

The Blueprint for Your Business

Small businesses have about a 50-50 chance of surviving the first five years—and one in five don't even make it a full 12 months, according to the U.S. Bureau of Labor Statistics.

Michael was lucky to be able to buy out his partner and run the company his own way. But businesses have a much better shot at long-term survival and success if they lay out their vision for the future before, not after, they start running it.

This means writing a business plan, and it's one of the most important steps in building a successful company. Sometimes this business plan is written for public consumption. For instance, if you would like anyone else to put money into your company—which could be in the form of a grant, stock shares, or a loan—you will need a polished business plan. A bank will certainly want to see one before approving a loan. Your family and friends might have fewer requirements before sending you a check, but a written plan will still help set their minds at ease by demonstrating that you're taking your venture seriously.

Even if you don't intend to take loans or outside investors, and even if you don't have anyone to read your business plan, systematically thinking through a blueprint is still critical. Yvonne Cariveau, director of the Center for Innovation & Entrepreneurship at Minnesota State University's College of Business, is an expert on business plans. She says that you don't necessarily need to write out a buttoned-up essay, but you do need to do the thinking

**Yvonne Cariveau**

Yvonne Cariveau directs the Center for Innovation & Entrepreneurship at Minnesota State University in Mankato, MN. She teaches classes on entrepreneurship and has been an entrepreneur herself for 28 years with her business, Internet Connections, Inc.

and research that a business plan forces you to perform.

That's what Jordan Rosner did when she opened her photography business in Millburn, New Jersey. She researched her industry, wrote up a plan, put it in a drawer, and hasn't looked at it since. What she learned in the process of writing the plan, however, has stayed with her every day. She says thinking about how she was going to approach every element of her business is what's helped make her business a success.

Like Jordan, you might end up doing the research, writing a rough draft, and stopping there—using your business plan for internal purposes. Or you might draft an externally facing plan: perhaps one for bankers or venture capitalists, one for individual investors, one for potential business partners, and one for yourself. The information in these documents won't change, but the focus will shift toward the things you think a particular audience will want to know.

A business plan has multiple sections:

An Executive Summary

A good executive summary pops. It should grab the reader and explain, succinctly and compellingly, why your business will succeed. You'll want to explain briefly what's in the rest of the document, particularly the problem, solution, and audience, so that readers will understand what you're doing and

why. Tell your story as vividly as you can. Another tip: Write the summary last. It should be a greatest hits, of sorts, for what's to come. Just because it's short doesn't mean it's not important; it might be the most critical part of the entire document.

The Management Team

Your plan should include bios of the owners and key employees of the business, particularly if they have relevant experience for the new situation. Each person's bio can be as short as a few bullet points or a few paragraphs that highlight what's relevant. You don't need to include every step of your career; be selective and decide how best to present yourself. Explain what qualifies each person for his or her role.

Your team members don't need to have worked in your industry, but you do need to draw parallels between the work they've done and the skills you'll need from your company's management team. If you haven't spent much time in your industry yet, an advisory board of people with relevant experience can help round out your team.

Problem, Solution, and Audience

Most businesses exist to solve a problem, such as selling a product that customers can't get nearby or offering a new or better service than what's already on the market. But before you decide that your solution is *the* solution, spend more time listening to other people talk about the problem.



Jordan Rosner

Jordan Rosner is a photographer in Millburn, NJ. She got her start in photography in high school and worked for local newspapers after completing a degree in photojournalism from Lehigh University.

Do your research, no matter what field you are in. “Define your problem very, very specifically. Observe. Ask open-ended questions,” Yvonne says. Cariveau likes to snowshoe, for example, but finds it awkward to attach her snowshoes’ back binding to her boots. If she were thinking of making a product to solve that problem, she says, she would go and watch people put on snowshoes. Where do they hit problems? Do the difficulties involve flexibility, cold fingers, stiff plastic, or bindings that are too short? The point is, refine your idea and then refine it some more. Even after you launch your product, listen to customer feedback and keep iterating.

“Entrepreneurs fall in love with their solutions before they really understand the problem,” she explains. Is the problem you’re considering actually worth solving? Is the solution worth tons of money and years of life? And is your solution the best one—or is it just the first one you thought of? Make sure you’re honest with yourself about your answers.

Then, if you still feel you’ve identified a problem that you think you can solve, consider who might pay you to solve it. Is your product a good match for their needs?

