

A photograph of three businesswomen in professional attire (suits and blouses) sitting around a wooden conference table. They are looking down at documents or devices on the table. There are glasses of water and pens on the table. A teal diagonal graphic overlay covers the top-left and bottom-right corners of the image.

BUSINESS PLANNING: IT'S IMPORTANCE, TYPES AND KEY ELEMENTS

ABSTRACT

A business plan definition is a document that details the strategy of business owners on how they intend to run their business. There are several objectives that should be covered in a business plan from what the company's goals are to how many employees are going to be hired.

INTRODUCTION

A business plan is essential as an entrepreneur. It helps you set clear goals and guidelines for how you will manage your business. A business plan may also be needed to set employee goals, obtain funding or even to sell your business one day. In this article, we discuss the importance of a business plan for entrepreneurs, as well as a few main reasons why you need one.

I. Definition of Business Planning

Planning is needed to grow or start a business. The main source of planning for a company is the business plan. Business plans provide a road map for where the owners want to take their businesses. It is also necessary to have if owners want to secure financing.

Benefits of Planning

Business plans are guides for owners to run their businesses. Problems facing owners while running their businesses (slow sales, not enough customers or clients) may be solved by analyzing the information detailed in their business plans. The meaning of business planning is that it can help owners focus marketing efforts and get back to basics when the business begins to expand, says the Small Business Administration. This breeds confidence into the business owner as they continue to grow their business.



Business Plan Features

A detailed business plan touches on several key areas. Business plans cover the company's vision, names of management and how many employees are/will be hired, a description of the company and what product(s) or service(s) it provides. Business plans also outline the marketing research done to analyze the profitability of the company, marketing and sales strategies and financial projections, competition, records, funding amount requests and how the money will be used.

Planning Considerations

There are several types of business plans that are used for different situations. The main difference between plans is the amount of details that's produced. Some plans outline just the bare facts (mini-plans) while others, such as working plans, which are viewed internally by company management, and presentation plans, which are produced for investors and lenders, detail more facts and data. Business plans should be error free and tailored for the situation. Investors looking for graphs, charts and financial projections to make a final decision won't be satisfied with a mini-plan.

Significance of Planning

Not only do business plans breed confidence in owners, but in lenders as well. Business plans are one of the main requirements for owners to have when they're applying for business loans. Some lenders require business plans along with other documents such as bank statements as part of their business loan application. Detailed business plans prove to lenders that owners are very knowledgeable and serious about their businesses, according to Free Management Library.



Planning Misconceptions

Although a business plan was created at the start of the business venture, it is necessary to review it from time to time and make changes as the company

evolves. A yearly review or a review when the company undergoes growth or significant changes is needed. The same objectives that were important two years ago may not be significant when new goals have replaced old ones. Owners should update their business plans by incorporating changes as much as possible to keep them current.

II. The Importance of a Business Plan for Entrepreneurs: 18 Reasons You Need One

What is a business plan for entrepreneurs?

A business plan for entrepreneurs is a document that lists the objectives and goals of the business. It includes information on how the business will specifically achieve its goals, including sales, marketing and product development. It may outline each individual goal for the business, including where funds will come from, how employees will contribute to the goals and how the business can profit.



Starting a business can be risky, but also rewarding. By creating a business plan ahead of time, you can determine the steps you need to take, as well as the intended goals of the business. When you create a business plan, this is your opportunity to consider the requirements and potential of your business idea. A business plan can help you pinpoint specific goals and tasks.

Many consider a business plan to be a blueprint for a business.

Why a business plan is important for entrepreneurs

There are many reasons why it is important for entrepreneurs to have a business plan. A few of these reasons include:

It puts a plan in place when starting a new business

A lot goes into starting a new business. In addition to coming up with a business idea, you also need to solidify the specifics of the business, like what services or products you will sell, where you will do business and who will work for the company. A business plan can help provide guidance in this process, which can also help avoid mistakes along the way. It can offer you insight into the steps you need to take to open your business, as well as the resources you will need to obtain.

