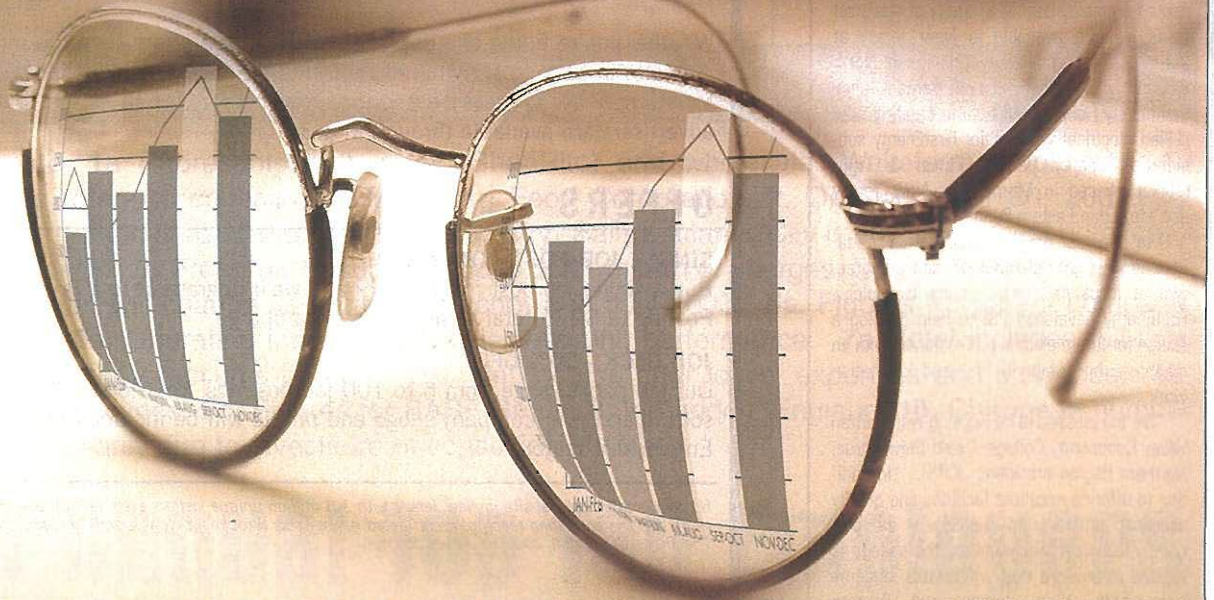


# THE BUSINESS PLAN IN THE 21ST CENTURY



IN CELEBRATION OF NATIONAL SMALL BUSINESS WEEK, COMMENCING ON MAY 5, NEW JERSEY BUSINESS TAKES A LOOK THE IMPORTANCE OF WRITING THE BUSINESS PLAN AND DISCOVERS "ALTERNATIVE" OUTLOOKS.

*By Anthony Birritteri, Senior Editor*

Commonly thought of as a tool for obtaining a bank loan or venture capital financing, the business plan is evolving into a living and ever-changing document that should be written from a holistic point of view. It should be part of the entrepreneur's ongoing business life that evolves just as the business does. Today, it is looked upon as a communications tool that employees review on a continual basis to ensure that they are on the same page as the business owner - sharing the same business vision and culture. The same holds true for strategic partners, contractors and customers.

"We are trying to get the sole proprietor and the 'mom and pop' businesses away from the mind set of 'this is my business alone and I can treat it anyway I want,'" says Tendai Ndoro, regional director of the Rutgers-Newark Small Business Development Center, one of 11 SBDCs in the state offering business plan writing courses and other consulting services to entrepreneurs.

"We now look at the plan as a process for becoming a good entrepreneur - of adopting certain business ethics and principles for conducting business."

The comments are inspiring, but writing a business plan may seem like a daunting task, especially for the budding entrepreneur who is eager to start making money rather than taking the time to write a business plan. One can jump right in and start conducting business without a plan, but that will eventually result in the entrepreneur facing some type of problem down the road, says Ndoro. "Businesses without a plan will, at some point, come across a hurdle that they would not have come across if they had written a plan. They would have done things differently because they would have gained vital information before going into practice," she says.

