The Necessity for a Business Plan

LEARNING OBJECTIVES understand that the probability of running a successful business is significantly increased with a formal business plan. Understand that although many small business owners express reasons for not planning, they do themselves a great disservice by not having a formal plan. Understand that businesses that seek to secure external funding must produce a formal plan. An intelligent plan is the first step to success. The man who plans knows where he is going, knows what progress he is making and has a pretty good idea of when he will arrive. Planning is the open road to your destination. If you don’t know where you're going, how can you expect to get there? Basil Walsh in Chapter 1 "Foundations for Small Business", we discussed the issue of failure and small businesses. Although research on small business failure has identified many factors, one reason that always appears at the top of any list is the failure to plan. Interestingly, some people argue that planning is not essential for a start-up business, but they are in a distinct minority. Jason Cohen, “Don’t Write a Business Plan,” Building43, January 27, 2010, accessed October 10, 2011, www.building43.com/blogs/2010/01/27/dont-write-a -business-plan. The overwhelming consensus is that a well-developed plan is essential for the survival of any small (or large) business. T. C. Carbone, “Four Common Management Failures and How to Avoid Them,” Management World 10, no. 8 (1981): 38.,Patricia Schaeffer, “The Seven Pitfalls of Business Failure and How to Avoid Them,” Business Know-How, 2011, accessed October 10, 2011, www.businessknowhow.com/startup/business-failure.htm.,Isabel M. Isodoro, “10 Rules for Small Business Success,” PowerHomeBiz.com, 2011, www.powerhomebiz.com/vol19/rules.htm.,Rubik Atamian and Neal R. VanZante, “Continuing Education: A Vital Ingredient of the ‘Success Plan’ for Small Business,” Journal of Business and Economic Research 8, no. 3 (2010): 37. Perry found that firms with more than five people benefit from having a well-developed business plan. Stephen C. Perry, “A Comparison of Failed and Non-Failed Small Businesses in the United States: Do Men and Women Use Different Planning and Decision Making Strategies?,” Journal of Developmental Entrepreneurship 7, no. 4 (2002): 415.A recent study found that there was a near doubling of successful growth for those businesses that completed business plans compared to those that did not create one. It must be pointed out that this study might be viewed as being biased because the founder of the software company whose main product is a program that builds business plans conducted the study. However, the results were examined by academics from the University of Oregon who validated the overall results. They found that “except in a small number of cases, business planning appeared to be positively correlated with business success as measured by our variables. While our analysis cannot say the completing of a business plan will lead to success, it does indicate that the type of entrepreneur who completes a business plan is also more likely to produce a successful business.”Rieva Lesonsky, “A Small Business Plan Doubles Your Chances for Success, Says a New Survey,” Small Business Trends, June 20, 2010, accessed October 10, 2011, smallbiztrends.com/2010/06/business-plan-success-twice-as-likely.html.Basically, there are two main reasons for developing a comprehensive business plan: (1) a plan will be extraordinarily useful in ensuring the successful operation of your business; and (2) if one is seeking to secure external funds from banks, venture capitalists, or other investors, it is essential that you be able to demonstrate to them that they will be recovering their money and making a profit. Let us examine each reason in detail. Many small business owners operate under a mistaken belief that the only time that they need to create a business plan is at the birth of the company or when they are attempting to raise additional capital from external sources