business must be compiled. For example, if the concept is to develop a self-study guide to assist individuals in preparing for an examination, the needed data might include:

- How many other self-study guides currently exist in the specialty targeted?
- How profitable is the company’s marketing of the self-study guide?
- In what format will the self-study guide be distributed (printed manuals, online, CD-ROMs)?
- What type of information is presented in the self-study guide?

If the concept is to conduct educational seminars, the data needed might include:

- What type of educational seminars currently exist in the specialty area targeted?
- Are the seminars an overview on the subject area, or do they offer an in-depth program on the topics covered?
- Do the seminars offer continuing education credit?
- What are the length and price of the seminars?
- Where are the seminars conducted?

After formulating a list of questions, the next step is to look for the answers. Most information can be found through the Internet, local libraries, government resources, business publications, professional organizations, and trade associations. Paid research services are also available. Because funding is always a consideration, the owner can find some of the information and have a research firm handle more complicated tasks. Research firms can

be recommended by various professional and trade organizations that support the owner's market niche.

It is advisable not to over-research and collect more data than needed. During this phase, it is necessary to answer some basic questions about the business. If the entrepreneur is creating a product or service that does not exist, data may not be available. To make the plan more compelling and persuasive to investors, the owner should use the most current data and the most reliable sources. Whenever possible, it is best to use conservative figures and translate data into financial units.

Focus and Refine the Concept

At this point, the owner analyzes the information gathered and decides whether the original idea is still viable or should be revised. Does a market still exist for the products and services? Will the time, energy, and money invested in starting and operating the business generate sufficient return on investment to create a venture worth pursuing? Will the product or service survive in both good and bad economic times? For example, it is difficult for a construction industry to make money when the number of new homes being built is low; another revenue source is the remodeling market. It is often tempting to offer too much. Focus is critical. The first phase of a business should be narrowly defined.

Outline the Specifics of the Business

At this point in the process, the owner crafts a concise statement of the purpose of the business. A helpful exercise is to write a mission statement outlining what will be provided, to whom the product or service will be provided, and what will differentiate the business. "A rule of thumb: If you can't describe your idea clearly and simply, you haven't thought it through" (Bangs, 1995, p. 9). This information should be included in the executive summary. If financing is needed, which has been more difficult to secure in the recovering economy, the owner must capture the interest of investors within the first few sentences of the executive summary. The owner must instill a positive impression the first 5 minutes. Investors rarely read the entire business plan. The most important aspects of the plan must ignite the interest of the reader to avoid being rejected and encourage the reader to finish the plan.

Using a Compelling Form for the Plan

The format of the plan may vary according to the intended use and readership. However, the author must remember that readers' time is extremely valuable. Bankers, venture capitalists, and other investors rarely have time to give each proposal and business plan the attention deserved. Each owner will be competing with other entrepreneurs for needed support. Highlighting key areas and summarizing as needed will allow investors to easily review the data contained in the plan.

Most experts suggest the business plan be no longer than 15 to 35 pages, not including the financials and appendices; 20 pages are sufficient for nearly every business. Anything fewer than 10 pages may be viewed as

Sidebar 1 Business Plan Components
Cover letter
Executive summary
Table of contents
Business description and history
Business structure
Product or service description
Market analysis and trends
Operations
Technology plan
Management and organization
Social responsibility and sustainability
Development, milestones, and exit plan
Financial data
Appendix

insubstantial. The appendices are limited to no more than the length of the plan. If investors are interested, they will ask for more information. Most plans should project 3 to 5 years into the future or until the owner has reached the proposed exit strategy (Abrams, 2010).

BUSINESS PLAN COMPONENTS

At a minimum, a business plan must contain the components listed in Sidebar 1.

Cover Letter

A cover letter should entice the reader to give careful consideration to the business opportunity and to read further. The cover letter should include:

- Why the owner has chosen this funder to receive the plan.
- The nature of the business.
- The development stage of the business.
- The amount of funds sought.
- The type of funding sought (e.g., investment or loan).
- The principals of the company and contact information.

The cover letter must be simple, attractive, concise, and tailored to each investor.

Potential investors should be contacted again about a week after the plan is submitted; it is acceptable to ask when the funding source might contact the owner for further conversation. Inquiries should be brief. Most contacts will be through e-mails and voicemail messages. The owner should have a message that quickly explains the nature of the business.

- Sources of funding and department financing include:
- Banks and lending institutions.

