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The Business Plan Kit

Insights into Creating an Effective Business Plan
By Helen Hirsh Spence and Debra Yearwood

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Steps and insights into Creating an Effective Business Plan

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The business plan is the foundation of your business. When you are busy the plan helps you to stay on track and move through progressive objectives until reaching your goals. The business plan should be a living document reflecting the vitality of your business. Your plan is also a useful way to keep thoughts and ideas in focus and top of mind.

Despite its importance, the business plan is often the first casualty of entrepreneurial activity. Entrepreneurs often don't create a plan. They say that their plan is all in their head. Or they create a plan to satisfy investors or financial institutions and abandon it almost as soon as they achieve their goal. The reality is, the plan is how you know whether you are on track or about to derail. Rather than treat it as a necessary evil, look at the plan as a partner.

Additional information and resources related to the separate elements of the business plan are available in subsequent chapters.

What a Business Plan Does:

- It helps to define and understand the business.
- It defines the key markets and identifies the key players and the environment in which you operate.
- It describes products or services and identifies the unique offering.
- It describes how the product or services will be marketed and sold.
- Once the business is underway, the plan explains how the business operates on a day-to-day basis (HR, finances, administrative duties) and identifies the processes used.
- A plan also identifies barriers, obstacles and challenges and how to address them.

Create a Clear Statement of Purpose

Step one in developing a business plan is the creation of a clear and compelling statement that describes the problem to be solved and its beneficiary.

Use the following questions to get started. Don't hesitate to make quick notes based on the first things that come to mind.

Is the customer an individual or a business?

If a business, what kind or what size business?

If individuals, what gender, age and location?

Do they have decision-making power, in other words can they decide to make the purchase?

What other features describe them best?

As much as possible identify the demographics of the target market. Describe how the market is organized; what various components are. For example, is it mostly large private sector organizations or the

Once you know to whom you are selling, identify a few potential customers and talk to them about your product or service. If they are not engaged or interested in the product then it's best to reevaluate. Reconsider the offering, the target audience or the description. The point is, put your idea to the test and use the feedback to develop a more compelling product or case.

WHAT'S YOUR PURPOSE?

There is very little benefit to starting a legacy career that's going to make you miserable, yet that is precisely what will happen if objectives are not top of mind. Without clear purpose, it's easy to become distracted by things that seem important or entertaining but are not actually contributing to achieving goals.

Market Size

Determine the size of the market. This lets you know how large the business can grow or whether the market is big enough to sustain a new business. Understanding the market size informs not only the potential scale of the operation, but also how attractive the market might be to investors. The market does not need to be huge, especially if the services are high end, but it has to be big enough to be feasible.

Get a sense of the market by looking at how competitors are doing and what they are reporting. Look at market research such as analyst reports. Some of this information is available through the public library, can be sourced online or can be purchased federal government?

Define your product in a way that is clear and comprehensible. Use plain language as often as possible. This means simple language and clear examples that illustrate the benefits of your product.

Key Questions to Answer:

What problem are you solving?

How are you solving the problem?

Who benefits? Be as specific as possible.

How big is the potential market?

How is the market organized?

How big is the profit pool, are there already too many competitors in the market?

For more information on how to develop your market information see the Marketing chapter.

Revenue Model - How Money is Generated

Whatever revenue model is chosen, ensure that you are getting the full value of the product. This means taking into consideration different ways of selling. In other words, do the required market research to be clear about what customers need, expect and want.

For example, if you have a great online tool that supports association membership, you can sell one license per association at a set cost, or you can sell the license based on the number of users. If you have one price regardless of the number of users you are leaving some of the potential value on the table.

Example:

A small association might generate income in a number of ways. Its revenue model can include membership dues, conference fees, services and online education, presented like the pie-chart to the right.

Be clear about the relationship you want to build with customers. Will they buy the product once or will they be receiving services over time? Will you be able to up sell them to get more features or encourage them to add additional services?

What are competitors doing? What models do they use for similar products? Have they established an effective pricing model or can you offer an alternative process that customers prefer (i.e., Uber or taxis)? Whichever model is chosen, it must be sustainable over time.

Summary: Key Questions to Answer:

**Business
Revenue Model**



Will you be offering a range of products or services that move from basic to advanced?

Will there be recurring sales or a renewal process?

Will customers buy once and be finished?

What are others in the market doing? Are customers happy with that model?

Keep Track of Your Market and Respond

Environment

Understanding customers is not just a question of getting the demographics right, it also means having a clear understanding of the environment. This means being able to track emerging trends and building a plan to respond to those trends. This can be done by completing a competitive analysis, looking at consumer research and/or doing research with focus groups.