Writing the business plan provides the necessary groundwork that will determine how and when the venture should be successful. In writing the plan, the entrepreneur has to conduct research on: markets and customer demand for the

product or service being offered; the competition; pricing strategies; the marketing and sales strategy; operating budgets; return on investment; cash flow; break-even point; employee compensation; hiring procedures; day-to-day management; insurance, lease or rent agreements; delivery of products or services; and other issues.

Writing a business plan can also be a "reality check," says Randy Hanks, senior vice president of small business banking at First Union. An entrepreneur may have a great idea, but after studying the market (as required in the business plan), and discovering that one cannot make a profit based on competitive pricing and production costs, starting a business "may not be something you should leave your daytime job for," explains Hank.

The research process of the business plan, then, can save some financial agonies down the road.

Starting a new venture and writing the business plan requires optimism and the first area of the plan where you can put

# THE BUSINESS PLAN VIEWED FROM THREE ANGLES

**J**erry Goldstein (right) juggles three business plans — one for his private law practice, the other for his executive suite office business and the third for Union Media Video Conferencing. The two latter businesses emanated from his acquiring office space for his law practice, revealing the fact that the business plan is ever changing.

"The business plan has to be active and flexible," says Goldstein. He also emphasizes that the plan be written by the business owner. "I laugh when someone comes up to me and says, 'Do you know of anyone who can write my business plan?' If the entrepreneur is not writing it, it's not a business plan. You have to be involved with it on a day-to-day basis. For me, it's more of a road map to stay focused."

Goldstein's business plan for Union Media, a \$3-million operation which provides video conferencing solutions to businesses, is his most robust, entailing outlooks for the company's short-term and long-term. More importantly, he requires employees to read and contribute to the plan.

Even financial institutions are viewing business plans differently. "We are emphasizing that the business plan is more than just a necessary document to approach a bank with for financing," says Randy Hanks, senior vice president of small business banking at First Union. "It ought to be a blueprint for entrepreneurs, guiding their decisions well before they approach a bank for financing."

Banks, of course, would like to see small businesses succeed and forge long-term relationships with them. Many institutions, then, when reviewing business plans for loan considerations, would recommend and advise entrepreneurs on where to find business plan writing assistance if: 1) no business plan is presented, or 2) the plan is lacking important elements.

At Valley National Bank, one of the many financial institutions in the state designated as an SBA lender, bank representatives steer entrepreneurs to either the SBA, SCORE or one of the SBDCs, if the business plan needs fine tuning. According to Dorothy Kahlau, senior vice president of SBA lending at the bank, "In providing assistance to applicants, we take pride in the fact that we sit down with them and go through the business plan to make sure it is well thought out."

When considering lending money to a business, Kahlau says the entire plan is studied. "This will tell us if the business owner has done his or her homework and has studied the various aspects that can impact the business," she says.

As a tip, Kahlau says the business plan gains added credibility if it has been prepared with the assistance of a professional consultant such as a SCORE representative, the SBDC, an accountant or lawyer, for example.

The assistance that lawyers provide in writing a business plan can include helping business owners draft documents in a way so that they can avoid any liabilities. "Often the business plan is used as part of the offering documents to raise capital. So we look at the plan to see if there are any 'overly aggressive statements' that could give rise to liabilities," says Philip D. Forlenza at the Middletown-based law firm of Giordano, Halleran and Ciesla. "The business may say it has the 'best technology on the market.' If it doesn't have the support to back that claim up, we suggest that it tone things down a bit or take out the statement altogether."

Forlenza also says that if there is some type of material risk related to the company, that should be disclosed in the business plan as well. "You have to disclose all the warts and risks to potential partners and investors up front," he says.

Forlenza says his firm sees many business plans and is in the position to give entrepreneurs practical advice on how to best structure the plan. "I suggest that the client be realistic in financial projections and not be too technical (if it's a technology-based company)."