To conduct the necessary research

You might create a business plan before even deciding to open a business. Writing a business plan requires that you conduct the necessary research, which can be helpful in deciding if starting a business makes sense. You might also create a business plan if you intend to take your existing business in a new direction. By writing out the details and finances of the new plan, you can determine if a shift will be profitable. This includes defining your market, pinpointing who your customers are and how you will reach them.



To evaluate competitors and find your audience

Another part of creating a business plan is researching the current companies in the industry in which you want to work. By identifying competitors and where they are not currently reaching customers, you can better predict how you will reach them. It can also help you choose your target audience.

Sets objectives for employees and managers

Setting and measuring objectives will ensure that employees and managers are clear on their duties. This can also help you choose the right staff for your business by setting clear expectations and objectives. You might also use this information to help with training new employees and managers. A business plan sets the expectations of the business from the beginning. If you change or update your goals, a business plan can help share these new objectives, providing structure and accountability.

Sets goals for you as an entrepreneur

Setting clear goals is also helpful for you as an entrepreneur. You can use a business plan to list specific goals that you want to achieve, along with target dates. This can provide you with a guide to structure your daily responsibilities, while also providing you with accountability as an entrepreneur.

To determine when new employees are needed

As you expand your business and increase your revenue, you will need additional employees to assist with the daily tasks. But, hiring people before you're ready to expand can reduce your profits. A business plan can help you evaluate the right time to bring on additional staff. It can also help with setting clear duties and expectations for each position. You can also use your plan to determine what skills to look for when hiring.



Assists you in making important business decisions

Decision-making is an important task as an entrepreneur. Some decisions, like when to rent a new space or expand the business, are not always easy to make. With a clear business plan in place, you can determine the specific times or goals you must meet to make these important decisions.

To know when to sell your business

You may decide to sell your business and move onto other ideas. But, deciding when to sell can be a difficult decision. Setting clear guidelines for what goals and achievements you would like to reach with your business can help you set a timeline, knowing when it is the right time to sell. The information in your business plan can also be helpful when selling, as it lays out the achievements, as well as the plans for the business, which can contribute to its value.

To determine how you will find funding

You may decide to take out a business loan or invite investors to be a part of your business. New businesses often require funds and a business plan can help you present your ideas to potential investors. If you apply for a business loan, you may need a thorough business plan to demonstrate your business idea to the bank lender too. A business plan can also help you decide how much money you will need to start, and operate, your business.

To understand when/how you will profit

Salary is not always clear as an entrepreneur. But, whether you are providing investors with an estimate of when they can expect a return on profit, or you want to know how long until you will profit, you will need a business plan. A business plan lists the expected costs of the business, as well as the revenue. As long as you meet the financial goals listed in the business plan, you can predict when and how you will make a profit.



Help you predict problems

A business plan can also help you predict potential problems, like slow seasons or changing customer trends or habits. You may be able to prepare and overcome these challenges ahead of time with a business plan.

Provides a valuation for the business

Placing value on a small business can be difficult, but it is sometimes necessary. Whether you want to include it in your estate, list it for sale or you need a value for taxes, a business plan can be a valuable resource. Providing your business plan to an accountant can also help them calculate an accurate value for your business.

To share your business plans with coworkers and family

When you open a business, you will likely get a lot of questions about what you do from previous coworkers and family members. Drafting a business plan can help you answer these questions, sharing your goals and plans with them.

To provide you with guidance during difficult situations

As an entrepreneur, you may have to deal with things like employee conflict or even legal difficulties. A clear business plan can help you deal with these issues, identifying the purpose of your business and what you hope to achieve.



To create an effective marketing strategy

Once you have a business, you will need to reach customers through marketing. Setting clear goals for the business can help you pinpoint not only who your customers are, but also the best way to reach them. This can help you maximize your marketing budget and increase your revenue.

