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The Business Plan: Your Guide to Success

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Imagine you are starting a trip. Where are you going? How will you get there? A plan helps you chart the best course, ensures that you follow your route, alerts you to important landmarks and reminds you of your schedule and budget.

You wouldn't embark on a trip without a plan so why would you start a business without one? Studies have shown that the failure rate of start-ups without business plans is three times higher than that of businesses whose owners prepared a plan.

A business plan provides you with the analysis needed to decide whether it is in your financial interest to go into the business. If you decide to continue exploring the idea, this analysis is critical to obtaining the main thing that fuels the business world: capital. A plan helps the prospective investor – be it your banker or brother-in-law – determine the merits of the “deal.”

Plans can be as short as one page or as long as one hundred; most are between twenty-five and fifty pages in length. Whatever length and style is suitable for you, your plan should, at a minimum, contain the following information:

Executive Summary – A well-written summary should be precise and persuasive enough to entice powerful people to read on. More importantly, however, it forces you – the entrepreneur – to condense the entire plan into a compact, coherent statement with which you can articulate your intentions and requirements. Although this will be the first section in your plan, it should be the last section that you write. Without having thought through all of the subsequent sections you simply don't have enough information to write a good executive summary.

Business Description and/or History – This section provides the background information on the business. It should fully describe the business, significant past events or anticipated milestones and the key dates or deadlines.

Product or service description – Describe in full the product or service lines of your business. State what distinguishes them from other products on the market and outline their competitive advantages.

Market Analysis and Approach – It is imperative that you understand the market for your product. Describe your industry. Discuss any relevant trends and expected growth. Describe how you will approach the market, whether through distributors, outside sales representatives, telemarketing or direct response. Discuss the anticipated demand. Is it seasonal, steady or cyclical? Discuss the strategy you will use and outline key advertising and promotion plans

Competition – Describe your major competitors and assess their strengths and weaknesses. If you are staking out new territory or developing a separate niche, discuss how your efforts differ from those of the competition. Carefully think this section through. Unrealistic assessments of the competition have doomed more than a few new ventures.

Operating Plan – Consider the facilities, personnel, manufacturing or business processes, contractors and suppliers, and technologies or skills required to manufacture the product or deliver the service. If you are manufacturing a product, outline the process and describe how the assembly line will be organized. Discuss your operating advantages and your capacity. Account for how you will obtain raw materials. This section may become quite lengthy as you develop the key aspects of your business.

Key Personnel – Key management personnel who bring special talent to the business should be listed. Indicate their qualifications, the contribution they will make to the enterprise and the level of position they will hold.

Financial Analysis – Here you will predict the financial results you anticipate over a period of five years. At this point you will realize it is imperative that the previous sections have been put together carefully and the assumptions tested rigorously. If you have doubts, reconsider each section. Think through not only your costs, but also your ideas, the state of your industry, and the affect of economic change on your customers. Your financial analysis should contain: Profit and loss (or income) statements; balance sheets; cash budgets; and key ratios.

If all of this is beginning to sound too complicated, don't worry. Your nearest Small Business Development Center has someone who can help you develop financial spreadsheets and provide feedback that is constructive and non-threatening. Samples, courses and workshops are also available.

As you look at plans, listen to ideas, and find resources, don't lose sight of what sparked your initial interest in the business: your vision. Where others see risk, you see – and can now realize – opportunity.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

