

THE IMPORTANCE OF A BUSINESS PLAN

An experienced pilot does not fly a risky mission without a detailed, well-researched flight plan. Yet people everyday, with minimal or no business management experience, try to operate businesses without active business plans. "Taking a flyer" on a business venture is no less a life and death hazard for you, your family and your friends, than flying that dangerous mission in a small plane. **Make no mistake, when you start a business, your home life, your family life and your marriage are on the line, front and center.**

Operating Without a Plan and Cash flow - An Example

A relative dies and leaves you a \$45,000 inheritance. You have about \$115,000 clear equity in your family home, according to a recent appraisal. You have always had an itch to be your own boss and operate your own retail sport fishing store.

You pay a business student to make up a simple "business plan" with cash flow projections to satisfy the banker's request and on that basis the bank approves a five-year \$40,000 "demand loan." You secure it with a second mortgage on the equity in your home. This loan will require a payment of approximately \$900 monthly to service the debt.

You sign a five-year lease on a fifteen hundred sq. ft. store location two blocks off the main shopping artery at about \$1,900 rent per month. You find by the time you completed the signage, furnishing your office, buying a van and the leasehold improvements, the inheritance money is spent.

You excitedly attended the sport fishing trade show in Los Angeles and committed to purchases of seven lines of electric boat motors, all the popular brands of down riggers, the entire product lines of Mitchell-Garcia, Daiwa and Zebco automatic bait casting and spinning reels, a large assortment of freshwater, saltwater and fly-fishing graphite rods, and countless lures, lines and accessories.

The big suppliers have all been encouraging and suggested you may qualify for "30 day credit terms" within the year but for now it is C.O.D. You are committed to almost \$55,000 in stock.

You have not given the banker a second thought since you got the loan, or even glanced at the business plan you submitted. It has serviced its purpose, so you think. Your store finally looks presentable and it has only taken you a month longer to get it up and running than you had anticipated. Of course not all the stock has arrived yet, but everyone in the business tells you that is normal.

You have had almost no sales the first month because you were only open part-time and the construction people were not finished. Nobody makes money the first month in a business; so you figure you will catch up. You might have to cut your part-timers' hours next month. The next month it rains a lot, no money for advertising and few customers came in to buy your wonderful stock, (by now almost all arrived . . . along with the C.O. D. invoices). How quickly that \$40,000 loan evaporated!

Your business fails to generate sufficient revenue to cover its expenses. Your monthly payables become competing priorities. You must choose which invoices and statements will be paid which will be have to wait.

The suppliers say "Sure, I understand." (What can they say, they are unsecured creditors.) Nevertheless, your overdue unpaid invoices send a message to trade suppliers that the business is getting into trouble and the account will require watching. Suppliers often share credit information among themselves and other supplies are quickly phoned and quietly asked if they have had any difficulty with payments of your account. They become concerned and respond by requesting immediate payment and holding back some of your merchandise shipments. They ask that their bankers check with your banker to see if there are any problems.

This is the first hint your banker has that something may be wrong. The banker begins to worry about the integrity of the \$40,000 loan.

The business plan on which he or she had based the loan showed there would be lots of money and sales revenue to cover the early expenses. Your banker begins to wonder what has happened. Your demand loan is now in danger of being recalled. Instead the banker chooses to request that you put a little more equity, more of your own cash, into the business.

The pressure pot has started to boil. The landlord reminds you about your five-year commitment, the signage is on a long-term lease, the suppliers are calling quicker payment, holding back shipments, more of your time is needed because you cannot afford employees, there is no money for advertising and that friendly encouraging banker is requesting more money be put into the operation. You may have to sell your house and it is really difficult, at this time, to interact normally with the family at home.

A business plan is for a business, what that flight plan is for an airplane en route to that distant destination. The more experienced the pilot, the more certain you can be that he or she will not make that flight without a detailed, well-researched flight plan.