- Loans or investment from family and friends.
- Cash advances and personal or company credit cards.
- Venture capitalists.
- Private investors.

Owners must have a well-conceived financial plan to secure the money needed to start and sustain the business.

Executive Summary

The executive summary captures the essence of the business plan. This section is an abstract of the company's present status and future direction but is prepared after the plan is completed. The executive summary is the most important section of the business plan. The executive summary:

- Summarizes the basic concepts and highlights key points.
- Identifies the company's main concept, objectives, and purpose.
- Identifies the target or niche market and competitive advantage and position.
- Outlines the marketing and sales strategy.
- Identifies growth opportunities.
- Highlights benchmarks (e.g., financial and non-financial targets).
- Quantifies resources.
- Describes work and management experience and past successes of the management team.

Investors will look for entrepreneurs who can articulate their vision, passion, and dreams.

If an owner is submitting a financing proposal, the executive summary is more complex and contains additional information about the structure of the corporation. In addition, it includes the amount of money needed and the purpose. Finally, the owner will articulate how the funds will benefit the business and be repaid.

The executive summary is targeted to the audience. Current technology enables the entrepreneur to change, update, and tailor the business plan as needed. The importance of the executive summary cannot be overstated. Some investors may prefer reviewing the executive summary and financials before reviewing the plan. The executive summary is usually no longer than 2 to 3 pages, although a 1-page executive summary is acceptable. Bullet points are effective and make the executive summary more appealing to the reader. A busy funder should be able to read the executive summary in 5 minutes (Abrams, 2010).

Table of Contents

The table of contents serves as a guide to writing and organizing the business plan. It also assists readers to understand and easily access the information presented.

Business Description and History

The objective of this section is to describe the business, how the entrepreneur will manage it, and why the business will succeed. If the business is new, the following questions should be answered (Bangs, 1995):

- What is the legal/corporate name of the business?
- What is the legal form of the business?

- What is the mission of the company?
- Where is the business located and what geographical areas will it serve?
- What hours of the day and days of the week will the business operate?
- Will the business be seasonal?
- What is the nature of the business (i.e., its products and services)?
- How will the business succeed and what is its growth potential?
- What is each individual's experience in the business and what positions will individuals hold?
- What type of staff will be needed?
- What makes this business special or different?
- What is the financial status of the company (i.e., income and expenses)?
- What is the structure of the business?
- Why will the business be profitable or continue to grow?
- What types of patents, trademarks, copyrights, and licenses are needed?

For an existing business, the owner should state whether the business is expanding or if the plan is to subsume an existing business. Focus is the aim. When entrepreneurs are clear, concise, and knowledgeable about the business, they are able to concentrate their efforts and use resources effectively.

The business will need a name; naming a business requires a legal name search. The name of the business should be memorable and easy to spell and include information about what the business does. Information on the purpose of the business should be provided so that potential customers and clients can find the business online or in telephone books and directories. What the name implies should be considered. The name of the company is usually the first introduction investors and prospects have to the company.

Business Structure

In this section of the plan, owners include historical facts supporting any request for financing or acquisition objectives. The legal form of the business is listed (i.e., sole proprietorship, partnership, corporation, Subchapter-S corporation, C-corporation, limited liability company). Most new businesses start as sole proprietorships or partnerships. Structural, management, or ownership changes are documented. Present or past successes are recorded.

Product or Service Description

The purpose of this section of the plan is to provide a description of the product or services offered. Unique features that provide a competitive advantage are highlighted. Products and services provided by competitors are analyzed. Entrepreneurs should list the advantages of the product or services provided, along with improvements over existing products and services. The entrepreneur must explain the strategy for meeting or dominating the competition.

A plan to introduce new products and services should be included. When completing this segment of the plan,

a sales breakdown by product, region, and industry type is essential. New products might include selling informational material presented at a seminar, such as manuals and audio recordings, or webinars to clients who are unable to attend the program. The product life cycle and seasonality of the product or services are noted. Professional textbooks and references have a shelf life of approximately 3 to 5 years; they should be updated periodically to remain current with trends, technology, research, regulations, and legislation. Discussing the duration and impact of the product or services on competitive advantage and whether the product has a limited shelf life is essential. The owner provides documentation when a patent, copyright, or exclusive agency is involved.