It’s also possible that no one will pay you to solve a problem you’ve identified. Hedberg Maps in Minneapolis, Minnesota, created an atlas of all the area sports facilities. The company thought that parents would want directions to the soccer fields and hockey rinks where young people were playing, and that school sports teams could sell the atlas as a fundraiser. However, parents were more comfortable

getting directions from apps on their phones, and a local soccer association already had a lock on fundraiser sales. The map company ended up paying to have the unsold atlases destroyed.

If you've established that the problem in front of you is worth solving and potentially profitable, ask yourself: Who else has tried to solve it? Did that attempt work? What can you learn or borrow from other companies in the same industry? Don't disparage the competition. Most people aren't all that different from you—they, too, are trying their best to solve a problem. Instead of dismissing them, explain what's different about your solution and why it will be more successful.

At the end of the day, a prospective business owner needs to know if her idea is desirable, feasible, and viable. Is this a problem that should be solved? Will customers pay you enough for the solution to make solving the problem worth your while?

When you're answering these questions, don't make claims without backing them up with evidence. Keep your projections conservative, and be realistic about the time and resources available to you. It's good to be optimistic—that's why you're getting into business—but overly optimistic assumptions will set you up for failure. Whether you're building a house or a business, most things cost more and take longer than you initially predict. Write up a business plan that assumes the worst-case scenario. That way, at the very least, you'll meet your baseline. Anything above it is an added bonus.

Operations

Now that you've identified a problem and your solution, you'll have to go about actually producing your product or streamlining your service. You'll need materials and a way to manufacture what you're selling. What method will you use to make your product? What facilities and equipment will you use? Who will do the work, and what will their roles be? What processes will you put in place for production? Will you have an office? A store? Where will these things be located? Will you need to find or build new locations? When, where, and how will you do that?

Operations have been an issue for Zellee, a Hawaii-based company that makes a plant-based fruit snacks. The concept started as a home kitchen recipe, but formulating a recipe for commercial success involved hiring a food chem-

ist and a nutritional label attorney. Next, the firm found someone who could package the result in squeeze pouches. But the owners quickly recognized the manufacturer wasn't a good fit, so Zellee went through two more options before they solidified a good relationship with a manufacturing facility.

Their troubles with manufacturers may be over, but Zellee is still working out supplier issues. On its last run, the company had difficulty sourcing peach puree, says co-owner Lisa O'Kelly. "Ingredient supplies can be dependent on the quality of the last harvest," she says.

**Lisa O'Kelly**

Lisa O'Kelly is co-founder of Zellee Organic, based in Maui, HI. The company makes an organic, plant-based fruit gel snack that uses konjac, a plant from East Asia, to gel the product, instead of gelatin.

In your business plan, you'll want to think through your operations as specifically as possible. The goal is to lay a good foundation for production and sales—as well as a alternatives so you're prepared when you hit a bump in the road.

Lisa says you'll most likely need to find more than one supplier, and you should talk to other businesses in the same space about your manufacturing options. If you're producing at a large scale, for example, you'll have many more variables to consider. “You may need to manufacture overseas, at least to start, because it's so much less expensive,” she said. “Department of Commerce USEAC U.S. Export Assistance Centers, which have feet on the ground all over, can help you figure out manufacturing and understand the questions and expenses involved.”

For more on operations, check out Chapter 4.

Finances

Once you know how you'll source your materials and have developed the process you'll use to transform them into a finished product, you need to identify each of your costs. You should understand exactly how much you will spend to make a unit of whatever you're selling.

Without understanding how much it costs you to produce something, you can't know how much you need to sell it for in order to make a profit—or at least stay in business. “If you have a business where it costs you \$100 to make an item and you can only sell it for \$90, then you might as well just create an organization that gives \$10 to every person you meet,” Minnesota State's Yvonne Cariveau says.

Say you make muffins, and it costs you more to create them than you can charge for them: you don't have a business—you have a charity. Go look at the competition and see how much they're charging for a muffin. This is called benchmarking data, and in most industries, you can find prices for any given good by being curious and shopping as a customer. "Data is knowledge," Lisa says, "and it helps you make a structured guess. You can have the best muffins ever, and the numbers are still more important."