To give you the best chance of success

The goal of entrepreneurship is to own a successful business. While no business idea is guaranteed, having a clear business plan in place increases your chances of success. Returning to the business plan from time to time can also help remind

you of why you became an entrepreneur and can help you refocus on the mission statement of the business.

Manage cash flow for the business

Once profits begin coming in, you will need to decide how to spend them. You may use profits to take a salary, reinvest in the business or find new products or services to sell. Listing your cash flow plans in your business plan can make this decision easier.

To determine the success of the business

A business plan sets clear goals, which can help you measure success. Including key performance indicators allows you to know how to measure your progress toward your goals. You can use this information to determine what areas of the business are doing well, versus which areas need improvement. You can also use it to help identify the need for new goals or plans.

III. The 5 Key Components of a Business Plan

Great businesses need adequate planning and successful execution of those plans. It can take months to develop a viable plan from an idea because it involves considering every aspect of building an entity from the ground up. Since real-life testing of the concept requires enormous investment, it is better to assess it on paper with the help of a business plan. The document is the DNA of the venture and aids in making others understand the purpose, goals, products, marketing, operations, and finances of the business.



It is a prerequisite for running an organisation because every employee, including the entrepreneur, needs to refer to it. Those who intend to purchase a business for

sale Melbourne also need to look at the business plan to understand it better and run it according to the proven policies and processes.

Thus, making an all-encompassing and inclusive document that details every aspect of the business is essential. Also, ensure that you do not forget to include the critical components in the plan to make it robust, feasible and practical. So, here are the five main sections that need to find a prominent place in the document.

Executive Summary



The executive summary is the synopsis of the story you wish to tell through the document. It is the crux of the plan and offers a peek into what the business is all about and what is coming next. Many investors and moneylenders who are pressed for time may only read the first section and skip the rest of the document. The first part of the business plan can be written at the end when you have spent a reasonable amount of time explaining the other sections. Thus, making it interesting, compelling, and complete is vital.

It must offer a summarised version of the organisation's objectives, its purpose, and the gap it will fill in the market. It must include the vision and mission of the company, its long-term goals, and the products and services it will provide its customers. Also, it should have a brief description of the target audience, the competitors and the marketing strategies utilised for brand building and promotion of the products. However, it should not include lengthy details and must be briefly written.

Business Overview

The next section covers the business overview, which explains the reason behind the existence of the business and its ability to meet the needs of the target audience. It must describe what the business is about, what it is doing, what it wants to achieve and how it will achieve it. Thus, you will have to define the

business model, legal structure, industry and sector, customers, products and services, and its unique selling proposition.

Since this is a detailed part of the plan, you need to include finer aspects of the subject, such as the competitive strategy needed to create brand equity, differentiating factors from other similar businesses, patents and trademarks required to run the business, manufacturing of the products, inventory management, etc. Thus, the reader must know about every department through this description, ranging from administration to operations.

Sales and Marketing

Marketing products and services to generate sales ensures the business's survival. Thus, entrepreneurs need to pay attention to preparing a sales and marketing strategy that allows them to position their brand in the cluttered market and enjoy healthy competition with other brands. This section must explain the size of the market the business owner intends to penetrate and its opportunities and challenges.

It requires thorough market research and creating a buyer's persona for the marketing plan. It must have details about their needs and wants, the media they consume, and demographics and psychographics. It will help in devising the marketing strategy to influence the buyers.

This section should provide a clear understanding of the advertising and promotional techniques that will be employed to evoke interest and desire in the audience, the communication plan to inform the customers about the product features, the design elements, and brand positioning. Also, the entrepreneur needs to identify the media channels that will be used in the process and the budget allocated to the entire task.

Management and Organisation

The management and organisation of the business are dependent on its people and processes. The efficiency of these two elements ensures high productivity and growing profits. So, you need to put down the organisational structure in this section of the business plan and mention the daily operations for every department, team and manager. It will define the tasks related to production, administration, inventory management, customer relationship management, dealing with suppliers and complying with the regulations.