The owner includes responses from clients and inquiries from prospective clients that illustrate the demand for the product or service. Relationships with leading companies and major accounts and accomplishments are documented, substantiating the company's fitness for growth. If the owner is concerned about proprietary information, a non-disclosure agreement is created.

Market Analysis and Trends

This segment describes the existing marketplace in which the entrepreneur will introduce the company, its products, and services. It can be viewed as a plan within a plan. At its most basic level, the marketing strategy (plan) sets forth the product's or service's marketing mix and includes product, price, promotion, and place (distribution) for the coming year with projections for at least 5 years. Marketing (including sales) is the revenue-generating part of the company.

The product is the tangible aspect of the product or service itself, such as a professional textbook or health and safety seminar. Price and value work together. Clients consider durability, reliability, service, and quality in addition to cost. The approach to pricing strategies should be logical and justified and should produce ample return on investment while leaving room for a margin of error. Promotion, the amount and nature of the marketing activities, might include advertising online, in professional publications (e.g., *Workplace Health & Safety*, American Association of Occupational Health Nurses, Inc. [AAOHN] News, American Board for Occupational Health Nurses, Inc. Continuing Education Resource Guide), in local constituent newsletters, or via direct mail by purchasing mailing labels from targeted groups (e.g., AAOHN, Association of Occupational Health Professionals in Healthcare, American Society of Safety Engineers). Distribution includes the convenience and decor of the location in which the product or service is presented. For example, are the meeting facilities comfortable, reasonably priced, and near convenient air and ground transportation?

Market Research. Marketing involves research to learn what people want to purchase. Business owners should put themselves in the client's place to determine client needs. What is the client base demographically: age, income, gender, family, location, and occupation? What motivates a client to purchase a product or service: lifestyle, motives, needs, or interests? The client is the

sole focus (Bangs, 1995). Marketing plans and strategies are not valuable unless supported by accurate data. Current technology facilitates the process of collecting needed data. Even with historical and current data, predicting the future is a challenge. The owner must be realistic and alert for market changes.

Marketing Strategy. Marketing strategy also includes analysis of the alternative opportunities and risks to the company with informed consideration of the competition, social environment, and company's internal production capability (Arkebauer, 1994).

Entrepreneurs survey the existing market to determine size, diversity, and location. They define the competitors and their pricing policies, promotional strategies, and relative share of the market. Is the market growing or shrinking? The owner should outline trends, implied opportunities, and expectations of industry forecasters for the next 2 years, including projections.

Strengths and Weaknesses. Strengths and weaknesses should be listed. When discussing strengths, entrepreneurs should place at least as much emphasis, if not more, on marketing as on the product. Strengths include how the product or service is favorably differentiated from the competition in actual performance, quality, and reliability, breadth of line and options, distribution, pricing, and awareness and image.

When documenting weaknesses and barriers, the entrepreneur must explain how the problems or threats will be overcome. The discussion also includes opportunities to justify the potential with logical rationale. For unexploited opportunities, it is crucial to include the estimated cost of entry, time required, and risk.

Target Marketing. The business must establish target market segment and a strategic fit, a match, between the company's abilities and resources vis-à-vis the basic criteria needed to compete in a market, also known as a market "niche" or "target marketing." Strategies may include feasibility testing and competitive analysis. A business owner may consider engaging a qualified and experienced market research firm to analyze the market, using techniques such as focus groups. Typically, a group of 5 to 10 individuals (from the target industry) are gathered together with a moderator. The moderator works with prepared questions. The findings are used to determine the viability of the product and service and enable the business owner to focus on short- and long-range marketing, advertising, and promotion plans.

Market Potential—Positioning. An additional issue to address is the size of the market niche. Is it large enough to sustain business profitably? Do enough clients and effective and economically justifiable ways exist to reach the target market? The business owner must be sure that the niche is large enough for growth. Positioning also includes location, pricing, benefits, and testimonials. Positioning may be as simple as locating the business in high consumer traffic areas and away from other similar competitors, or concentrating on selected market segments. Will the price of the product or service be targeted to the high, middle, or low end of the market? This may depend on the target niche.

It is important for the business owner to differentiate the business from other competing businesses by promoting the benefits of the product or service. A common question asked is, “What’s in it for me?” It is important for owners to place themselves in the client’s shoes. Positioning strategies include testimonial letters and references. The owner should never hesitate to ask clients for referrals and permission to place quotes and comments in advertising literature.