How many muffins do you think you can sell? Start with the total size of your market and figure out how many people you can make aware of your business through marketing. Of those who know about you, maybe between 2 and 3 percent will visit your website. An even smaller proportion will make a purchase. From playing with these numbers, you can create cash flow and balance sheet projections.

As you go forward, simultaneously try to increase income and decrease costs. Could you charge a little bit more? At what price point will a customer stop buying? "Get a projection sheet and play with the projections," Lisa says. "There are templates everywhere."

Remember, too, that you don't just need enough money to open. You need enough money to get through the inevitable ups and downs of the first few weeks and months. Most businesses aren't immediately profitable, and all businesses go through booms and busts. Assume that you'll earn less and spend more than you initially imagined.

While making your business plan, you should also think through how you'll manage repayments if necessary to investors and lenders. Whether they take a hands-on

role or operate as silent partners, every financial contributor wants to know when you will repay the investment or loan, and at what rate of return. It's typical for investors to want out in three to five years.

This is just a taste of what you'll want to consider when it comes to finances—to learn more, check out Chapter 5.

Marketing

Now that you've thought through your operations and financial viability, how will you find prospective customers and tell them about your value proposition?

Chapter 6 explores marketing strategies in more detail, but it isn't as simple as handing out some flyers. You'll want to tap into your network; build an online brand, including on social media; consider partnerships with other small businesses; and explore advertisements and earned media opportunities. Marketing is a constantly moving target—you'll always need to be looking for new ways to reach your audience.

And remember that you're not only marketing your company. You're marketing your individual products, and it's important to do that strategically. “Market the things with the largest profit margins first,” Lisa says. That advice forces you to think about the cost to you of whatever you're selling.

You also need to think about the kind of sales you're making. It's easier to sell more to existing customers than to find new ones. How will your business find first-time clients? And how will it persuade them to stick around and buy from you again?



Those are the primary sections of a written business plan—and the primary concepts to think deeply about, even if you’re not writing the plan out formally. From here, you can use or tailor the plan for any audience you need. You might have a presentation for an investor; it wouldn’t hurt to show a possible lender a well-thought-out business plan. It may be something you continue to refine among your leadership team. But even if you simply keep it in a folder on your computer and never look at it again, the work you’ve done will stay in your mind, and it will help form your strategy going forward.

Take It on the Road

Before you dive in headfirst, make sure to test your conclusions. “Make your product, take it somewhere small, and see if anyone wants it,” says Lisa. It could be at a fair or on a street corner. It could be a trial run with a few potential clients. Based on that experience, what about your projections do you need to change?

Here’s an important factor: pay attention to how much you enjoyed the experience. “Figure out if you even like to do this,” she adds. “Maybe you’ll hate it!”

If it’s the latter, think long and hard about whether this idea is the right place for you to dedicate a lot of time. Most businesses probably won’t be very successful if their founders aren’t excited to do the work.

A Few More Planning Tips

As you write your business plan:

- **Have a vision.** Present your vision for what you believe you are building. A vision can be more future looking and optimistic about your goals. Be as clear-eyed as you can be in stating what you want to be.
- **Be logical.** Think like a banker or an investor for the concrete details, not a dreamer.
- **Support your claims** with statistics, facts, and quotes from knowledgeable sources.
- **Don't discuss rumors.** Hearsay about your competitors doesn't belong in a business plan.
- **Avoid superlatives.** *Major, unique, the first, the only, the best, the most, unbelievable, amazing, terrific*—none of these words should have a place in your plan. In most instances, you can't back up these claims with data, because they are, at their core, opinions. There's no way, for instance, to prove that you have the best Mexican food in town. (You can, however, quote someone else saying that—a food reviewer, for instance—if it will add credibility.) There's also a very good chance that your product or service is not truly the first or unique. That's fine. The world has room for more than one vintner. Just be truthful in what you claim.
- **Be realistic.** Don't overestimate your financial projections or underestimate your time frames. Assume that your business will bring in half the revenue that seems reasonable and take twice the time you initially

SELF-MADE BOSS

estimate to get up and running. If you're able to bring in more money in less time, that's great. Make the surprises good ones.

- **Hire or contract with an accountant** or a financial expert to help you think through the financial side of your business. If you're writing a business plan for investors or lenders, ask the accountant to put your financial projections in the standard business format that your audience expects.
- **Don't send investors a gimmick.** They'll eat the cookies that you send, but the baked goods won't make them more likely to invest in your business. Investors want facts, not snacks.