

A Simpler Plan for Start-ups

Business advisors, experienced entrepreneurs, bankers, and investors generally agree that you should develop a business plan before you start a business. A plan can help you move forward, make decisions, and make your business successful. However, not all business plans are the same, not every business needs the same level of detail. You might develop a fairly simple plan first as you start a small business, and that might be enough for you. You can also start simple and then elaborate as you prepare to approach bankers or investors.

For a simple example, imagine a woman making jewelry at home and selling it at a local flea market on the weekend. A business plan could give her a chance to step back from the normal flow and look at ways to develop and improve the business. The planning process should help her understand her business. It should help her define what she wants from the business, understand what her customers want, and decide how to optimize her business on her own terms. She might benefit from developing a simple sales and expense forecast, maybe even a profit and loss, so she can plan how to use and develop her resources. She might not need to create detailed cash flow, balance sheet, and business ratios. A simple plan may be just what she needs to get going.

This first stage of a plan, that we call the Concept Kick-start, focuses only on a few starter elements. The Mission Statement, Keys to Success, Market Analysis, and Break-even Analysis give you a critical head start toward understanding your business.

However, not all start-ups are that simple. Many of them need product development, packaging, retail fittings and signage, office equipment, websites, and sometimes months or even years of payroll before the sales start. Unless you're wealthy enough to finance these expenditures on your own, then you'll need to deal with bank loans or investors or both; and for that you'll need a more extensive business plan. Start-up company or not, the plan has to meet expectations.

One suggestion for getting started is to develop your plan in stages that meet your real business needs. A few key text topics might be enough to discuss the plan with potential partners and team members, as a first phase. You may well want to add a basic sales and expense forecast, leading to profit and loss, as next phase. Adding business numbers helps you predict business flow and match spending to income.

Ultimately, the choice of plan isn't based as much on the stage of business as it is on the type of business, financing requirements, and business objective. Here are some important indicators of the level of plan you'll need, even as a start-up:

- Some of the simpler businesses keep a plan in the head of the owner, but every business has a plan. Even a one-person business can benefit from creating a plan document with ideas written down, because the process of producing a plan is useful and valuable.
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- As soon as a second person is involved, the need for planning multiplies. The plan is critical for communicating values, goals, strategies, and detailed implementation.
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- As soon as anybody outside the company is involved, then you have to provide more information. When a plan is for internal use only, you may not need to describe company history and product features, for example. Stick to the topics that add value, that make you think, that help support decisions. When you involve people outside the company, then you need to provide more background information as part of the plan.
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- For discussion purposes, text is enough to get a plan started. Try describing your mission, objective, keys to success, target market, competitive advantage, and basic strategies. How well does this cover your business idea?
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- Can you live without a sales and expense forecast? Sometimes the one-person business keeps numbers in its (the owner's) head. However, it's much easier to use some tools that can put the numbers in front of you, and add and subtract them automatically. That's where a plan helps.
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- Do you really know your market? A good market analysis can help you see opportunities that might not otherwise be obvious. Understand why people buy from you. What are the needs being served? How many people are out there, as potential customers?
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- Do you manage significant amounts of inventory? That makes your cash management more complicated, and usually requires a more sophisticated plan. You need to buy inventory before you sell it.
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- Do you sell on credit? If you are a business selling to businesses, then you probably do have to sell on credit, and that normally means you have to manage money owed to you by your customers, called accounts receivable. Making the sale is no longer the same thing as getting the money. That usually requires a more sophisticated plan.
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- Do you do your taxes on a cash basis, or accrual basis? If you don't know, and you are a very small (one person, maybe 2-3 people) business, then you're likely to be on a cash basis. That makes your planning easier. However, most businesses big enough to work with a CPA and have separate tax statements use accrual accounting because they want to deduct expenses as they are incurred, even if they aren't fully paid for. By the time you are using accrual accounting, you'll probably need more sophisticated cash flow tools, and a more extensive business plan.
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- As you approach banks and other lending institutions, expect to provide more detail on personal net worth, collateral, and your business' financial position. Some banks will accept a very superficial business plan as long as the collateral looks good. Others will demand to see detailed monthly projections. No bank can lend money on a business plan alone; that would be against banking law. But a good bank wants to see a good plan.
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- If you're looking for venture investment, take a good look at your plan. Professional investors will expect your plan to provide proof, not just promises. They'll want to see market data, competitive advantage, and management track records. They'll want to see robust and comprehensive financial projections. True, you'll hear stories about investors backing new companies without a plan, but those are the exceptions, not the rule.

So, however you cut it, your business plan is very important, even at the early start-up stage, and even if you can keep it in your head. Before you purchase business stationery, telephones, or rent a location, you should do a business plan.