Pricing Strategy. Lack of courage in pricing may be the single most significant marketing error small business owners make (Bangs, 1995). A common mistake is thinking that offering the lowest price is the key to success. Some clients may be price sensitive, whereas others may be prestige sensitive. Knowing what clients want is crucial to this phase of the marketing plan. The nature of the market will affect the pricing strategy. Three types of market, monopoly, oligopoly, and competitive, are defined by the competition operating within that market.

Monopolistic Market. This market is one in which one business controls the vast majority of supply. It has a unique or protected product (e.g., a patented invention), or a temporary edge on the competition due to an existing business structure. The optimum price is that amount which will allow marginal revenues to equal marginal costs.

Oligopolistic Market. This market is characterized by few participants with little meaningful product differentiation. In this case, pricing is a function of competitor pricing. If the business owner reduces the price of the product, competitors reduce their price. However, if the owner increases the price, competitors may not.

Competitive Market. This type of market is characterized by numerous participants with almost no product differentiation and little or no economic barriers to market entrance. In this market, customers, as a whole, determine the prices. All of these markets have critical implications for businesses. However, to stay viable, the business must generate a profit (Brenner, Ewan, & Custer, 1990).

Distribution, Advertising, and Promotion. Business owners must demonstrate that the price and profitability of the product or service justifies the costs of sales (e.g., presentations, advertising, website, commissions, telephone, travel) and the distribution channels selected. The marketing strategy must establish the optimum channels of distribution, including executive selling, direct sales force, manufacturers’ representatives, distributors, retailers, national and regional chains, independents, mail order and direct response, catalogs, telemarketing, original equipment manufacturers, international distribution, the media (i.e., radio, television, print, social), and the Internet. Occupational health and safety professionals have found successful distribution and advertising channels exhibiting at national, state, and local conferences, placing advertisements in professional publications, and using direct mail (i.e., flyers, brochures).

Social media offers an enormous range of marketing opportunities. The public is now connected to the

online universe virtually all the time via smartphones and mobile devices. The result is a huge number of individuals constantly attached to the web, their phones, and each other. The consultant must determine if the strategy is to reach consumers or businesses. Does a mass-market site (e.g., Facebook, Twitter, Friendster), a special interest site (e.g., Chowhound for food and Linked Musicians for music lovers), or a professional networking site (e.g., LinkedIn or Nurse Linkup) better suit the business? Once the right site (or sites) is chosen, the owner must provide relevant and interesting content to raise the company’s visibility nationally and internationally (Abrams, 2010).

The Internet is a global network of computers that communicate using a common language. It is simply a “network of networks.” Although important, the ability to buy and sell online is not the only part of the Internet commerce equation. Entrepreneurs and established companies are finding more outlets for marketing “the Net.” Examples include traditional product sales, selling advertisements on popular websites, collecting demographics, and selling access to target markets.

The most obvious way to market on the Net may be to establish a website that showcases the company’s products and services and accepts orders. One of the best features of the Internet is its ability to level the playing field. Every company can look as significant as the next company. Entrepreneurs do not need a storefront operation to present a professional image and can target customers within or beyond their geographical area. Some major types of online website advertising opportunities are (Abrams, 2010):

- Portal sites and directories—online hubs usually grouped together around a common theme, product, topic, or location.
- Website ads (banner and interstitial ads)—a banner ad is similar to a newspaper ad, including graphics, photographs, and text; and an interstitial advertisement is similar to an advertisement used in a TV commercial. When an individual types in a website address, the website changes to another advertisement instead of the intended website.
- Sponsorships—website sponsors will give an advertiser visibility and recognition on their websites.
- Online classified—text with pictures like a classified ad.
- Affiliate auction sites—eBay has created numerous marketing opportunities. On these sites, the owner can create stores and list products as “Buy It Now.”
- Affiliate programs—advertise on other websites and arrange pay-per-sale ads for which the website is paid if the ad results in a sale.

A realistic budget should be allocated for an advertising and promotional campaign. The owner may need someone to advertise, as advertising can be time consuming. Business owners should devote the majority of their time to running and growing the business. As the business grows, additional sales and marketing personnel may be needed. Business owners must also decide if they intend to market their product and service internationally.

Which products and services are well suited for international sales, and which countries are the best prospects? Advertising and promotion strategies also include logos, stationery, business cards, and packaging design. As mentioned earlier, the marketing section of the business plan is a plan within a plan. The entrepreneur can significantly impact investors and customers if a simple rule is followed: keep the message concise and clear. The owner must remember that the marketing plan and sales strategy are the heart of the company's business.

