



Tips for Creating a Business Plan for Your New Business

Two words that seem to strike fear in the hearts of many entrepreneurs – *business plan!*

In this article, we will look at some ways to approach your business plan that will make the process more manageable.

Why write a business plan?

The most common answer is usually “because somebody made me!” but business plans do serve three important purposes for start up businesses.

1. **To get money.** The ‘somebody’ who usually makes you write a business plan is often a lender. “Well, that could be a good loan, why don’t you send me your business plan?”
2. **To communicate your business ideas** to vendors, employees, stakeholders and policy makers. A well written business plan can help you make a case for your business to all of the different people and organizations who need a way to understand more about what it is you propose to do. Commercial landlords, permitting agencies, code enforcement agents, vendors and franchisors are just a few of the kinds of audiences who will really appreciate a good business plan.
3. **A road map** to keep you on track. Once you enter the frantic world of a start up business, there will be uncounted distractions and forces that will knock you off track. A well written and well thought-out business plan will serve as a road map to help you get back on track and stay focused on your goals.

How do I write a business plan?

The first step to a well written business plan is to think critically about your business idea. Here, we are using the academic definition of critically, in other words, analytically. Because most people starting a business are not familiar with business analysis, it is helpful to have a framework to guide your analyses.

A well regarded framework for analyzing a business idea is used by early stage investors (often called Angel investors) to assess investment opportunities. In this framework, the investor asks five simple questions that will provide the basis for a very effective business plan.

Angel Investor Analysis Framework

What is the pain?

This question asks “What is the irresistible market demand, serious business problem or success-blocking gap in products or services you have identified?” as the basis for starting your business.

Caution – “I’ve always wanted to raise pure-bred earth worms” is not a very good response. The fact that you’ve always wanted to do something is a poor reason to start a business. Only when that desire is paired with relevant market demands is your interest relevant.

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On the other hand, “Sports fishers come from all over the world to fish in the waters around Anacortes and there is an un-met demand for pure-bred earth worms at an estimated volume of 2,000 per week at one dock. This presents an opportunity for me to explore my lifelong devotion to the earth worm hobby.” is a really strong response.

Always start with the demand, problem or gap in the marketplace and then follow up with your relevant interests.

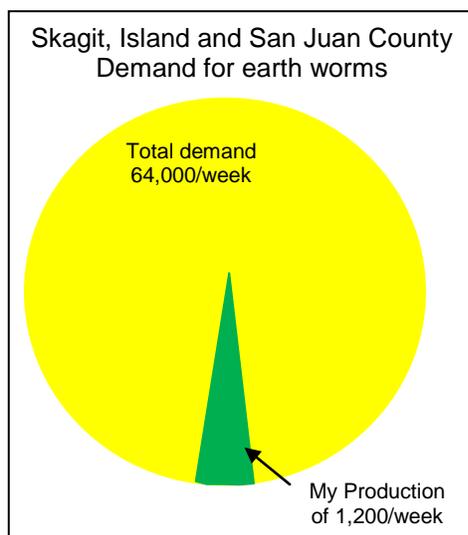
What is the relief?

This is your opportunity to explore, in depth, exactly how you would meet the demand, solve the problem or fill the gap, again, in terms of the market.

- I am able to produce pure-bred earth worms in my backyard, elevated worm incubator at the maximum rate of 1,200 per week
- The cost is about 12 cents per worm and the worms retail for 50 cents each, giving me a gross profit margin of 416%
- I have all the permits needed
- I will enter the market by selling my weekly production from a mobile cart at Cap Sante marina during the hours of 3:00 am to 10:00 am, the most active time.
- During phase two, I will locate in a Port of Anacortes Incubator building, hire one employee and expand my hours.

What is the size of the market and how much of the market do you need to be successful

This question helps investors (and you) get an idea of how competition and other market forces will impact your new business. An ideal answer is that there is a very large market for your product or service and that you only need a small portion of that market to be very profitable.



“Total demand in my market area is 64,000 worms per week, according to Worm Fishers Quarterly Magazine”

“I will produce and sell 1,200 worms per week to start, and then increase production to take more and more market share. By my fifth year of operation, I hope to have captured 25% of the market, making me an attractive target for a buyout by my largest competitor.”

By finding a market that is large, where a small portion of the market will make your company profitable, your new company has a good chance for long term success.



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What is the scalable path to profit?

With this question, you have the opportunity to describe how you will grow your business.

“After my second season of operation, I will withdraw from the retail market and sell wholesale to the retailers in the community.”

“After I have shown the community the demand for this product is strong, I will partner with the retailers in the community so they can enjoy the benefits of greater foot traffic.”

“Each worm incubator costs \$500.00 and will increase my production by 1,200 worms per week.”

“At a wholesale price of 24 cents each, I will still earn a 200% gross profit margin.”

“If I sell my full production, I will earn a gross profit of \$144.00 so each new worm incubator will pay for itself in four weeks.”

“In phase four of my business, I will expand to La Conner, Mt Vernon, and Burlington and up river to Sedro Woolley”

What is your exit strategy?

Here, you discuss how you plan to sell, leave or close your business. Few, if any, startup companies think about the end of their business when they start - but nothing could be more important. As the late Steven Covey said “Begin with the end in mind!”

“After five years of operation, I expect to be an attractive takeover target for Worms R Us in Everett. I will position my enterprise for a buyout by year eight.”

Financial projections

Business plans need to include financial projections to help you plan your new company’s growth. Traditional plans typically look at the financial projections for the next three to five years in using three financial statements.

- **Income statement** which shows the expected profit or losses
- **Balance sheet**, which shows how your new company’s assets and liabilities change from year to year
- **Cash flow statement** which shows the month to month cash position of your new company.