

The value of a business plan

Whether you're a start-up or a mature business looking to meet annual growth targets, a business plan can be an effective tool to help meet your goals and achieve success. A key benefit of business planning is the ability to create a united team, focused on a specific roadmap for the business.

A business plan is a written description of your business and how it operates, along with its vision, goals and objectives. Business plans are most commonly associated with start-up companies; however, all companies can benefit from having a plan which is continually updated for rapidly altering industry dynamics and internal company changes, as well as economic developments whether local or global in nature.

The most effective business plan will evolve as your business grows and changes. It is a dynamic document that will guide decision making and operations at any stage of your business life cycle:

- If you're intending to start a business, a business plan can help you turn your vision and capital into a viable business. It will provide support and direction when securing financing from lenders and investors.
- If you're operating an existing business, a business plan enables you to communicate your vision to employees and those who interact with your business.
- If you're growing your business, a business plan empowers you to raise capital to expand, manage growth and mitigate risks.
- Finally, when you plan on exiting the business, a business plan can help facilitate the development of a plan to transfer ownership, sell your business or wind it down.

Purpose of a business plan

A well-designed business plan can help keep you and your team focused on annual and longer-term goals, assess resource needs, and help you identify and critically assess opportunities and risks within the business. Writing out or updating your business plan forces you to think about your entire company, dissecting and planning within all of the moving parts: sales, marketing, production, customers, employees at all levels, and financial needs. When you consider all of the moving parts as a whole, you are less likely to miss any key factors and can identify key issues before they become a problem.

A business plan can be used for general internal purposes or a very specific need, such as raising capital for growth. The purpose of your business plan dictates the scope and level of detail required and may need to be updated as your business evolves and your goals change. An external party may require more detail to understand your business and industry than internal partners or colleagues.

Key components of the business plan

The overall structure and contents of a business plan may vary. However, there are a number of core components that should be considered for inclusion in a business plan:



Executive summary

- One-page summary of key aspects of the entire plan.

Business overview

- Description of the business and its purpose, vision statement and values. What differentiates and makes your business great?

Products/services

- Description of products/services provided, highlighting their unique value propositions.

Sales and marketing plan

- How do you market your products and/or services to your customers? What is the sales strategy to get customers to purchase your offerings? Do you employ sales representatives or agents?

Employee organization chart

- Matrix of roles and reporting lines. Critically assess this chart to determine if you have the right individuals to accomplish your plan and vision for the company. Are there any vacancies that need to be filled or a new role that should be created? Are there any employees approaching retirement? What is the plan if a key employee leaves? What is the bench strength in the company at all levels?

Customers/suppliers

- Who are your customers and suppliers? Are agreements in place? Why do your customers buy from you now and how will you ensure this continues?
- Breakdown of sales by customer and purchases by supplier. Are there customer concentration risks or suppliers critical to your business? If so, how are you working to decrease these risks?

