

Seven Reasons Why You Need a Business Plan



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Many successful companies were developed without a business plan. The likes of Sony, Apple and Dell Computers and others were

formed and succeeded without a formal business plan. For these companies, going from initial idea to concept did not require initial financing beyond what they could obtain without a plan. Can you succeed without one yes, do you want to take the chance is another story.

Unless you already have a clearly successful business, serious investors or suppliers will rarely consider a business without a business plan.

Here are 7 reasons why you should consider a business plan.

1. It explains the opportunity to others when you are not there.

You cannot be everywhere at all times to explain your business. If you are looking to grow your company with outside investment or by taking on new suppliers, you are likely not going to be able to visit with each of these stakeholders in person right away. They will want a document to preview before they spend time and money setting up a meeting with you. A good business plan can be this document, and can do the explaining for you.

2. It help you to clarify the idea to yourself

Being forced to write a well-written document explaining the advantages of your business is an essential exercise. It can often reveal holes in your plan that you can then deal with. The more potential risks you find and confront in your business plan, the more comfortable investors and suppliers are going to be in dealing with

you. They want to know you've been thinking about these risks.

3. It shows the investors the performance goals you have in mind for the growth of the company.

Investors want to see a document showing specific goals and performance measures for the future, so they know you have thought about the continuing growth of the company. They may want to know when you plan to reach your first million in sales, or when you will bring on experienced managers to grow the business, because it is usually only then that investors can think about making any return on their investment. A business plan included these estimates.

4. It can motivate and educate key employees.

If your business requires the hiring of employees, a business plan is one of the first things they will want to see. It is important that employees, especially in the early stages, are completely aligned with the direction of the company, so that, in the case of problems, they don't "jump ship."

5. It can create internal financial controls and direction for the company.

As you write your business plan, you will be dealing with financial documents you may have never dealt with before. By developing these in the business plan, you will learn about what keeps a company financially secure. Just as importantly, your investors will require some sort of financial projections. Suppliers, also, may have enough power to ask for projections of your financial statements before they agree to supply you with orders.

6. It lessens the chance of business failure by identifying potential problems.

A business plan can identify for both you and your investors the potential risks of the venture and show how the company will be dealing with those risks. By writing out the risks in the plan, as well as explaining how you will be dealing

with them, you are showing the investor that you have considered them thoroughly. It also forces you to check your own understanding of the risks of the business, which you might have missed otherwise.

7. It can prevent litigation with investors.

Often overlooked by entrepreneurs, this aspect of the business plan can save you a lot of time and money... If you disclose the various potential business risks in the business plan then the chances are lessened that an investor, in the event of a failure, can claim that he or she was kept in the dark. Investors actually don't mind being told the risk of a business, it's understood. It's critical to explain all of the risk involved.

Look, can you grow your business without a plan? Sure. But why risk it? When you consider that over 80% of new businesses fail within 5 years, why not take the time to plan properly to give you the best chance of succeeding.

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