Understand your Strengths, Weaknesses, Opportunities and Threats (SWOT) to improve your sustainability in the short and long term. When conducting the SWOT analysis consider things such as:

- The level of demand for your product or service.
- The ability to get the product to market.
- Potential collaborators or partners.
- The stability of the market; is it shifting or changing?

Satisfaction

Are customers in the market unhappy or expressing low satisfaction with some component of your product or product delivery channel? Keep in mind that some of the most successful companies in recent years have been disruptors who responded to customer dissatisfaction with traditional processes rather than actual changes to the product. Consider companies like Netflix, Uber or Airbnb who identified weaknesses in existing markets and capitalized on them by offering customers an alternative process for receiving the product. The essential product remained the same, but the channel of delivery changed.

Competition

Are there other products in the field that customers would rather use?

If that potential replacement is out of reach for financial or scarcity reasons, what might make it more accessible? What other things could be distracting customers? Competition doesn't have to be someone like you; it could be things like time constraints, work requirements or anything that distracts your customer.

One of the most effective ways of determining how you will do in the market is by looking at competitors. There are always competitors. Even if the offering is distinctly different, the marketplace may not see it that way.

There are a number of different charts, tables or diagrams that can be used to track performance against competitors. There's the spider chart, the Harvey Ball analysis, comparison tables, scatter and bubble charts. Regardless of the method chosen, it's important to have an objective analysis of your product or business relative to your competitors. Look at performance dimensions like functionality, quality, design or whatever makes sense in the market. Not only can you use the chart to identify your weaknesses and strengths, but also to facilitate investment and sales.

Example:

Competitors	Wide selection	Inexpensive	Multiple locations	Parking	Online Store
Your Store	✓	✓		✓	✓
Store X	✓		✓	✓	✓
Store Y		✓	✓	✓	
Store Z	✓	✓		✓	✓

When considering the market, also determine how to deliver services. If providing consulting services, look at creating online courses, a book, a conference, workshop or one-on-one face-to-face consultation. Within each of those offerings there are multiple options for delivering content. Your plan should outline which channel or channels you will be using.

Summary: Key Questions to Answer:

Is the market growing, shrinking or flat-lining?

Who is making the buying decisions in your market? Does this represent a change or is it static?

Are there related products or services needed?

Are customers expressing dissatisfaction with some component of the market?

What is the competition doing?

What actions will you take in response to emerging trends?

How is the product being delivered?

What Exactly is Being Sold?

Define

It will be difficult, if not impossible, to successfully sell products without a deep understanding of them. What's more, if you do not understand the strengths and limitations of your product, you will not be able to predict or effectively respond to threats and opportunities.

Value

What exactly will customers receive when they invest in your product? Will they be able to save 15% more time or 10% more money? If you can't

be specific because the nature of service makes it difficult to measure, ask customers to quantify the value of the benefit they will receive. For example, if you are a life coach you might want to ask clients whether they think they will have more clarity or better organizational skills if they buy your service. Your value proposition might read like this,

"If you follow my coaching in life skills you will gain a better understanding of yourself: you will be able to identify what motivates you, or what makes you disengage. You will be less self-critical, more focused and enjoy improved self-confidence."

Compare

Identify how your product is better than its competitors. Is it more affordable or more effective? Whatever differentiator you choose, it has to be something about which customers truly care. Offering a product for less money when customers care about quality may make them question the value of your product.

Security

The business plan should also articulate how you plan on keeping the business safe in terms of protecting assets or intellectual property. This is important for you, but will also be important to investors. What's in place to ensure that intellectual property is well protected? Is your online content protected? Is customer information being protected? Does the business have or need copyright or patent agreements? Consider that even if you do, it doesn't mean that others won't challenge or infringe

on patents. Also determine if the distribution chain is secure. What safeguards are in place should it fail? Consider every way in which you can protect yourself.

Release Cycle

The plan should include a long-term strategy for product release and the schedule of various roll outs. How will improvements or additional features be introduced? What is the base level and what are future levels? What risks are evident? What triggers will prompt you to speed-up, slow down or change the scheduled roll out?

Summary: Key Questions to Answer:

What's the value of the services or product?

What makes it unique or differentiates the business from the competition?

How is the business protected?

How will services be rolled out?

What is the minimal original product?

What are future product stages?

Getting the Deliverable to Market

Branding

Over the last few years the discussion of brand has evolved and in some respects has eclipsed most marketing considerations. It encompasses everything from product presentation and organizational culture to personal reputation. All are integral to business success. A clear understanding and consistent presentation of your brand promise is essential. When developing this section of the business plan consider the following questions:

Is it a quality or a value offering?