The business owner will mention all the important positions and roles in the business and their responsibilities to achieve the goals. The process of monitoring the performance of the individuals should be included in this section to ensure

effective control and supervision. This part will also explain the salary structure, incentives and benefits, and payroll management, which aids in keeping the workforce motivated.

Financial Projections



Finance is the soul of the organisation, and it needs to be managed professionally and wisely to ensure success. Several businesses fail because they are not able to maintain a positive cash flow. Thus, you must hire an accountant or a bookkeeper to help you forecast the financial needs of the business for the first three to five years.

They will use their industry knowledge, market research and your calculations to determine the incomings and outgoings during the introduction stage of the business. Once the business is established, these financial projections work as the benchmark for the accountants to measure the performance of the entity. If you are buying a business for sale in Melbourne, you can check the financial projections to determine the profitability of the venture.

This section must include a clear picture of the capital requirements at every stage of the business lifecycle, which includes the initial cost, logistics, personnel, management, production, etc. Also, it must predict the break-even point and create a cash flow forecast.

Every business needs to have a business plan that should be created after deliberation and meticulous research. It must involve the suggestions and analysis of your accountant, lawyer, mentor and advisor to make it failsafe and effective.

IV. Business Plan: What It Is, What's Included, and How To Write One

What Is a Business Plan?

A business plan is a document that defines in detail a company's objectives and how it plans to achieve its goals. A business plan lays out a written road map for the firm from marketing, financial, and operational standpoints. Both startups and established companies use business plans.



A business plan is an important document aimed at a company's external and internal audiences. For instance, a business plan is used to attract investment before a company has established a proven track record. It can also help to secure lending from financial institutions.

Furthermore, a business plan can serve to keep a company's executive team on the same page about strategic action items and on target for meeting established goals.

Although they're especially useful for new businesses, every company should have a business plan. Ideally, the plan is reviewed and updated periodically to reflect goals that have been met or have changed. Sometimes, a new business plan is created for an established business that has decided to move in a new direction.

Understanding Business Plans

A business plan is a fundamental document that any new business should have in place prior to beginning operations. Indeed, banks and venture capital firms often require a viable business plan before considering whether they'll provide capital to new businesses.

Operating without a business plan usually is not a good idea. In fact, very few companies are able to last very long without one. There are benefits to creating (and sticking to) a good business plan. These include being able to think through ideas before investing too much money in them and working through potential obstacles to success.

A good business plan should outline all the projected costs and possible pitfalls of each decision a company makes. Business plans, even among competitors in the same industry, are rarely identical. However, they can have the same basic elements, such as an executive summary of the business and detailed descriptions of its operations, products and services, and financial projections. A plan also states how the business intends to achieve its goals.

While it's a good idea to give as much detail as possible, it's also important that a plan be concise to keep a reader's attention to the end.

How to Write a Business Plan

A well-considered and well-written business plan can be of enormous value to a company. While there are templates that you can use to write a business plan, try to avoid producing a generic result. The plan should include an overview and, if possible, details of the industry of which the business will be a part. It should explain how the business will distinguish itself from its competitors.

Start with the essential structure: an executive summary, company description, market analysis, product or service description, marketing strategy, financial projections, and appendix (which include documents and data that support the main sections). These sections or elements of a business plan are outlined below.

When you write your business plan, you don't have to strictly follow a particular business plan outline or template. Use only those sections that make the most sense for your particular business and its needs.

Elements of a Business Plan

The length of a business plan varies greatly from business to business. Consider fitting the basic information into a 15- to 25-page document. Then, other crucial elements that take up a lot of space—such as applications for patents—can be referenced in the main document and included as appendices.



As mentioned above, no two business plans are the same. Nonetheless, they tend to have the same elements. Below are some of the common and key parts of a business plan.

Executive summary: This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.

Products and services: Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Information about research and development (R&D) can also be included here.