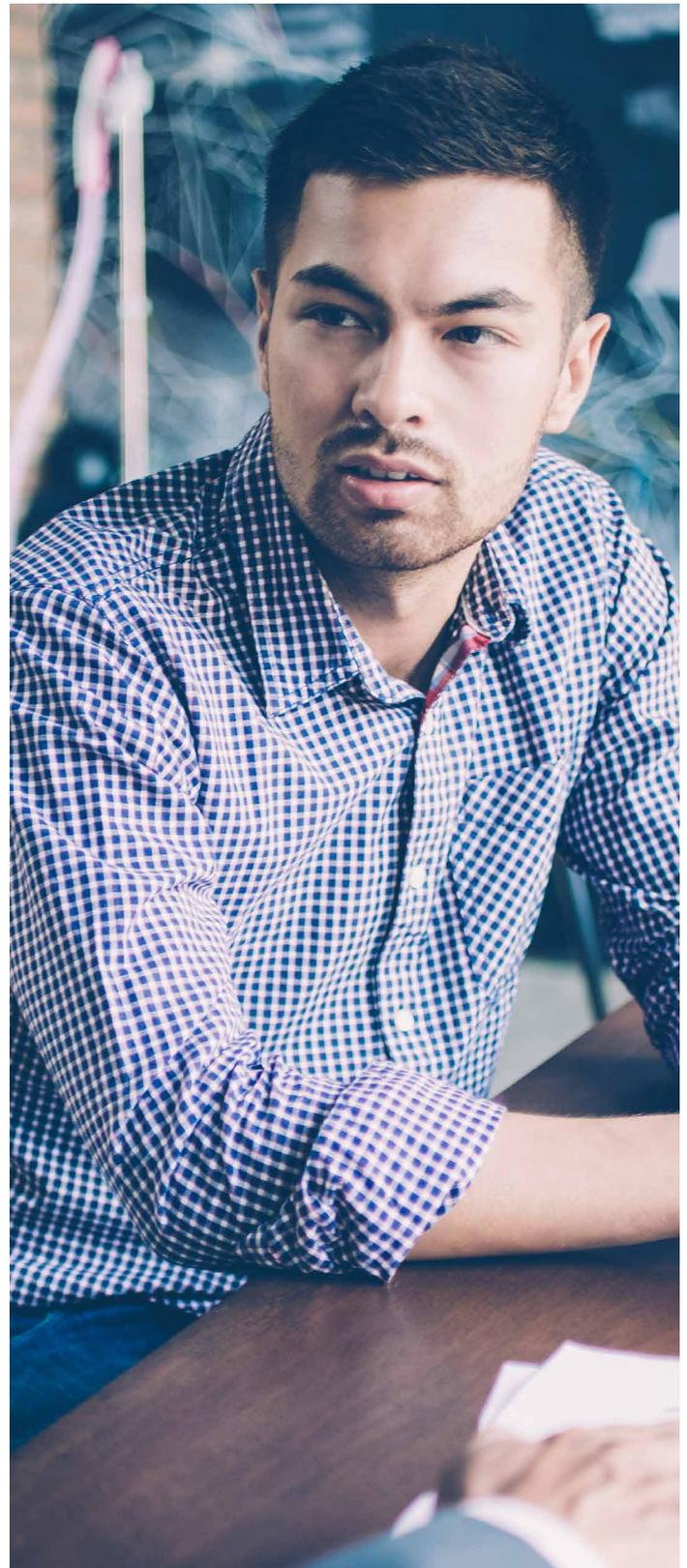
Industry/market

- Total overall market and projected growth rates in the industry and the business position within it (i.e., market share and market positioning).
- Description of local and larger economy impacting the business.
- Competition (both direct and indirect) and plan to win more business.
- Consideration of strengths, weaknesses, opportunities and threats. This allows for critical thinking about the business, often identifying areas for growth and providing an objective view of risks and potential improvements.

A well-designed business plan can help keep you and your team focused

Growth identification

- In what areas could the business grow revenues and profitability (new markets or products, capital investment to improve margins, growth through acquisition, etc.)?
- What is the plan to accomplish the identified growth?



Financial information

- Historical financial performance and a forecast with key assumptions. Consider including income statement, balance sheet and cash flow information.
- You should forecast for the next 12 months, and for 3 to 5 years. The 12-month forecast should illustrate the key assumptions in the greatest detail, including revenues and costs.
- The qualitative aspects of the plan should tie into the financial forecasts.

Exit strategy

- An exit strategy lays the foundation for a successful transition of your business, and also supports retirement or accomplishing other goals. Planning for this will allow you to consider all of your options, including strategies that may take time to implement.
- If selling the business, effective business planning during the life of the business will contribute to getting the best price.
- If you plan on passing the business to children or transferring to a key employee or partner, it may take time to integrate or facilitate the business transition.

A business plan provides tremendous insight into your business and helps others such as investors, suppliers and banking professionals to understand and support your needs. It is important to review and update your business plan at least on an annual basis.

Conclusion

A business plan can be an effective tool for business owners to succeed over the long term. With a sound business plan, you'll have solid goals to aim for, a strategy for reaching them and a useful understanding of the environment in which your business is operating. A business plan doesn't have to be complicated or time consuming. It simply requires you to consider the factors that will affect your business and allows you to plan for dealing with them.

In developing a business plan, consider working with your trusted advisors, key employees, peer groups and local small business center to seek different perspectives and ensure that your plan meets your objectives. Knowing that you have well-thought-out plans and sound financial information will help you when making key decisions. And remember, your business plan isn't written in stone – expect the unexpected and update your plan when necessary.



We're here to help.™

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How a financial proposal and debt can support your business

Banks can provide valuable financial services to help your business develop and succeed. The most accessible of these are debt financing and business credit cards. When a company requires a significant infusion of cash or a quick and convenient way to fulfill short-term financial needs, a loan or business credit card can provide useful financial support.

How credit is used depends on where your company is in the business life cycle.

1 At the start-up stage

New businesses often do not have established credit, so qualifying for a loan is more challenging. Credit is a great resource that can be leveraged for additional financing.

2 During the growth stage

Credit is an important part of the growth stage. Spontaneous opportunities and barriers often come up and require short-term financing. As a business grows, banks can more clearly see its strengths and short-term loans and business lines of credit may become easier to access.

3 In the maturity stage

Established businesses are more likely to qualify for long-term loans, lines of credit, commercial mortgages and other financial services. Credit continues to play a big part in this stage as more employees join the business and financial responsibilities expand.

4 At the exit stage

Businesses often rely on term loans, lines of credit and business credit cards during the transition period to fulfill capital requirements for the sale or transfer of the business.

Most financial institutions will issue a business credit card based on a routine credit check and application. To access a significant amount of debt financing, a written financial proposal is usually required by your banking professional to acquire a loan or financing. A financial proposal contains details of how you intend to achieve your business plan:

- The amount of money you need?
- How that money will be used?
- The returns that can be expected?
- What security will be provided?

The preparation of a financial proposal can also be beneficial to the operation of your business. As a fundamental management tool, your proposal provides additional benefits:

- Forces you to write down facts clearly and objectively.
- Helps you to identify and clearly define products, markets and suppliers.
- Provides you with a guideline against which to measure results.
- Conveys a lasting impression of you and your company, and allows others to assess your chances of success.

Your financial proposal should be based on your business plan. It should be written clearly and to the point. While it should emphasize your strengths and the upside, it's important to acknowledge the risks and the downside. This allows you to demonstrate that you understand risk and know how to cope with it.

Speak to your BMO financial professional to learn more about maximizing the potential of your business when credit or debt financing is needed to develop and grow your business.



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