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How to think about your company in a fresh way to build a business plan

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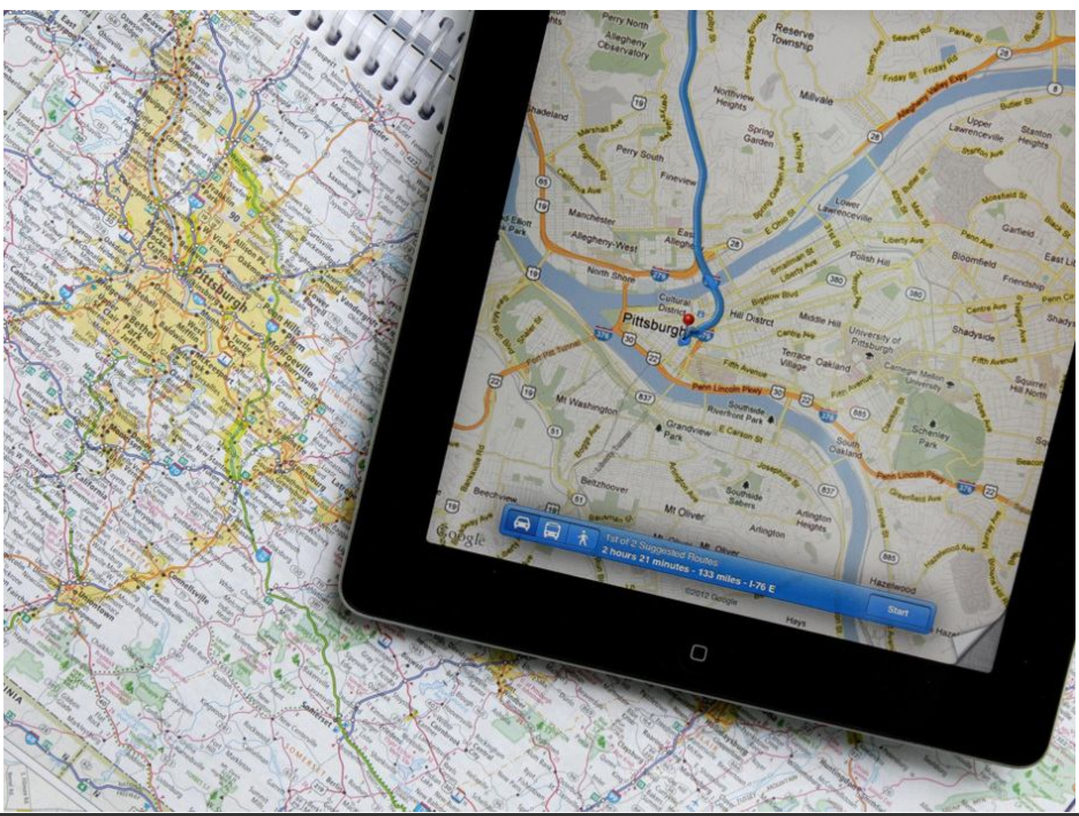

Amy Sancetta/AP Photo Your business plan should be a roadmap for a highly competitive and fast-changing world.

For entrepreneurs considering formalizing or updating their company's business plan there are some things to consider before putting pen to paper to help to ensure their plan is meaningful and relevant to their day-to-day business, and to growth and capital strategies.

The following is not a business plan template, rather it is a way to think through your business and its core fundamentals in a fresh, uncluttered way. With this as a starting point, your business plan can become a roadmap for a highly competitive and fast-changing world.

1. Ask yourself what the need is that you are meeting with your product or service, not what your company does. If you can't easily and quickly explain it to a layman, you need to hone your thinking. Don't think of complexity as a competitive advantage. Get to the core of the need, in simple terms. Think of the customer, not your company. Your customer doesn't care what you think, they care what they think. In today's business and technological environment, products and services that don't directly meet needs are disintermediated out of existence.

2. Whose need is it, exactly? It may not be immediately obvious who your customer is. The trick is to follow the money. Make sure you are servicing your real customer, not who you think your customer is.

3. How big is your market? First ask yourself how many end users have a need for what you supply. This applies whether your customers are consumers or corporations, small or large. Then figure out how many of these potential customers you have access to, given your internal resources. This is your addressable market. By access, I mean the ability to cost-effectively market to and service profitably. When you talk about your market, don't focus on 100% of the market, focus on your addressable market.

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4. To truly define your addressable market, figure out your unit economics. This means the cost of selling to and servicing a single customer against the market value of your product. That's harder than it sounds. Your unit economics is the core of your business. With bad unit economics, your business will fail, no matter how good your product or service is, or how hard you try, or how fast you grow.

5. Next, what is your marketing strategy and budget? How will you communicate all the good things you do to your customers. Think about online versus traditional channels. Online channels and social media are a great resource for most small companies. How do your customers research ways to meet their needs? You need to be where they are right now.

6. Now devise your operational strategy and capital requirements. Be sensitive to variable versus fixed costs in your planning. Failing to do so can be fatal. Variable costs are costs you incur every time you sell your product. Fixed costs are those that remain static for a reasonable range of customers. There are few truly fixed costs, most are step-variable. To plan effectively, you need to understand when in your growth cycle your fixed costs step up.

7. You then need to ask, who else out there is meeting the same need that you do?

If you said "nobody." you haven't thought about your business carefully enough. If no one is doing what you are doing, chances are you shouldn't be either!

As another sanity check, you should put your company in a table with your key competitors and compare directly the features and cost of your offering. Be factual and compare what actually "is" versus your own biases toward your competitors. It is alright if your competition is strong.

This analysis can also help you see holes in the market and create opportunities for your company.

8. Now you can model out the overall long-term economics. First, you need to consider whether the need you are meeting has opportunity for growth, or whether it will decline in time. This will help you think through your geographical strategy, and whether and how you should broaden your offering.

9. What do the numbers tell you? What is the average forecast return on your assets? What is the average forecast return on your equity? How does this compare with your competition, to the extent you can find that out? You need to estimate this, even roughly to get a sense of whether your numbers are realistic and sustainable.

10. Finally, you need to explain why your team can manage all this. Don't just put resumés in your business plan; create a narrative for each key player on your team, and how they fit into your model for meeting the needs of your customers as you have identified them in this process. Think about the key skills needed on your team, then mould your team to ultimately have all those skills in-house, or secured on a contractual basis. Big holes should be filled in quickly.

Now, you are ready to work these insights into a traditional business plan format, with everything hanging together cohesively to become a tool to build and realize on the value of your company.

Brad Cherniak has spent more than 20 years as a principal, advisor to and investor in private companies. He is co-founder and partner at Sapient Capital Partners, a Toronto-based advisory firm to companies from early stage to $50-million in revenues. His column appears monthly in the Financial Post. He can be reached at brad@sapientcap.com *and you can follow him on Twitter as @SapientCapital.*