

How to write a really good business plan

A business plan expresses the company's own personality. That is why templates are not very useful. Business plans should not resemble each other. What goes into a good business plan?

It all starts with strategy.

- A business plan cannot be better than the strategy on which it is based.
- A successful strategy means winning and keeping a share of tomorrow's market profitably. It assumes a constantly evolving environment that can change quite suddenly.
- A strategy based primarily on reaching a financial target is seldom realistic because it does not take account of competitors' reactions or mutations in customers' preferences.

A business plan has to be written with the expectations of different readers in mind.

A business plan for a bank or for prospective investors

- At the start-up phase, a business plan usually has to persuade a bank or investors to provide the financial resources you feel you will need to be successful.
- You have to convince a bank that its money will be repaid. You have to convince investors that they will earn a return commensurate with their perception of the risks.

A business plan for the management team

- A business plan should communicate clearly the company's strategy to everyone you expect to help carry it forward.
- They should know what the goals are and what resources will be available to achieve them.
- The process of communicating a business plan (and its periodic revisions) to the team, to achieve a consensus, is at least as important as the content of the plan itself.

A business plan for yourself

- Successful managers regularly compare what they have accomplished with what they had planned.
- The business plan should be vetted at least once a quarter and, if necessary, revised. This enables you to explain the gaps to your colleagues and to organize corrective actions.
- A well designed financial model can and should be used as a management dashboard.

Who should write the business plan?

- Financial modelling should be outsourced to professionals.
- However, writing and updating the business plan is the managing director's own job.

A good business plan is short

- The longer the business plan the less likely anyone will read it. Investors get lots of them and only a few are studied seriously.
- It is almost always possible to fit everything important into five or six pages. You should put everything that is long or technical in appendixes. For example, CVs, patents, financial details, market research, etc.
- Unless your project is big enough to require institutional investor financing, a business plan longer than 10 pages (not counting appendixes) is probably badly written. Institutional investors expect a 3-4 page "Executive Summary" to accompany a long

business plan.

There is no standard format for organising a business plan except that it should start with the three points that explain the concept.

The concept

1. What are we selling? In other words, what products or services will be invoiced to the customers?
2. To whom will we sell? Describe the target clientele.
3. Why should they change their habits and buy what we are selling? Analyse the prospective customers' expectations, now and in the foreseeable future.

It is always possible to describe a concept on a single page. Each of the following 20 points can be usually be expressed in a paragraph and often in a sentence or two.

The market

4. Show that you understand your market by enumerating the segments and describing the one you will focus on.
5. How big is the target segment? What is its growth rate?
6. Summarise your positioning with respect to the competition, today and tomorrow.
7. Describe the sales channels you intend to exploit as well as the sales and marketing organisation you intend to create.
8. Describe how and where you can test your concept as quickly as possible and on the smallest possible scale.

Development and production

9. What development, if any, is required before you can start selling, delivering and invoicing?
10. How will you satisfy your customers and gain their loyalty? If you will be selling a physical product, describe succinctly the supply chain. And if you will be manufacturing, summarise the production process. Will you offer after-sales service?
11. Are there any intellectual property issues? Regulatory issues? Certification requirements?

The team

12. Write one or two sentences about each member of the team and, perhaps, a bit more about yourself as the leader. Bankers or investors want to be confident that the team possesses all the competences needed for success and that everyone will work together harmoniously.
13. You can give a very brief history of the project but only if it really indispensable for understanding the rest of the business plan.

The financial model

14. Explain the path you intend to follow to achieve your financial goals. Try to quantify the risks you foresee.
15. Enumerate the strategic variables that will determine success: unit sales, prices, margins, market share, sales and marketing costs, stock levels, etc.
16. Which operational and financial variables will determine your fixed costs? Focus on the human resources and sub-contracting costs because the others are usually self-explanatory and relatively marginal.
17. What investments have to be made?
18. What financial resources will be needed?

19. What is the most realistic growth curve?
20. What is the lowest possible breakeven point?
21. What returns will be generated? A summary P&L belongs in the business plan.

Put a detailed P&L, balance sheet, and monthly cash flow forecast in the appendices.

The models I create are based on dozens of variables, all of them “dynamic”. You can change one or more variables and all the financial reports will update automatically in real time.

I believe that many sophisticated financial concepts such as IRR (internal rate of return) are useless for start-ups. The margins of error are so significant that no meaningful conclusions are possible.

Prospective investors are likely to ask...

22. How will the shareholders be rewarded? What will be the dividend policy?
23. How will the management team be remunerated? What will be the policy for salaries, bonuses, profit sharing and stock options?

I am implacably hostile to including an “exit strategy” for angel investors in a business plan. Any company whose turnover and profits are growing can always be sold. The selling price will always be higher, and usually much higher, if you wait for a buyer to come forward. In the meantime, why try to predict the unpredictable.

How to know whether a business plan is good?

- A business plan should be comprehensible to someone who does not have specific knowledge of the relevant sector or the underlying technologies. For example, a banker.
- Get people who have nothing to do with your business to read the business plan. Do they find explanations for all the point above?