Is there a promise to provide fast and/or friendly service?

What is the distinct and unique commitment to customers that defines the brand?

How is information shared with customers?

Are customers engaged on social media?

Operations

A great product is of little value if it cannot be produced or delivered in a timely fashion. Equally concerning, are the processes associated with managing problems with the product and improving the product over time. Outline how the business will be operationalized on a day-to-day basis.

SERVICES NEED TO BE OPERATIONALIZED TOO!

A common assumption for small service based businesses is that they need to customize their services to meet each client's needs. This can result in similar activities being reinvented with each new client. This is both time consuming and costly for the business. Consider what questions you ask clients and the types of things you do for various clients. Capture your process or create templates that can be used repeatedly.

How many employees will there be?

Where will they work?

What are the operational challenges?

What channels will be used to deliver content? (e.g. online, storefront)

Are you using an external distribution channel?

Will you be reliant on Canada Post or a messenger service?

Will you provide just in time delivery or manufacture in advance and warehouse the product?

If delivering one-on-one consulting services, how will you manage your time as the business grows?

Pricing

Pricing is critical, undervaluing your service or product means you may end up operating at a loss and raising prices can prompt existing client to look elsewhere. You will also need to understand how you compare to competitors because that information will inform how you position your offering.

What pricing model will you be adopting?

Will you use a one-time fee or annual billing?

Will you have various iterations with more features being added as the price rises? This is part of the information needed to share with customers and investors.

Sales

The business plan should outline the processes and timelines used to sell your product or services. It should include things such as:

Will others sell your product?

Is it a direct or indirect relationship with end users?

How long will it take to make a sale?

Will sales require competition in complex RFPs to government?

Customer Service

Customer service can make or break a business. Social media means that a few unhappy customers can destroy a business' credibility. Customer relations are crucial to the business plan.

Once a customer has made a purchase, how will they be supported?

Is there a return policy if customers are unhappy with a purchase?

Will customer support be available online or through a call-in centre?

Who will be dealing with the customer?

Running Your Business

Human Resources

For many start-ups the “staff” is made up of only one person, the founder. Despite beginning as a sole operator, have a plan in place that describes what will be required in order for the business to grow. Have a clear idea of the number of employees necessary to sustain growth and identify exactly the roles those individuals will play.

At the outset, it may make more sense to outsource some services or hire on a contractual or project basis. (e.g. accounting, packaging). If you do decide to hire, determine how long it will take to get employees up to speed.

What training will be needed?

What is the staffing forecast? Create a schedule for hiring so that you are prepared. As the business grows, it should predict when you hire. Growth can be as challenging as starting up.

Production Process / Delivering Services

In the business plan, identify how production or service demands will be met. It may be relatively easy to meet demand at the start of business before awareness of your organization grows, but what will happen if demand accelerates?

What will you do to manage cyclical demand?

What happens when things get quiet?

How much production or service flexibility is there?

Are there regulatory requirements that must be met?

Are there bootstrapping methods that can be used to keep costs manageable? (e.g. can you trade for some of the required services)?

Suppliers

Most businesses need support from suppliers. At the outset suppliers can offset cost by reducing the need to hire for jobs on an as needed basis. How will suppliers complement your abilities and skills?

Although not your staff, managing suppliers is important. They can enhance or detract from your business without you realizing it. The plan should identify the process that will be used to ensure that you are receiving required goods on time and on budget. Consider things such as quality. If part of the brand promise is high quality, how will you ensure that your suppliers meet your standards?

Describe how you will manage risks related to suppliers. What plans are in place if a key supplier is no longer available or increases his costs?

Summary: Key Questions to Answer

How many employees do you need?

What will they be doing?

What will trigger new hires?

How can you use vendors to support your objectives?

How flexible is your production process?

How will you manage suppliers?

DIVERSITY IS GOOD FOR BUSINESS

It's not unusual for founders to choose a team made up of people who are similar to themselves, but research shows that effective teams actually require diversity: diversity in skills, gender, thinking styles, ages, ethnicities and approaches.

Sources: *2015 McKinsey report, Why Diversity Matters* and *2012 Credit Suisse AG report, Gender Diversity and Corporate Performance*.

Leadership

A great leadership team can make all the difference between success and failure. Lenders and investors will want to know if you have specialized expertise on hand that will support product development or help you to differentiate yourself in the market.

Team

Choosing a leadership team can be an exacting process. You will need to outline who has final say in the organization or in departments.

