

## Do I Need a Business Plan?

By Mike Doherty

Very early in my career, I sought advice from a seasoned business owner.

*“Do I really need a written plan?” I asked impatiently, being inexperienced. He scoffed, “Why spend six months writing a plan? Go start a business NOW!”*

That was great advice, exactly what I wanted to hear. So off I went, and despite myself, I was a modest success. But in hindsight I now realize I could have been spectacular rather than modest.

If you're an organized sole-proprietor, I imagine you can do just fine without destroying half a forest to memorialize your every proprietary insight. However, if you plan to seek funding, hire employees or otherwise engage in activities to facilitate growth - you'll find you really need some place other than your head as a repository for your entrepreneurial vision.

The need for a formal business plan within small to medium enterprises (SMEs) is often the \$64,000 question. If you're seeking venture capital or other external financing, let's call it a \$6.4 million pre-money consideration, because without a business plan you are not likely to get your hands on other people's money.

Most banks and venture capitalists view formal business plans as vital to a successful enterprise; yet it is common to find more small business owners without a formal plan than with one. A survey of 500 small businesses in the United States during the economic boom of the mid-1990s found that fewer than 42 percent possessed a formal business plan. So, why go to the trouble?

Because that was then, this is now--a very different world for funding. And because of the difficulties, you need to be smarter, shrewder and surer about your goals. Developing a business plan brings the structure and rigorous thinking to an idea that makes it more likely to be a reality. The very act of writing a business plan confers advantages; it imposes organization; it demands analysis and articulation; and, most importantly, it declares to potential lenders and investors, commitment to a particular course of action and direction. The plan provides a basic schematic of the business:

A good business plan enumerates four critical functions:

- Helps management clarify, focus and research the project's prospects and development.
- Provides a practical framework within which business strategies can develop over the next three to five years.
- Serves as a discussion platform for third parties such as shareholders, agencies, banks, investors etc.
- Offers a benchmark against which actual performance can be measured.

All these elements are commonly found within average successful entrepreneurs, with the possible exception of the commitment to write down the plan.

So, why write it down? Because your business plan crystallizes the strategy of your business vision - where you are, where you're going and how you'll get there. You want others to understand that. A written business plan can motivate investors. A written business plan can inspire employees to implement your dreams into tangible products. A written business plan can be the ticket to developing distribution channels to propel your vision to the market.

***For management or entrepreneurs seeking external support, the business plan is the most important sales document you ever produce.***

## WHAT IS IN EVERY PLAN

A well-written business plan frequently includes several key elements:

- Mission Statement or over-reaching business vision
- Strategies or means by which you will achieve your Mission Statement
- Goals or milestones to be met in achieving your Mission Statement

### Preparing a Mission Statement

The first step in a business plan is the preparation of this Mission Statement. A Mission Statement is a key tool that captures, in a few succinct sentences, your business goals and the philosophies underlying them. Most importantly, the Mission Statement conveys the very essence of your business to your customers, employees, suppliers and the community.

### Developing Strategies

The process of writing the business plan continues with the development of strategies. These are the rules and guidelines by which the mission, objectives, etc. may be achieved. They cover such matters as diversification, organic growth, or acquisition plans, or they can relate to key functional areas, for example:

- The company's internal cash flow will fund all future growth.
- The company will reserve a certain portion of revenues as a Research & Development budget to avoid obsolescence.
- Independent contractors will be used until there's a need for a full time employee (FTE).

### Setting Goals

Once the mission is established and the strategy is in place to implement the objectives, the focus of the plan moves on to setting goals. These are specific time-based measurements for implementing strategies towards the company's objectives. A business will have a number of goals, each describing a desired future condition.

The dual purposes of goal setting are (a) to establish a measure for evaluating the success of the business, and (b) set priorities for its management and staff, who are accountable for the accomplishment of the goals. Goals help keep management focused.

### Next Steps

You might have noticed that I haven't addressed how to write a plan. It's not that I don't have an opinion on how to, but there are a plethora of articles, books and such on the subject. You probably don't need my two cents. So, having addressed why to write a business plan and having identified some of its key elements, there's one more crucial point: Who should write the business plan?

If you have the skill set to write the plan on your own, you are in the minority of entrepreneurs. Most probably you are like most of us who could use a little outside help..

But—and I want to be clear about this-- hiring an outsider to write your plan without your input is a waste of your time, their time, and the time of anyone who ends up having to read the piece of fiction you'd be touting as your business plan. An external advisor can certainly assist by contributing market analysis, financial forecasting, funding expertise, legal advice or just plain business experience. BUT it is the owner-manager who must ultimately take responsibility for the plan and its implementation. I recommend both using professional help AND devoting sufficient time for you to be part of the writing process..

It is your business and your vision that will create your success. After all, who knows your business better than you? But at the same time, recognize your own limitations. An external advisor can add leverage to complement your weaknesses. If you haven't balanced your checkbook in six years, you might consider help in developing financial models. If you think going to market is a trip to Safeway, there are folks who can set you straight. If you have never drafted a legal document, don't start now. Hire a writer.

Formal business plans assist the entrepreneur to 'communicate' with and "sell" ideas to external professionals (e.g. accountants, bankers). Formal plans also enhance relationships with suppliers by letting them see the longer-term opportunities in your business vision. The process required to produce a formal business plan may be more important than the final document itself, but BOTH its development and the finished business plan are likely to be essential to long-term business performance.

Just one final thought – I have never met an entrepreneur whose business suffered because he took the time to write a business plan, but I have met many who suffered because they didn't.

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About the author: Mike Doherty, the founder of Doherty & Associates, has an extensive background in corporate investments, including the evaluation and underwriting of over \$100 million in venture debt financing for emerging growth companies. Prior to Doherty & Associates, he was a director at Third Coast Capital where he focused on originating and underwriting venture staged debt products.

Prior to Third Coast Capital, he was a principal of Southport Systems, Inc., a consulting firm advising clients on asset management, leasing operations and credit underwriting. In addition, he has served as portfolio manager for numerous leasing portfolios.

Mike earned a BS in Commerce from DePaul University in Chicago.

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