

How to Write an Effective Business Plan

Business plans are vitally important documents, both for raising investment and for generating common understanding about proposals for the future. Most of these plans take weeks to produce, and many are written with the help of corporate finance advisors and other professionals. We have the pain and privilege of being a paid reviewer of plans, and the frightening reality of our experience is that most of them sit somewhere in the range of poor to terrible. However, most of the problems can be fixed with some simple disciplines.

We list here the most common errors we see, and some recommendations for writing a more effective plan.

Common errors

The plan is too long

No one will invest straight off the back of a plan. If they are intrigued by it, they will want to meet you and find out more. The plan needs to be sensible, but if they invest, they are investing in you. They will be backing your ability to achieve the plan or, more likely, something just as good when life inevitably turns out differently. So your objective is simply to say enough that the reader can decide that they either want to meet you or that they are not interested, and no one's time is wasted as a result.

Whoever your target reader may be, they need to read the plan in one sitting and retain what they read. This means you have 10-20 pages to get your plan across. You cannot possibly detail every idea, initiative and piece of evidence in a ten-page document. So your challenge for the plan is to summarise the important points, just enough to whet a reader's appetite and either entice them to want to meet you or decide quickly that it's not for them.

The plan is overtly optimistic, ignoring the risks and negatives

Plan writers naturally try to put their idea across as positively and attractively as possible. This is natural, and it is important to be positive and put across your passion; but most plans end up as blatantly optimistic sales documents, with little thought to risks and downsides. Unfortunately, this propensity increases with the use of poorly qualified advisers.

Readers want to see their concerns being pre-empted and addressed rigorously in the plan, not dismissed or ignored. Your plan is an opportunity for you to put yourself across as a passionate but practical business person, and build your credibility before meeting potential investors. If the plan dwells only on the upside, you come across as unrealistic.

It looks like a filled-in template

Some sections of plans really are necessary most of the time. It's rare that you don't need a section discussing the relevant market trends, the distinctive differences of your service or the projected financials. However, crow-barring in a SWOT analysis or a Porter's Five Forces puts you in serious danger of looking like an amateur business plan writer, rather than a smart professional with a convincing investment proposal. If a section adds to the reader's understanding in a neat, focused manner, then go ahead with it, but blind application of template business tools will make your plan much worse.

It contains too many broad generalisations

Most plans focus on a specific opportunity in a specific market, but descriptions of the market and the opportunity are often so generalised as to be meaningless. If your plan is for home pet-sitting in London, showing how many millions of cats are bought every year in the UK is almost irrelevant.

Describe your service, your market and the reasons people will buy as precisely as possible. You will need to make assumptions, but as long as you state what they are and why they are credible or conservative, then you have a context that is meaningful to all involved.

It is written in language that impairs the readers' judgment of the business

It is amazing how many people have a writing style that detracts from the quality of their thinking and business ideas. A business plan is a serious document that needs snappy, simple writing to get the point across: one idea per paragraph, one point per sentence. No sales-speak, no rhetorical questions, no use of complex technical language. Furthermore, too much business-speak is common in many plans but gives an impression of vague thinking and lack of real world practicality, it can be annoying and a turn-off for the reader. Language may not improve the appeal of your business but it allows the reader to clearly understand your thinking without distractions.

Writing an effective plan

Be clear about who and what the plan is for

You need to think about this to determine what is in the plan and how much you need to explain. The plan is confined to information and context relevant to the target audience to achieve this end. For example, a plan used to attract an external investor will need a market section explaining the fundamentals; one used to generate Board agreement about a new course of action may only need a commentary on recent changes or trends.

Convince yourself first

A good plan needs to convey both passion and credibility. Credibility is the factor that is almost always lacking. The harder the plan writer challenges his own thinking and his own assumptions, the more credible and higher quality the plan. Your own concerns and lack of clarity will come out at some stage during the process, so you need to be the one that takes control - test and pre-empt them before someone else does.

Realise that the plan is step one of many

The most successful, well-written plan will not be the single killer step that by itself secures investment, agreement to proceed, or whatever the ultimate objective may be. It is only step one, to be followed by meetings, questions and challenges. The role of the plan is to help clarify the opportunity for all involved and build your credibility, so that subsequent discussions are productive and focused on how things are going to get done.

Be brief and clear

The plan needs to contain enough to describe the opportunity, why it is attractive, how you are going to exploit it, and no more. If you are enthusiastic about the opportunity, you will be able to write at-length, most likely well beyond the tolerance level of most readers. You will need to be deliberate in your efforts to bring out the most important points, reduce redundancy, and be clear and specific about anything that is open to interpretation. Use the document to intrigue the reader, not cover every angle.

Plan contents

The bullets below show a typical framework for a plan. This framework is a start point and no more than that. It needs to be cut and changed to tell the story you want to tell in the clearest, most relevant way. With the right mindset and style for the plan, you can adapt the sections below to get your idea across, and generate credibility and interest from your target audience.

Business Plan Template

▪ **Executive summary (1 page)**

Summary description of the business containing enough for a person to understand it in 5 minutes. One paragraph each on:

- Business background (description of the business)
- Vision and strategy
- Relevant market background and trends
- Revenue and cost expectations (short summary table)
- Key next steps in implementation plan

▪ **Business description (1-2 pages)**

Background

- Description of the products or services the business will provide, and why they are better or different than what already exists
- Description of the customer groups
- Any other relevant background needed to understand the business
- Any relevant history

Vision

- Description of your vision for the business that will get people excited. Include any tangible targets in terms of sales, customers, product performance, market share, etc.

Strategy

- Summary description of how the business will achieve the vision described above. Include relevant descriptions of how your product or service will be developed and marketed, and any other important issues to get right, e.g. technology, sourcing products, etc

- **Market (1-2 pages)**
 - Description of the market including estimates of overall size and the opportunity for your product/service
 - Description of any market trends that are relevant to demand for your product/service

- **Competition (1 page)**
 - Description of direct competitors and alternative products or services customers have to buying your products/services
 - Explanation of why your product/service is better or different than the competition

- **Revenue streams (1 page)**
 - Description and quantification of all major revenue streams for a three year period, being clear about all assumptions

- **Costs (1 page)**
 - Description and quantification of all major costs for a three year period

- **Implementation plan (1-2 pages)**
 - Explanation of all major steps required to get business up and running, and performing in the first year. This is best done as a table describing with all major actions with deadlines and responsibilities

- **Financial projections (1 page)**
 - 3 year summary profit and loss account
 - Description of all major investments

- **Team background and credentials (1 page)**
 - One paragraph on each of the team members