
Starting a Business in Michigan

A BUSINESS PLAN

INTRODUCTION

Why should anyone go to the trouble of creating a written business plan? There are several reasons:

- The process of putting a business plan together, including the thought put in before beginning to write it, forces one to take an objective, critical, unemotional look at the business project in its entirety.
- A business plan is an operating tool, which, if properly used, will help manage the business and work effectively toward its success.
- Lenders require one. A completed business plan communicates ideas to others and provides the basis for a financial proposal.

The importance of planning cannot be overemphasized. Taking an objective look at the business plan will identify areas of weakness and strength, pinpoint needs that might otherwise be overlooked, spot opportunities early. One can then begin planning on how best to achieve a business goal.

Your business plan is a working document, use it. Don't put it in the bottom drawer of a desk and forget it. Going into business is rough—over half of all new businesses fail within the first ten years. A major reason for failure is the lack of planning. The best way to enhance chances of success is to plan and follow through on that plan. Your business plan provides benchmarks and milestones for you to use as measures of your success.

A business plan will help avoid going into a business venture that is doomed to failure. If the proposed venture is marginal, the business plan will show why and may help avoid paying the high tuition of learning about business failure. It is far cheaper not to begin an ill-fated business than to learn by experience what a business plan would have taught at the cost of several concentrated work hours.

The business plan also provides the information needed by others to evaluate a venture, especially if seeking outside financing. A thorough business plan will quickly become a complete financing proposal that will meet the requirements of most lenders.

FRAMEWORK

Business planning does not offer solutions to business problems. Rather, business planning is the framework in which to structure concepts and information about a project. A well-written business plan will determine the feasibility of a project and lay out the action necessary to complete it.

Several adjectives can be used to describe the business planning process: logical, rational and regimented. A business plan organizes, directs, coordinates, controls and facilitates the development of a project from its inception to its completion. No matter how the process of the plan is described, basic business planning is a systematic methodology for reducing risk and enhancing success for any type of business operation.

There is no exact formula for putting a business plan together. There are, however, a number of 'specific' topics that should be covered:

- **Executive Summary:** This is an overview of the business plan. Even though it will be at the beginning of the plan, write it after the rest of the plan is completed. It brings together the significant points and should convey excitement.
- **General Description:** Explain the type of company. If this is an existing business, give its history. If it is a new start-up business, note some of the qualifications to start this business. Why is this business needed and what is its chance for success?
- **Products and Services:** Describe the product and/or service. What are its unique features? Why will customers come to this business?
- **Marketing:** Identify your target market. There should be specific target markets that will need your products or services and be willing to pay for them. These have similar characteristics that can be identified and used in your marketing efforts. Outline your marketing strategy – a competitive edge – to draw customers to you rather than your competition. List your primary competitors and provide an honest appraisal of their strengths and weaknesses and how you will compete successfully against them.
- **Management:** Identify the people who will be active in this business. Describe their skills and experiences.
- **Legal:** Describe the type of legal organization; sole proprietorship, partnership, "S" corporation, limited liability company, corporation. Are patents or trademarks involved?
- **Finances:** State the business' financial requirements and where these funds will come from. Project revenues, costs, and profits. Your efforts in developing the financial statements will help you understand the cash flow of your business, your break-even point and the sensitivity of your business to fluctuations in business levels.
- **Operations:** Explain any systems or processes that will be used. What facilities will be used? What supplies will be needed and where can they be obtained? Who will provide the labor and how will it be accessed? What are the hours of operation of the business?

Remember that the summary, which starts your plan, is the single most important part. Many people will not read past the summary. It must enthusiastically present enough information so readers will continue. How long will the plan be? Probably not much more than ten pages. The complexity of a business plan will vary with the type of business, and the size will reflect that complexity.

Everyone needs help in putting a business plan together. There are several well-written brochures and books available at libraries and bookstores for assistance. Most large accounting firms have manuals available. If more assistance is required, contact your local [Small Business Development Center](#). Various legal and financial consultants are listed in the Yellow Pages.

A business plan is a prediction of the future based on current abstractions, assumptions and estimates. This is unavoidable – if you could see into the future, there would be no

need for a business plan. When a business plan is implemented, the plan comes in contact with reality. This could be a nasty shock for many business entrepreneurs causing a good deal of doubt about their business plan. However, reality is the feedback necessary to reinforce or adjust the business plan to achieve project completion. If a plan is not working, change items in the plan. The plan itself will show what impacts a change will have on other areas of a business. A business plan is never cast in stone – it is a working document. Use it as a management tool.

GOALS/OBJECTIVES

A business plan forces a business entrepreneur to establish written goals and objectives:

- Achievable
- Quantifiable
- Prioritized
- Coordinated
- Realistic
- Both short and long term
- Action oriented
- Scheduled, i.e., time related

Once goals and objectives are set they must be translated into strategies and paths of action.

INFORMATION

For a new business or operation, a business plan is the first piece of information that is brought together in one document. The information contained in a business plan will be the basis for both the entrepreneur's decisions and those of lenders, creditors, etc., who will review the business. After implementing a business plan, measure the performance against the facts and figures in the plan. This will help evaluate where the weaknesses and strengths lie.

COMMUNICATIONS

One of the most important aspects of a business is communication. A business plan is one of the easiest and most reliable communication tools you can possess. The plan will relay to the reader information about the business.

A business plan can be used to communicate information to a variety of people. Lenders and creditors will obviously want to read it. A decision on whether to extend credit will be based on the information in the business plan.

Internally, the business plan can be used to communicate the goals of the business and how the firm operates. This will help define the roles in the business and may improve the efficiency of an operation. It could certainly improve the coordination among various sections of a business.

MANAGERIAL SKILLS

Most business plans are written to acquire capital from lenders. However, a business plan is a very useful management tool, and will help develop managerial skills.

Developing a business plan provides a set of decisions and assumptions about the business and the economy. Comparing actual events to your decisions and assumptions provides the basis for a day-to-day decision-making process. The plan will help evaluate the effects of alternatives before a decision is implemented. It will assist in balancing important issues, and also give the owner a sense of prospective relating one area of activity to another. The business plan will also assist in fitting the skills of the employees to specific jobs.

PROBLEMS/OPPORTUNITIES

The business plan gives a structure within which unforeseen problems can be solved.

Many problems can be avoided, as the business plan will bring them to your attention before they become critical. If necessary, safeguards can be written in the business plan to avoid unforeseen problems. The importance of avoiding problems cannot be over emphasized. If a problem becomes serious enough and impacts on the business balance sheet and income statements (i.e., the track record of the company), this can have a disastrous impact on the business' ability to raise funds and receive future credit.

RESOURCES

All businesses have limited resources, which can apply to competing business operations. The business planning process will help differentiate among competing operations and allocate resources to optimize profits.

When writing a business plan, concentrate on the amount of resources (i.e., capital, expertise, etc.) that will be required to bring a project to bear fruit and not what can be collected. It is far better to postpone a project than have it fail due to lack of resources.

ORIENTATION

A business plan should be oriented to creating a business, which will satisfy the wants and needs of future customers, rather than producing a product or providing a service. A market orientation will help avoid the pitfalls of opening a business to satisfy the desire of owning a business. The best possible situation is where skills and abilities mesh with the wants and needs of the customer to form an efficient high demand business.