What qualifies people to do their jobs?

How will people with the right skills be found?

Advisors

Even if the best team is in place, all of the skills needed to run a business won't be present. This is where having a strong advisory comes in handy. The business plan should identify advisory board members and the skills, knowledge and experience they bring to bear. Keep in mind that the advisory board will probably change over time as the business grows. Always build in an

evaluative process to enable refreshing the advisory board as you grow. You may eventually want to transition the advisory board into a board of directors.

Compensation

Compensation for leadership can be one of the most complex parts of the business. It is a good idea to get legal advice for this activity and to have agreements in place that outline how leaders will be compensated and on what timeline. There are a number of ways to compensate that range from cash to equity. Whatever way chosen, spell out the timeline and make sure the business can afford the compensation agreement if things go wrong with leaders.

Administration

There are a number of legal, regulatory and financial requirements that will need to be fulfilled as a business. The plan should capture those requirements and outline how they will be met. For example, who will be managing things like Cash Flow Statements, tax filing or human resource requirements?

Summary: Key Questions to Answer:

- What is the reporting structure?
- What will they be doing?
- Who do you need on your advisory board?
- What will the terms of service be for your board members?
- How will you compensate your leadership team?
- Who will manage your human resources and other administrative requirements?

Financials

Assumptions

What financial assumptions are being made about the business? What are the worst or best case scenarios? What kinds of sales are predicted? What costs are required to make them happen? The assumptions help you to plan and predict what will happen in the business.

Forecasts

Taking assumptions into consideration, build the forecasts. They will explain whether or not the business can survive and for how long. They will also explain what is needed in order to be successful. Use professional help if you find the forecasts too difficult to build. Don't just build one forecast; build multiple forecasts that take into consideration different possible scenarios. Look at best, worst and midrange considerations. As you go along adjust the forecast to reflect emerging issues.

Determine how much money is needed to start and how long you can go without making a profit before the business hits a critical point. If money will run out in six months and revenue won't

come in for at least a year, find out what can be done to carry you through the six months without income.

Risks

This portion of the plan takes into consideration all of the things that can go wrong and identifies what can be done to mitigate those risks. When developing this part of the plan asks questions such as:

- What are the challenges?
- What happens if you get sued?
- What if it takes longer than planned to get customers?
- How can costs be cut or more revenues generated quickly?

Summary: Key Questions to Answer:

- When do you expect to start making money?
- What will you need in order to generate income?
- How long will it take before you see a profit?
- Do you have the skills required to build effective forecasts?
- What are the best and worst things that can happen to your company?
- What are your biggest risk factors?

Exit Strategy

Sooner or later you will need to exit the business. It's important that the plan include an exit strategy. What will the return on investment be for you and other investors when you do? When developing your exit strategy consider the following options:

- Initial Public Offering
- Merger and Acquisition - Being purchased by a similar or larger company
- Succession Planning - Sell to a friend, family or employees
- Sell on the Open Market
- Finance Yourself
- Liquidation and Close

Double Check Your Plan!

No matter how long it took to write, go back and review the plan. As the plan develops, each section becomes a learning opportunity and subtle changes in thinking can occur. This means that when the plan is reviewed, you may find things to tweak, improve or add. You may:

- Include a plan for the worst case scenario.
- Make sure the investments make sense and are properly prioritized.
- Be focused on the product and selling.

Structure of Business Plan

- Executive summary: Provides key points from each section and is often what gets the most attention from prospective investors.
- Business strategy: Describes the business model, what makes the business unique and what has been accomplished to date. Make sure that it also includes a strengths, weaknesses, opportunities and threats (SWOT) analysis.
- Marketing strategy: This captures things such as brand, product description pricing and promotional activities. It should also capture the e-business strategy.
- Operational plan: This is a general description of how business will be done on a day to day basis. This should include the leadership strategy and team members.
- Human resources plan: How many people will be hired and what will they be doing?
- Financials: These will include compensation plans, assumptions, forecasts, risks and other financial information
- Business exit strategy: How will you leave the business?

Additional considerations:

- Additional resources i.e. available expertise
- Social responsibility strategy

The business plan is a necessary albeit onerous task. Once in place, it will serve as a guide for you, staff and investors. It is a fundamental component to help guarantee that you reach targets, mitigate risks, secure the best customers and ultimately succeed.

Resources

- Canada Business Network - Developing Your Ideas
<https://canadabusiness.ca/starting/before-starting-your-business/developing-your-ideas/>

Online Tools

- Enloop - Online business plan tool <https://enloop.com/>
- Live Plan - An online service for plans <https://www.liveplan.com/>