Operations

The operations section of a business plan explains the day-to-day functions of the company. This section varies, depending on the type of business. The differing requirements are best illustrated by considering retailing and manufacturing. The operation of a retail establishment is conceptually straightforward; businesses manufacturing technical products are more complex, but the mechanics are easier to understand. Operations for a retail business simply involve buying the product, transporting it, storing it, selling it, and delivering it. For the manufacturing business, the product's quality and reliability depend on how it is assembled. Readers may lack the technical knowledge to understand the process. Being too technical in the plan may present a problem (Lasher, 1994). Illustrations can be extremely helpful. Areas included in the operations section are:

- Facilities (square footage, acquisition, future needs).
- Location (accessibility to clients, suppliers, labor force).
- Operating costs (heat, light, phone, Internet, water, general upkeep).
- Manufacturing capability (equipment, materials, personnel, space).
- Processes (productivity, fabrication, assembly, test inspection, inventory control).
- Suppliers, distribution channels (includes outsourcing).
- Labor (unskilled, skilled, special requirements or talents).
- Research and development (creating new products and services or improving on an existing product).
- Quality control (Total Quality Management, Continuous Process Improvement philosophy).
- Contingency planning (problems addressed and overcome).
- Customer satisfaction feedback.

This section does not need to be thoroughly detailed; rather, the plan should be brief and to the point. Bulleted points are helpful. The business owner must be cognizant of safety and health issues, labor regulations, protecting the environment, legal considerations, government regulations, adequate insurance protection, and imported or exported goods.

Technology Plan

Every business needs technology; the owner will need to determine what functions require or could benefit from technology. With the numerous technology systems avail-

able today, the owner may benefit greatly by using the services of a technology consultant to assist in choosing the best products and systems to meet business needs. Key issues when choosing technology include (Abrams, 2010):

- Function.
- Ease of use.
- Cost.
- Security.
- Ability to be upgraded and expanded.
- Integration with existing data and technology systems.

Management and Organization

Various studies analyzing key factors in small business failures have determined that 98% of failures stem from managerial weaknesses. Only 2% of the failures are due to factors beyond the control of those involved. Dun and Bradstreet grouped the failures into categories (Lasher, 1994):

- Poor choice of business type.
- Owner not suited to small business.
- Emotional selection of location.
- Lack of knowledge of advertising or attracting clients.
- Failure to obtain proper professional advice.
- Insufficient planning and investigation.
- Poor choice of legal form.
- Insufficient capital.
- Too many non-critical assets.
- Poor pricing practices.
- Owner living beyond income from business.
- No knowledge of finances and record-keeping.
- Poor credit-granting practices.
- Poor inventory management.
- Inadequate borrowing practices.

The majority of these factors do not involve a lack of knowledge of the product or service of the business; rather, they are related to operating the business (Lasher, 1994). When preparing the management section, five areas should be addressed (Bangs, 1995):

1. Personal history of the principals.
2. Related work experience.
3. Duties and responsibilities.
4. Salaries.
5. Resources available to the business.

The personal history of the principals documents their business background, education, special abilities, interests, and personal financial status. Investors usually have two concerns. First, they do not want to see lavish spending on living expenses. Second, they do not want to see frugal spending on living expenses. Both could lead to business failure.

Work experience should explain whether the experience is directly related to the business venture. Unrelated business experience can indicate a weakness in the management structure. Investors are also looking for transferable skills. Investors want to lend to individuals, not companies. The owner must convince decision makers that management personnel are serious and levelheaded and have every intention of focusing on the business venture and repaying the loan.

Sidebar 2

Start-up Costs

List the specific details of the initial cash requirements. These are expenses incurred before business launch. Post-launch expenditures should be entered in the income statement.

	Cost
Facilities	
Land purchase	
Building purchase	
Initial rent	
Deposits (security, utilities, etc.)	
Improvements/remodeling	
Other	
Other	
Equipment	
Furniture	
Production machines/equipment	
Computers/software	
Cash registers	
Telephone/telecommunications	
Vehicles	
Other	
Other	
Materials/supplies	
Office supplies	
Stationery—business cards	
Brochures/pamphlets, other descriptive material	
Other	
Other	
Fees and other costs	
Licenses/permits	
Trade or professional memberships	
Attorneys	
Accountants	
Insurance	
Marketing/management consultants	
Design/technical consultants	
Advertising/promotional activities	
Other	
Total	

Note. Adapted with permission from Abrams (2010, p. 293).

