

BUSINESS PLANNING IN THE ENTERPRISE

Ponomarenko V.Y.

Scientific supervisor - Associate professor Rizhova S.V.

Siberian Federal University

A business plan is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

A business plan is often prepared when:

- Starting a new organization, business venture, or product (service) or
- Expanding, acquiring or improving any of the above.

In actuality, the business plan for any business will change over time as the business develops, and any particular business may have multiple business plans as its objectives change.

Here are five good reasons why you should write a business plan:

1) To test the feasibility of your business idea.

Writing a business plan is the best way to test whether or not an idea for starting a business is feasible, other than going out and doing it. In this sense, the business plan is your safety net; writing a business plan can save you a great deal of time and money if working through the business plan reveals that your business idea is untenable. Often, an idea for starting a business is discarded at the marketing analysis or competitive analysis stage, freeing you to move on to a new (and better) idea.

2) To give your new business the best possible chance of success.

Writing a business plan will ensure that you pay attention to both the broad operational and financial objectives of your new business and the details, such as budgeting and market planning. Taking the time to work through the process of writing a business plan will make for a smoother startup period and fewer unforeseen problems as your business becomes established.

3) To secure funding, such as bank loans.

You're going to need both operating and startup capital to start a new business and you have no hope of getting any money from established financial institutions such as banks without a well developed business plan. And established businesses often need money, too, to do things such as buy new equipment or property, or because of market downturns. Having a business plan gives you a much better chance of getting the money you need to keep operating or to expand.

4) To make business planning manageable and effective.

A business plan is essential if you're thinking of starting a business, but it's also an important tool for established businesses. Viable businesses are dynamic; they change and grow. The company's original business plan needs to be revised as new goals are set. Reviewing the business plan can also help you see what goals have been accomplished, what changes need to be made, or what new directions your company's growth should take.

5) To attract investors.

Whether you want to shop your business to venture capitalists, or attract angel investors, you need to have a solid business plan. A presentation may pique their interest, but they'll need a well-written document they can take away and study before they'll be prepared to make any investment commitment.

Be prepared for your business plan to be scrutinized; both venture capitalists and angel investors will want to conduct extensive background checks and competitive analysis to be certain that what's written in your business plan is indeed the case.

Writing a business plan is time-consuming, but it's essential if you want to have a successful business that's going to survive the startup phase. If your business doesn't have one, maybe it's time to start working on one. The process of writing a business plan can do wonders to clarify where you've been and where you're going.

Types of Content in Business Plan

Business plans appear in many different formats, depending on the audience for the plan and complexity of the business. However, most business plans address the following five topic areas in one form or another.

Business summary -- Describes the organization, business venture or product (service), summarizing its purpose, management, operations, marketing and finances.

Market opportunity -- Concisely describes what unmet need it will (or does) fill, presents evidence that this need is genuine, and that the beneficiaries (or a third party) will pay for the costs to meet this need. Describes credible market research on target customers (including perceived benefits and willingness to pay), competitors and pricing.

People -- Arguably the most important part of the plan, it describes who will be responsible for developing, marketing and operating this venture, and why their backgrounds and skills make them the right people to make this successful. Ideally, each person in the management team (and key program and technical folks) are indicated by NAME.

Implementation -- This is the how-to section of the plan, where the action steps are clearly described, usually in four areas: start-up, marketing, operations and financial. Marketing builds on market research presented, e.g., in a Market Opportunity section of the plan, including your competitive niche (how you will be better than your competitors in ways that matter to your target customers). Financial plan includes, e.g., costs to launch, operate, market and finance the business, along with conservative estimates of revenue, typically for three years; a break-even analysis is often included in this section.

Contingencies -- This section outlines the most likely things that could go wrong with implementing this plan, and how management is prepared to respond to those problems if they emerge.

In many cases, an organization will already have in its possession some of the information needed for preparing a business plan. For example, in the case of nonprofits, grant proposals often contain some of this information.

There are five steps that will produce a worthwhile plan:

1. Write out your basic business concept.
2. Gather all the data you can on the feasibility and the specifics of your business concept.
3. Focus and refine your concept based on the data you have compiled.
4. Outline the specifics of your business. Using a "what, where, why, how" approach might be useful.
5. Put your plan into a compelling form so that it will not only give you insights and focus but, at the same time, will become a valuable tool in dealing with business relationships that will be very important to you.

There are many errors made by inexperienced business plan writers or business owners who fail to see why their plan was not accepted. But on the other side of the table, the following mistakes are common:

1. Putting it off.

Too many businesses make business plans only when they have no choice in the matter. Unless the bank or the investors want a plan, there is no plan.

Don't wait to write your plan until you think you'll have enough time. "I can't plan. I'm too busy getting things done," business people say. The busier you are, the more you need to plan. If you are always putting out fires, you should build firebreaks or a sprinkler system.

You can lose the whole forest for paying too much attention to the individual burning trees.

2. Cash flow casualness.

Most people think in terms of profits instead of cash. When you imagine a new business, you think of what it would cost to make the product, what you could sell it for, and what the profits per unit might be. We are trained to think of business as sales minus costs and expenses, which equal profits. Unfortunately, we don't spend the profits in a business. We spend cash. So understanding cash flow is critical. If you have only one table in your business plan, make it the cash flow table.

3. Idea inflation.

Don't overestimate the importance of the idea. You don't need a great idea to start a business; you need time, money, perseverance, and common sense. Few successful businesses are based entirely on new ideas. A new idea is harder to sell than an existing one, because people don't understand a new idea and they are often unsure if it will work.

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Plans don't sell new business ideas to investors. People do. Investors invest in people, not ideas. The plan, though necessary, is only a way to present information.

5. Fear and dread.

Doing a business plan isn't as hard as you might think. You don't have to write a doctoral thesis or a novel. There are good books to help, many advisors among the Small Business Development Centers (SBDCs), business schools, and there is software available to help you (such as Business Plan Pro, and others).

6. Spongy, vague goals.

Leave out the vague and the meaningless babble of business phrases (such as "being the best") because they are simply hype. Remember that the objective of a plan is its results, and for results, you need tracking and follow up. You need specific dates, management responsibilities, budgets, and milestones. Then you can follow up. No matter how well thought out or brilliantly presented, it means nothing unless it produces results.

7. One size fits all.

Tailor your plan to its real business purpose. Business plans can be different things: they are often just sales documents to sell an idea for a new business. They can also be detailed action plans, financial plans, marketing plans, and even personnel plans. They can be used to start a business, or just run a business better.

8. Diluted priorities.

Remember, strategy is focus. A priority list with 3-4 items is focus. A priority list with 20 items is certainly not strategic, and rarely if ever effective. The more items on the list, the less the importance of each.

9. Hockey-stick shaped growth projections.

Sales grow slowly at first, but then shoot up boldly with huge growth rates, as soon as 'something' happens. Have projections that are conservative so you can defend them. When in doubt, be less optimistic.

Preparing a business plan draws on a wide range of knowledge from many different business disciplines: finance, human resource management, intellectual property management, supply chain management, operations management, and marketing, among others. It can be helpful to view the business plan as a collection of sub-plans, one for each of the main business disciplines.

A good business plan can help to make a good business credible, understandable, and attractive to someone who is unfamiliar with the business. Writing a good business plan can't guarantee success, but it can go a long way toward reducing the odds of failure.