Market analysis: A firm needs a good handle on its industry as well as its target market. This section of the plan will detail a company's competition and how the company fits in the industry, along with its relative strengths and weaknesses. It will also describe the expected consumer demand for a company's products or services and how easy or difficult it may be to grab market share from incumbents.

Marketing strategy: This section describes how the company will attract and keep its customer base and how it intends to reach the consumer. A clear distribution channel must be outlined. The section also spells out advertising and marketing campaign plans and the types of media those campaigns will use.

Financial planning: This section should include a company's financial planning and projections. Financial statements, balance sheets, and other financial information may be included for established businesses. New businesses will include targets and estimates for the first few years plus a description of potential investors.

Budget: Every company needs to have a budget in place. This section should include costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

The best business plans aren't generic ones created from easily accessed templates. A company should entice readers with a plan that demonstrates its singularity and potential for success.

Types of Business Plans

Business plans help companies identify their objectives and remain on track to meet goals. They can help companies start, manage themselves, and grow once up and running. They also act as a means to attract lenders and investors.

Although there is no right or wrong business plan, they can fall into two different categories—traditional or lean startup. According to the Small Business Administration (SBA), the traditional business plan is the most common. It contains a lot of detail in each section. These tend to be longer than the lean startup plan and require more work.



Lean startup business plans, on the other hand, use an abbreviated structure that highlights key elements. These business plans aren't as common in the business world because they're short—as short as one page—and lack detail. If a company uses this kind of plan, it should be prepared to provide more detail if an investor or lender requests it.

Financial Projections

A complete business plan must include a set of financial projections for the business. These forward-looking financial statements are often called pro-forma financial statements or simply the "pro-formas." They include an overall budget, current and projected financing needs, a market analysis, and the company's marketing strategy.

Other Considerations for a Business Plan

A major reason for a business plan is to give owners a clear picture of objectives, goals, resources, potential costs, and drawbacks of certain business decisions. A business plan should help them modify their structures before implementing their

ideas. It also allows owners to project the type of financing required to get their businesses up and running.

If there are any especially interesting aspects of the business, they should be highlighted and used to attract financing, if needed. For example, Tesla Motors' electric car business essentially began only as a business plan.

Importantly, a business plan shouldn't be a static document. As a business grows and changes, so too should the business plan. An annual review of the company and its plan allows an entrepreneur or group of owners to update the plan, based on successes, setbacks, and other new information. It provides an opportunity to size up the plan's ability to help the company grow.

Think of the business plan as a living document that evolves with your business.

What Is a Business Plan?

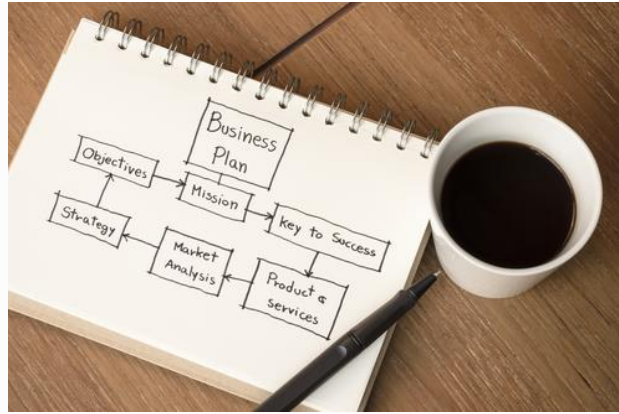
A business plan is a document created by a company that describes the company's goals, operations, industry standing, marketing objectives, and financial projections. The information it contains can be a helpful guide in running the company. What's more, it can be a valuable tool to attract investors and obtain financing from financial institutions.

Why Do Business Plans Fail?

Even if you have a good business plan, your company can still fail, especially if you do not stick to the plan! Having strong leadership with focus on the plan is always a good strategy. Even when following the plan, if you had poor assumptions going into your projections, you can be caught with cash flow shortages and out of control budgets. Markets and the economy can also change. Without flexibility built in to your business plan, you may be unable to pivot to a new course as needed.