Ken Shank at the Woodbridge-based law firm of Wilentz Goldman & Spitzer says that in today's market in which venture capital money is hard to come by, lawyers deliver the necessary language skills and verbal experience to help present the business plan in an organized and sensible manner. "The lawyer has a feel for what a venture capitalist would want to see, so we can help draft a business plan in terms of using the proper words, giving advice and guidance," says Shank.

In reviewing a business plan, Shank says that venture capitalists look at: what business the company is involved in; the background information and skills of all principals and owners involved; an idea of the cost and timeline in achieving financial success; and some form of presentation showing that the product can be successfully bought to market.

Shank also stresses that in passing a business plan along to a venture capital firm for review, confidentiality agreements must be in place. "Always consult with a lawyer and have an agreement in place to protect the plan from being improperly disseminated," he says.



your best foot forward is the executive summary.

According to Ndoro, "The executive summary is a snapshot of the entire business plan. Here, you pick the item you want the reader or outside source to capture about the business."

Executive summary contents should include a brief description of what the entire business plan contains. This includes: description of the business and the ownership structure; the product or service; the business goals; the market and customers; location of the business; profit motive; and how business will be conducted.

In some business plans, the location of the business deserves its own section. "If you are just a home-based business and the location has no relevance in enhancing what you do, then the location can be part of the basic business description," says Ndoro. "If the business is in a commercial area and there is an expense to that which is significant, then it should be a stand-alone topic. If there is an advantage to being in that area, there has to be an explanation as to why. What function does the building deliver in meeting business and customer needs? Is it near public transportation and public parking? What are the occupancy arrangements, lease agreements, who covers insurance and what is your exit strategy? These items must be covered."

The next section involves a more detailed description of the business, including the mission statement; the business model (the business prototype/archetype, short- and long-term objectives and history of the business); strategic relationships (internal and external); and risks (internal and external, plus an alternative or back-up plan and exit strategy).

An explanation of products or services follows. This should include: a description of the product/service; a comparison (are the features that make your product/service better than your competitor's); sales literature used to sell the product; product sourcing and the cost of fulfilling a service; the technology on which the product is based and is that technology protected (patents, trademarks, copyrights); and a future outlook for products and services.

A section on the management team and a personnel plan is the next step in writing

the plan. This segment should include who the important managers are with descriptions of their backgrounds and experience. Their specific role in the company should be described. The personnel plan should include items such as individual duties and responsibilities, hours to be worked, salaries and wages paid, benefits and employee training and development.

"Even if you start a business and don't have any employees, you have to plan for business growth," says Ndoro. "If you plan on hiring people down the road, think

## THE ACTION PLAN

Helping small- and mid-sized business owners concentrate on planning the business rather than being involved in day-to-day processes is ACTION International, the business coaching and consulting franchise that, at press-time, has eight locations in the Garden State.



Fred Bauer

Fred Bauer is the owner of the ACTION franchise in West Orange. A business planner and consultant by trade, working with Coopers & Lybrand and, later, PricewaterhouseCoopers, he has helped a great variety of businesses achieve their goals of success.

What he likes about the way ACTION helps companies is its "concise and formalized planning process." This involves an in-depth questionnaire that inquires about all aspects of a business. "It focuses on sales, marketing, operations, the management team, legal structure and financial structure," says Bauer.

There are two components to what ACTION does for clients. "We call it plan and process. The plan is an analysis of the questionnaire which is then put together for suitable presentation to, for example, bankers and investors. Where we differ from typical business planning processes is that we also institute change in the business," says Bauer.

The ACTION questionnaire is completed over a three- to five-month period. Then a draft plan is created based on the assumption that nothing has changed in the business during that time period. But things do change, according to Bauer. Therefore, business owners keep a "success journal" recording all of the changes they have made to the business and the results they are getting from them. The journal is then used to update the draft plan, which is sent to ACTION global headquarters in Australia for the creation of the final plan.

"In between all of these stages, we are putting together an action plan for the business owner to either implement themselves or with the assistance of a coach," says Bauer.

