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Strategy Capital Growth

Business Plan basics

THE STARTUP TOOLKIT SERIES

Tyler Jensen

Strategy Capital Growth

The Startup Garage works with entrepreneurs in early stage, high-growth companies to attract investment and get out of the "garage." We help startups achieve the milestones investors care about. Our team has helped raise over $200 million for startup businesses.

Business Plan Basics

This book covers the fundamentals for creating an effective business plan. However you choose to execute the writing and research, it is important to understand all the moving parts of your business and how they work together. ***Business Plan Basics*** will cover each section with the time it should take, key questions to ask, information you will need and insights on putting it together to achieve your goal.

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Business Plan Basics

ABOUT THE AUTHOR 4
- Bio: Tyler Jensen

WHAT'S IN A BUSINESS PLAN? 5
- Do Your Research
- Create a Marketing Plan
- Organize Your Company
- Funding Sources

THE EXECUTIVE SUMMARY 8
- Time for completion
- What's In It?
- Why it's important

MISSION & VISION 9
- Time for completion
- What's In It?
- Why it's important

PRODUCT DESCRIPTION 10
- Time for completion
- What's In It?
- Why it's important

MARKET ANALYSIS 12
- Time for completion
- What's In It?
- Why it's important

INDUSTRY ANALYSIS 14
- Time for completion
- What's In It?
- Why it's important
- Insider Tips

COMPETITIVE ANALYSIS 16
- Time for completion
- What's In It?
- Why it's important
- Insider Tips

MARKETING PLAN 18
- Time for completion
- What's In It?
- Why it's important

OPERATIONS PLAN 19
- Time for completion
- What's In It?
- Why it's important

MANAGEMENT TEAM 21
- Time for completion
- What's In It?
- Why it's important

FINANCIAL PROJECTIONS 22
- Time for completion
- What's In It?
- Why it's important

BUSINESS PLAN WRITING STRATEGIES 23
- On Your Own
- Using a Book
- Using Software
- Using a Professional Business Plan Writer

CONCLUSION 25

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About the Author

"Starting a business is a very personal experience. I'm a serial entrepreneur and have started and helped start over one hundred businesses. I have a special interest in high-growth startups and have made it my objective to understand what it is investors look for when evaluating the potential of a business. My goal is to coach entrepreneurs in scaling their startups while maintaining the work/life balance and achieving personal goals. In this book, I share my business plan writing process to start you off in the right direction."

-Tyler Jensen

TYLER JENSEN

In 2008, Tyler founded The Startup Garage to help entrepreneurs and business owners achieve success in their business ventures, as well as their lives. Tyler is a serial entrepreneur, having launched or help launch over 100 companies, including non-profits and social enterprises. He has developed an extensive network of business relationships focused on achieving the milestones investors care about.

Tyler heads up The Startup Garage team, which has helped raise over $200 million for startup businesses.

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What's in a Business Plan?

The goal of your business plan will be to clearly and effectively communicate what your company does and how it will operate. Its purpose will be to present your strategy to investors as a roadmap for how you intend on returning a profit. Being clear on who the audience is and how much money you're looking for will help focus your writing.

There are 10 major sections:

- Executive Summary
- Mission Statement, Core Purpose & Values
- Product Description
- Market Analysis
- Industry Analysis
- Competitive Analysis
- Marketing Plan
- Operations Plan
- Management Team
- Financial Projections

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DO YOUR RESEARCH

The first step to any business plan is simple, research. If a company is to be successful, it is absolutely crucial that the owners know as much as they can before the business gets off the ground. There are three areas that every entrepreneur should analyze before starting a business — the company's industry, competition and market.

An Industry Analysis is a snapshot of the current conditions of the industry at the present time. This helps entrepreneurs understand the different factors at work — political, economic, environmental — within a given industry. Business owners can then identify the various threats and opportunities facing their business to ultimately help identify ways to create competitive advantages.

Researching what your potential competitors are doing is also extremely important. The Competitive Analysis of a business plan should therefor include an assessment of

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the differences between a firm and its competition, and a method or tool for detecting and examining the factors that cause these differences.