Investors want to see balance and the ability to provide the four essential elements of management: planning, organization, control, and leadership. It is necessary to designate who will be in charge of particular responsibilities and tasks and have a plan outlining the formal structure of the organization. When developing a management team, the owner must determine the types of managers and employees needed (e.g., top decision makers—president, chief executive officer, chief operating officer, chief financial officer, division presidents), key production personnel, plant managers, key technology personnel, management information systems director, systems administrator, principal marketing and sales staff, human resource staff, training directors, and head of research and development. In smaller businesses, responsibilities are shared by many individuals. Each business is unique in the type of personnel needed and will depend on the products and services being provided.

Support professionals and resources outside the company such as researchers, technical advisers, accountants, and attorneys are also included on the management team (Covello & Hazelgren, 1995). An organizational chart is one way to describe the management structure, along with job descriptions detailing job duties and responsibilities.

Proposed salaries, including bonuses, profit sharing plans, and other compensation arrangements for each member of the management team, should be listed. In general, salaries should be based on industry averages. However, deferred compensation (e.g., stock options) is desirable, as it demonstrates long-term commitment. When issuing stock, it is advisable to make it available to key executives over a period of several years. This strategy encourages executives to think strategically and enhances the likelihood of the employees remaining with the company for an extended period (Schilit, 1990). A simple statement of management compensation is sufficient. Being realistic and factual is crucial. Because of its importance to the success of the company, investors may review management expertise and structure before reviewing any other section of the plan.

Social Responsibility and Sustainability

Abrams (2010) stated, “Increasingly, companies judge their performance not merely on profit, but on the concept of the ‘triple bottom line’—or people, planet, profile” (p. 240).

- *People.* How do you affect other people (employees, community, specific groups like the disadvantaged, or society as a whole)?
- *Planet.* How do individuals’ actions affect the environment, not just now but in the future?
- *Profit.* How do owners achieve financial sustainability, as the company must be profitable to remain in business? Without focusing on profits, no company can long meet any of its other goals.

As the business and business plan are constructed, the owner must consider the triple bottom line and not just the financial bottom line. Being socially responsible brings many benefits to a company. It will attract employees and gain visibility for the company.

Sidebar 3

Income Statement: Annual by Quarter

For Year: _____	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Income					
Gross sales					
(Commissions)					
(Returns and allowances)					
Net sales					
(Cost of goods)					
Gross profit					
Expenses—general and administrative					
Salaries and wages					
Employee benefits					
Payroll taxes					
Professional services					
Marketing and advertising					
Rent					
Equipment rental					
Maintenance					
Depreciation					
Insurance					
Telecommunications					
Utilities					
Office supplies					
Postage and shipping					
Travel					
Entertainment					
Interest on loans					
Other					
Other					
Total expenses					
Net income before taxes					
Provision for taxes on income					
Net profit					

Note. Adapted with permission from Abrams (2010, p. 296).

Financial Data and Projections

This section contains a set of financials, including income and expense statements (i.e., profit and loss), balance sheet, and cash flow statement. These reports are standard for most companies. The business owner must understand how each of these documents is developed. The new business owner can learn about financial statements through workbooks, courses, and consultants. Computerized spreadsheets permit changes in financials.

To the financial backer, the heart of the plan lies in its financial projections. The rest of the plan is material that makes the financial backer believe that the financial projections will come true (Lasher, 1994). Financial forecasts in the business plan should be conservative, realistic, and supported with actual orders, client demographic information, and accurate production costs. A fundamental truth of financial planning is that dollar projections should follow projections of physical activity (Lasher, 1994).

IN SUMMARY

Writing a Successful Business Plan

An Overview

Haag, A. B.

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- 1 In creating and building a business, the entrepreneur assumes all the responsibilities for development and management, as well as the risks and rewards. Many businesses do not survive because business owners fail to develop an effective plan.
- 2 The business plan focuses on major areas of concern and their contribution to the success of a new business. The finished plan communicates the product or service to others and provides the basis for the financial proposal.
- 3 The plan identifies customers, target markets, pricing strategy, and competitive conditions. It aids in decision making and is an essential guide for operating a business successfully and measuring progress.
- 4 The business plan not only serves as a mechanism for obtaining any needed financial resources, but also indicates the future direction of the company.