ACTION assists small- and mid-sized business with revenues between \$500,000 and \$20 million.

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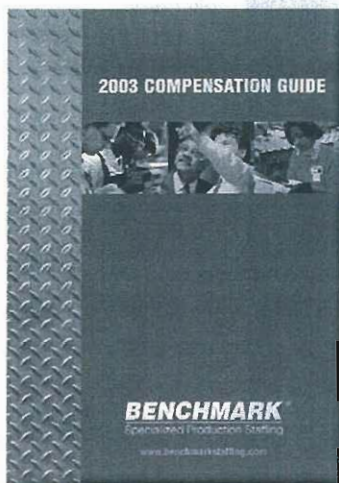
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Tendai Ndoro, regional director of the Rutgers-Newark Small Business Development Center, one of 11 SBDCs in the state offering business plan writing courses and other consulting services to entrepreneurs.

through the process in the business plan so that when the time comes to add staff, a financial component or budget has been established and you would have thought out the qualifications and skills of the people needed."

If the entrepreneur plans on outsourcing work and using professional services,

this should also be detailed in the management plan.

The marketing plan, the next requirement in the document, consists of market analysis and marketing and sales strategies. "In the market analysis, you are defining the environment in which business will be conducted. This includes customers (existing and prospective), segmentations into demographics, psychographics, buying habits and geography," says Ndoro. An industry analysis is also conducted to find out about existing competition, industry trends and regulations.

The gathering of this information may seem like an enormous task for a small "mom and pop" business, but according to

Ndoro, a computer with Internet access is a good starting point to find the required data. "You can do most of the research on the Internet sitting in your office or at home at any hour of the day or night," she says.

Information about particular market demographics can be found on U.S. Census Bureau Web site. Here information is broken down into categories such as age, sex, household income and ethnicity, as examples. On the Department of Commerce Web site, once the business knows its SIC (Standard Industrial Classification) code or NASIC (North American Industry Classification) code, information on government regulations such as OSHA can be found. Employee benefits and minimum wage law information can be accessed on the U.S. Department of Labor Web site.

If the entrepreneur is starting a business-to-business operation and needs to find out where prospective business customers are located in certain market areas, Yellow Page research on the Web can be a good starting point.

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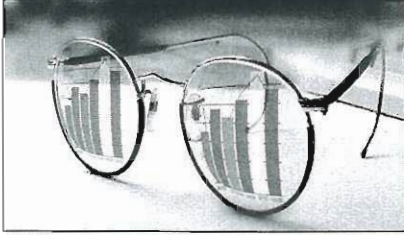
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## The Business Plan

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In "Business Start-up Guide – How to Create, Grow and Manage Your Own Successful Enterprise" by Tom Severance, an attorney and CPA, a small sampling of sources for market research analysis also include: periodicals and newspapers; trade and professional associations; chambers of commerce; market research firm reports; the U.S. Small Business Administration; electronic databases; and U.S. Government Printing Office bookstores, to name a few.

Writing down the marketing strategy is one of the more important areas of the business plan. According to Ndoro, "If your strategy is not convincing to any reader, there is no viability in your business idea." This segment of the marketing plan entails strategies on product and services, pricing, location, promotion, public relations and sales.

The financial section of the business plan is where the costs of everything mentioned so far gets a line item. According to the SBA's Small Business Resource Guide, information in this section should include the entrepreneur's source and the amount of initial equity capital; the monthly operating budget for the first year; the expected return on investment and monthly cash flow for the first year, projected income statements and balance sheets for a two- or three-year period; the break-even point; the entrepreneur's personal balance sheet and method of compensation; who will maintain the business' accounting records and how will they be kept; and "what if" statements that address alternative approaches to any problems that may develop.

The concluding statement of the business plan should summarize the business goals and objectives, expressing the entrepreneur's commitment to the success of the business.