What Does a Lean Startup Business Plan Include?

The lean startup business plan is an option when a company prefers a quick explanation of its business. The company may feel that it doesn't have a lot of information to provide since it's just getting started.



Sections can include: a value proposition, a company's major activities and advantages, resources such as staff, intellectual property, and capital, a list of partnerships, customer segments, and revenue sources.

V. Why You Should Write a Business Plan

In fact, any particular business may have multiple business plans as its objectives change.

Writing a business plan is time-consuming, but it's essential if you want to have a successful business that's going to survive the startup phase.

To Test the Feasibility of Your Business Idea

Writing a business plan is the best way—other than going out and doing it—to test whether an idea for starting a business is feasible. In this sense, the business plan is your safety net. If working through a business plan reveals that your business idea is untenable, it will save you a great deal of time and money.

Often, an idea for starting a business is discarded at the marketing analysis or competitive analysis stage, freeing you to move on to a new (and better) idea.

Unfortunately, many prospective business owners are so convinced that their idea for a product or service is a can't-miss proposition, that they don't take the time to do the necessary research and work through a proper business plan. The more you know about your industry, your prospective customers, and the competition, the greater the likelihood that your business will succeed.

To Give Your New Business the Best Chance of Success

Writing a business plan will ensure that you pay attention to the broad operational and financial objectives of your new business and the small details, such as budgeting and market planning. The process will ultimately make for a smoother startup period and fewer unforeseen problems as your business gets up and running.

The exercise of budgeting and market planning will help you define your target market, your unique selling proposition, optimum pricing strategies, and outline how you intend to sell and deliver your products to customers. In addition, developing a budget for implementation will assist with determining your startup and operating capital requirements.

According to the Small Business Administration, one of the most-cited reasons why businesses fail is inadequate planning. By starting too soon and without a sufficient plan, your business is setting itself up for failure.

To Secure Funding

Most new businesses need startup and operating capital to get off the ground. Without a well-developed business plan, there is no chance of getting debt financing from established financial institutions such as banks or equity financing from angel investors.

Established businesses often need money, too, to buy new equipment or property, or because of market downturns. Having an up-to-date business plan gives you a much better chance of getting the money you need to keep operating or expand.

Even an angel investor will want to ensure their money is going to a business that knows what it's doing. The easiest way to prove this is via a well-developed business plan.

Investors and financiers are always looking at the risk of default, and word of mouth is no substitute for written facts and figures in a properly prepared business plan.

To Make Business Planning Manageable and Effective

A business plan is essential if you're thinking of starting a business, but it's also an important tool for established businesses. Viable businesses are dynamic; they change and grow. Your company's original business plan needs to be revised as you set new goals.

Reviewing the business plan can also help you see what goals have been accomplished, what changes need to be made, or what new directions your company's growth should take.

To Attract Investors

Whether you want to shop your business to venture capitalists or attract angel investors, you need to have a solid business plan. A presentation may pique their interest, but they'll need a well-written document they can study before they'll be prepared to make any investment commitment.

Be prepared to have your business plan scrutinized. Both venture capitalists and angel investors will want to conduct extensive background checks and competitive analyses to be certain that what's written in your business plan is indeed the case.

Frequently Asked Questions (FAQs)

What are the sections of a business plan?

A comprehensive business plan should include the following sections:

- Executive summary
- Company description
- Competitor analysis
- Industry analysis
- Product and services description
- Management
- Financial data

What is the purpose of a business plan?

A business plan has four main purposes:

- Tests the feasibility and model of your business idea
- Attracts investors
- Sets a plan for growth
- Identifies capital needs

CONCLUSION

A business plan is the blueprint for your business. Starting a business without a business plan is like building a house without a blueprint. Yet, unlike a house, a business isn't static. We often make the mistake of thinking of a business plan as a

single document that you put together once when you're starting out and never touch again. But as the business develops, so should its business plan.

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