It is important to produce a complete fiscal plan of what is expected to happen in the future (i.e., products to be sold, personnel, materials, equipment, and services needed by the company). Financial considerations include origination costs (Sidebar 2) and the use of funding proceeds (i.e., marketing and advertising, salaries, facilities, capital equipment, research and development, operating expenses, and capital).

The income and expense forecast statement (e.g., profit and loss) is described as the operating statement expected for the business at the end of the period for which the forecast is prepared (Sidebar 3). The balance sheet is a position statement, not a historical record. It shows what is owned and owed on a given date. The cash flow statement measures the flow of money, both expenses and revenue, for the business (Gray, 1995). Projected financials are an estimation of future financial earnings and expenses. Projections are usually divided into monthly projections for the first 2 years, and annually thereafter, up to and including year 5.

Financial ratio analysis is also used to provide a formalized system of relating elements of the balance sheet to the income statement. The mathematical effort

of creating a ratio lessens the importance of individual numbers and allows the owner to evaluate trends, industry standards, and acquisitions. The ratio analysis allows the owner to project asset needs based on historical ratios. Seeking assistance from a certified public accountant simplifies the task. Investors will review financial projections carefully to determine if they are realistic and attainable. Other financial measures used to evaluate success include market share, sales, inventory management, and profit margin.

Another aspect of the business for which an accountant is valuable is deciding whether to create financial records on an accrual or cash basis. Most small companies are advised to conduct business on a cash basis, meaning that income and expenses are entered in the books at the time money actually changes hands. In accrual-based accounting, income and expenses are counted at the time of the transaction. The latter is often used by larger businesses. Even if business owners are not responsible for preparing the financials, it is critical that they have an understanding of financial statements so they have better control of their companies. Financial statements provide the information needed to make informed decisions and assess the condition of the business.

Appendix

The appendix is used to reinforce the content of the business plan. The appendix includes the conclusions outlined in the plan. Information that can be provided in this section includes:

- Letters of intent.
- Key contacts.
- Endorsements and testimonials.
- Definitions of technical words.
- Client listings.
- Photographs.
- News articles.
- Résumés of key management personnel and consultants.
- Contracts.
- Trademarks or copyrights.
- Marketing materials (e.g., brochures).

A FINAL THOUGHT ON PLANNING

To avoid problems, delays, or rejection from investors, it is best to present the business plan to impartial outsiders for review. An accountant should review the financial statements and assess business and personal tax considerations. An attorney can evaluate those areas that may have legal implications. The business plan is typed neatly and placed in a folder or spiral binder for presentation or e-mailed to the investor as needed.

The business plan components listed above are the main core elements commonly included in most plans. However, no single way of preparing a business plan is required. Alternative formats can be found in various references and in computer programs specifically designed to take the business owner step by step through the process.

The importance of planning cannot be overemphasized. Well prepared and executed, the business plan is the entrepreneur's most crucial business document. Investors expect a higher level of expertise and preparation from entrepreneurs they choose to fund. The successful business plan is convincing because it not only discusses the business idea but also demonstrates the author's business competence through a thorough, detailed discussion of what must be done to implement the idea.

The business plan is not merely a report prepared and then forgotten. It is used by the entrepreneur to make daily decisions. It enables the entrepreneur to focus on the tasks at hand. The business plan is reviewed monthly, quarterly, or, at a minimum, semi-annually. Entrepreneurs without a business plan often react intuitively to business conditions without properly thinking through all appropriate alternatives. Consequently, they may find it difficult to make appropriate choices that are strategically important to the business. A sound business plan gives the entrepreneur the ability to maneuver more efficiently and change course when needed. A well-composed business plan offers a true strategic advantage.

A business plan does not have to be perfect. The owner is not able to anticipate every situation. Endless revisions waste time. No business plan is ever finished—it is a work in progress. As mentioned earlier, the owner will need to update the plan on an ongoing basis.

As the number of new businesses increases each year, competition for funding is greater than ever. Owners who provide business plans with a clear definition of the business, evidence of strong management, thoughtful marketing capabilities, and an attractive financial structure have the competitive advantage and are more successful in obtaining necessary funding. However, the greatest beneficiary of this project is not the investor, but rather the business owner. A well-conceived business plan is still the most effective tool for reaching long-term goals and achieving success.

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