Ndoro says that when using the business plan as a tool to communicate with

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The computer lab in the basement of Engelhard Hall, Rutgers-Newark campus – the only SBDC location with such a lab - participants receive a step-by-step business plan writing manual, one write-on floppy diskette with a business plan template and receive instruction from a trained professional. CPA Tim Orolo (right) is the featured instructor.

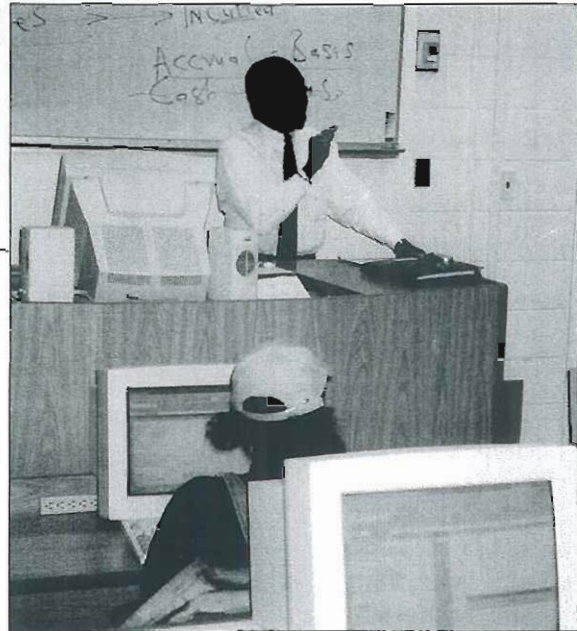
other people, supporting documents should also be included. These include resumes, certifications and other qualifications of owners and important managers; lease agreements; three years of personal income tax returns and personal bank statements (if this is a new start-up venture); partnership agreements; a copy of the business registration; and any letters of reference.

Assistance in writing business plans can be obtained by calling the SBA New Jersey district office in Newark at (973) 645-6064 or going online at [www.sba.gov/nj](http://www.sba.gov/nj). Through the SBA, entrepreneurs can take advantage of counseling and training resources such as SCORE (Service Corps of Retired Executives) for one-on-one counseling. According to Harry Menta, spokesperson for the New Jersey SBA, SCORE representatives in Newark (there are 250 total throughout New Jersey) hold a monthly session from September through June titled "Starting Your Own Business." The \$25 seminar includes business plan writing advice, including a booklet and sample business plan.

In addition, the state has two Business Information Centers – one in Camden and the other in Newark – which are research libraries with computer workstations offering Internet access and software for developing a business plan. The BICs also offer video cassette monitors and tapes to help entrepreneurs start and expand their business (approximately 200 sample business planning guides are offered.)

According to Menta, an entrepreneur can first draft a business plan at a BIC and then bring it to SCORE or an SBDC for fine-tuning.

The Rutgers-Newark SBDC, located at the Rutgers Campus at 43 Bleeker Street, offers entrepreneurs a five-week "Business



Plan Training Workshop" held every Friday from 9 a.m. to 1 p.m. Located in a computer lab in the basement of Engelhard Hall – the only SBDC location with such a lab - participants receive a step-by-step business plan writing manual, one write-on floppy diskette with a business plan template and receive instruction from a trained professional. There are five programs running throughout the year (winter, spring, early summer, late summer and fall) at a cost of \$65 each.

The SBDCs, funded in part by the SBA, Rutgers University, the New Jersey Department of Commerce and private corporations, celebrate their 25th anniversary this year. As a network, it has assisted more than 219,500 entrepreneurs since its founding. In 2001, it helped create more than 555 jobs. Last year, it assisted 20,572 entrepreneurs. On June 5, an all-day celebration in honor of the SBDCs is planned at Rutgers Newark including an evening gala.

Finally, the New Jersey Economic Development Authority offers courses on writing the business plan through its Entrepreneurial Training Institute, with 11 locations in the state.

Ndoro concludes that the business plan should be a living document. "Look at it every six months because some component of the plan is going to change," she advises. "The plan should be reviewed every year to see if things you planned are still relevant . . . it is part of the process of being a good entrepreneur. It's something to which you have to commit." ❧