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FP ENTREPRENEUR

## The five questions every business plan should answer



[Mary Teresa Bitti](#) | October 3, 2014 | Last Updated: Oct 3 7:01 AM ET



Fotolia *The real value of a business plan is in the writing of it*

A cottage industry has grown around business plan writing, as banks and investors want to see a business plan before parting with their money. Why? A business plan helps you define where to play and how to win in whatever market you're in.

"It helps you organize all your resources and align them to the objective of the company," said Andrew Penny, president of Ottawa-based business advisory firm Kingsford Consulting. "It documents where you want to go and how you will get there and because you've documented it, you can see where the gaps are."

Brad Cherniak, partner at Sapien Capital Partners, a business advisory firm in Toronto, has provided his share of input on business plans as an advisor, investor and entrepreneur. He defines a business plan as a thought process. "It often gets confused with an information memorandum or bank/board presentations when raising money, but a true business plan is a different animal," he said.

It's also brief. According to Mr. Cherniak, it's a negative to have an encyclopedic business plan because if it's too big, it becomes a coffee table book and no one will want to update it. Its inversely proportionate to its usefulness. "A business plan has to be fluid. It should be regularly rewritten quarterly to semi annually, depending on the the stage of the company, without taking up too many resources."

The real value is in the writing of it. "It's the logic test and has to tie to your financial forecast," he says.

Mr. Penny agrees. "A business plan allows you to figure out the metrics to track progress. I recommend that every plan in addition to having financial goals should have activity-based metrics. For example, if your objective is to grow revenue to \$500,000, you have to explain how you are going to do it. Then you can measure the activities and see what's working and what's not," he says. "The other way, you only know that you did or didn't meet your dollar goal."

The five key questions a business plan should answer:

**1. What is the problem you are solving and how big is it?** "Explain the pain in the simplest language," said Mr. Cherniak. "The corollary of the problem you're solving is how big a market it will entail down the road. This is the first logic test."

**2. How specifically do you solve this problem?** Who else is solving the problem and how do you differ from them? "This includes knowing where you are weak and being factual and thorough in identifying the competition," said Mr. Cherniak. "It's the most critical section."

**3. Who is your customer and how much are they willing to pay for your product/service?** "This requires thorough analysis," said Mr. Cherniak. "Show that you have done it before. Dissect and do forensics on current relationships to prove your hypothesis; one or two case studies is enough."

**4. How much will it cost to provide your product/service?** This comes down to understanding and explaining the unit economics of a single customer versus multiple clients. “What you learn here will will dictate if business can scale,” said Mr. Cherniak.

**5. How do others perceive your business plan?** Once you’ve formalized your plan — which should take no more than 45 days because of the pace of change of business today — present it to an objective set of eyes. “If you have a board or an advisory committee, let them be your sounding board,” said Mr. Penny. “As entrepreneurs we tend to see things too narrowly. An outside perspective is helpful.”