TIP OF THE MONTH:

QUESTIONS THE BUSINESS PLAN MUST ANSWER

- Is the business idea viable?
- Are its products or services new, unique, or in some way better than current offerings?
- Does the business create or cater to a new market?
- Are the cash flow and sales projections realistic?
- Can the business be profitable and service its debt?
- Does the business truly understand and place priority on customer needs?
- Is the business concept clear, focused, and intelligently presented?
- Is the business concept based on sound research and analysis?

This person bought a local business about two and a half years ago. He told me that their business has yet to make a profit, but they are not worried because they are putting all income from the business into improvements and increasing their market share. They had a long-range plan for the business when they purchased it and that plan did not include take-home profit for the first five years. However, at the same time the gross revenues of the business have been increasing 15%-20% per year since their purchase, which is right on target with their plan. This person is showing a high degree of business sense.

During this same conversation I was told that another new business owner in town was closing down because they had been open for three months and had not made a profit! How sad that a new owner would go through the effort and expense of starting a business with the delusion that they should expect a take-home check within the first two years.

Business and financial advisors state that owners should seldom expect to make a profit on a new business within the first two to three years, and often the first five years.

Unfortunately, we see this pattern repeated over and over in our communities – a new business is open for a short time and then, suddenly, paper over the windows with a “Closed” sign.

The business world is not an easy world or a forgiving one – you must have your plans well made, your market well researched, and long-term financing in place without expectations of any near-term profit before you consider opening the doors of a business. This also goes for a business that you are buying from a previous owner – often you will need to plow all proceeds back into improvements, updates, marketing, etc., for some time before making a profit.
Here are some of the personal characteristics necessary if you are planning to go into business:

- The capacity to work long hours. Are you willing to give up evenings, weekends, and vacations? Is your family willing to give up those things?
- Are you a risk-taker? Are you willing to risk the house, your savings and retirement to make the business a success?
- You must be goal-oriented and a self-starter. If you don’t have the enthusiasm and energy to get up early and work late without someone prodding you, don’t even consider starting.
- You must be self confident, yet not blinded to the problems and challenges of the business by a pie-in-the-sky attitude. Just because you build a better mousetrap doesn’t mean anyone will care. If you can’t convince them they need your product or service they aren’t going to buy it.
- You must be a problem solver. Problems should appear on your radar as challenges to be solved to make your business better, not as reasons to close the doors. You need to be flexible, adaptable and innovative, willing to try new approaches, products and services until you find the combination that works best for your customers.
- You must be persistent. Don’t give up – keep up the effort and give it time to grow.
- Business owners must be people oriented. Go the extra mile for your customers – they are always right. Show them that your primary concern is their need. They don’t care if you are selling fertilizer; their concern is whether their lawn is green and healthy.
- Be honest and accountable. If you failed or messed up, be honest about it and do whatever it takes to make it right. One complaining customer will pass their complaint on to friends and neighbors.

Five basic skills required by business managers are: basic money management; a marketing mindset; self-management skills; time-management skills; basic office organization.

The Business Plan

One of the tasks to complete before starting or buying a business is the writing of a business plan. According to the *NxLevel Guide for Entrepreneurs*, the business plan “outlines the basics of a business concept: the business’s mission, objectives, products or services, management, and the basic marketing and financial plan. It is the document designed to reveal whether or not a business idea is workable.”

Doing the research itself to complete the business plan can be eye opening and help you make many decisions, including avoiding mistakes and pitfalls. In addition, most businesses require some amount of outside financing – either in the form of a loan or other investors or partners. A well written business plan will go a long distance in showing investors that you have done your homework, thought the process through from beginning to end, and are entering into your venture with business sense and awareness.

√ Here are some of the things readers of a business plan will look for:
√ Is the business idea viable?
√ Are its products or services new, unique, or in some way better than current offerings?
√ Does the business create or cater to a new market?
√ Are the cash flow and sales projections realistic?
√ Can the business be profitable and service its debt?
√ Does the business truly understand and place priority on customer needs?
√ Is the business concept clear, focused, and intelligently presented?
√ Is the business concept based on sound research and analysis?
The length of the business plan will depend on the complexity of the business and the amount of research the writer does in preparation for the document. Some plans are a few simple pages, while others may be hundreds of pages.

The executive summary contains a condensed version of all the other sections and is the opening statement that gives the reader cause to examine the rest of the document.

Following the executive summary is a listing and explanation of the mission, goals, and objectives of the business. This is where the underlying business concept is described along with the stages of development.

The third section contains background information, explaining the specifics of the industry and its past and present trends. Where was this industry five years ago and where will it be five years from now?

Fourth, the document describes the legal form of ownership and the organizational structure management will use to run day-to-day operations. The people and positions involved are described, as well as bookkeeping and financial procedures.

The marketing section is one of the most important parts of the document and will show whether you have really researched and defined your market and what you have to offer. Who are your target clients? What is the demographic and psychographic data that supports your plan? What is your competitive analysis and market strategy?

The financial plan includes such items as salaries, wages, and benefits; outside services; insurance; advertising; occupancy expense; sales forecasts; costs of goods sold; fixed assets; growth expenses; and miscellaneous expenses. It also includes cash flow projections, a balance sheet, and other financial statements.

The last section is an appendix section and it includes numerous supporting documents such as a timetable for action, market research, resumes, specifications, testimonials, etc.

Starting or taking on a new business is exciting, but takes some deep consideration and hard work before opening the doors. Do your homework first to avoid multiple pitfalls and headaches.