After researching your industry and your competitors, perform a Market Analysis. A Market Analysis is conducted to determine and define the attractiveness of multiple markets, as well help to understand the evolving opportunities and threats as related to the strengths and weaknesses of a particular business. The focus of this section will be on your target market, or the people you intend to sell your product or service.

CREATE A MARKETING PLAN

After you have completed your research, it is time to think about how you are going to market your product. The first step is to clearly define what your company is selling in a complete Product Description. This section will analyze the features of your product or service and define the Unique Selling Point (USP) of your product.

The next step is to define your Mission Statement, Core Purpose, and Core Values. This section represents the identity of the company and shows potential investors what you wish to accomplish and how you will go about doing so.

Once you have defined your product or service and your company's values, you can create your marketing strategy. The Marketing Plan includes a sales forecast, marketing goals, your market position, and much more. The purpose of this section is to present the detailed actions to be taken for your company to achieve sales success.

ORGANIZE YOUR COMPANY

Ensuring the structure of your company is sound is as important as defining your sales goals. If there are any weaknesses in your company, it is critical to find and fix them immediately. A solid Operations Plan will go a long way to establish your company's success. The Operations Plan will tell potential investors how you are going to get your product/service out to market. That is, how are you going to get your product out of the production stage, and on to the doorstep of your target customer.

The Management Team section of a business plan describes the team that will help you succeed in building your business. This will also cover how employees will be selected, trained, and rewarded, and what services your company will need in the future with recommended service providers.

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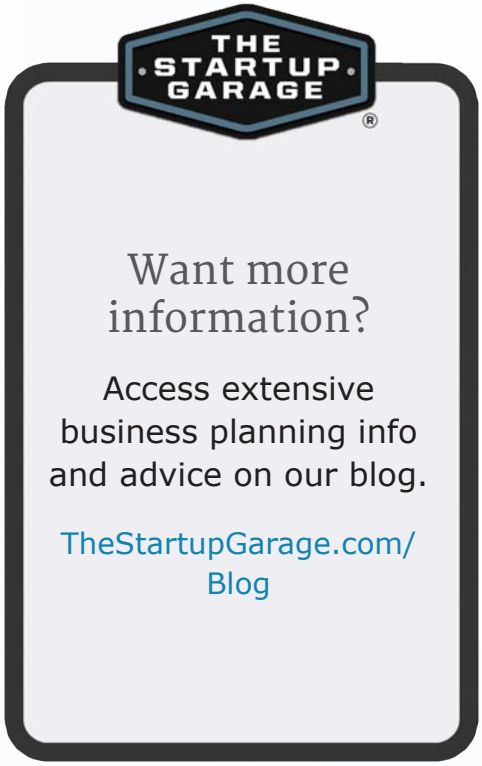
Financial Projections will need to be created in order to give you an idea of how your business will perform financially. These will be based on market assumptions and your chosen business model. The financial statements should be projected out month by month for the first year and annually for the following two years. It is important to include metrics, such as startup expenses, assumptions, sales costs, operating costs, and cash flow.



After you have completed the nine sections described thus far, you will create your Executive Summary. This will be a one-page summary of your business. It will act as your "pitch" to potential investors and anyone who does not already know about your company. The time it takes to complete the business plan writing process should be approximately 200 hours for first-time entrepreneurs. This book will delve into each component of the plan to give you an idea of the information necessary for each section, why it is important, and how long it should take to complete. Remember, every business is different and therefore certain sections may or may not be relevant to your specific business or industry. Also, the time to complete each section is a ballpark figure and you may need more or less depending on your business.

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The Executive Summary

TIME FOR COMPLETION: APPROXIMATELY 2 HOURS

An Executive Summary is a concise description of the whole business. While it will be the first thing people reading your business plan will see, it should be the last thing you write. The Executive Summary is usually no more than 3 pages and has a sales function as your "pitch". You are selling your concept to an outsider who does not know anything about what you are doing. The goal might be for him or her to invest or join the startup team. In conclusion, the Executive Summary puts all of the pieces of the puzzle together in a brief and well thought-out manner to introduce readers to your business plan.

WHAT'S IN IT?

The Executive Summary summarizes the important elements from each section of your business plan, which is why it is written at the very end. All of the work has been done, the objective is to concisely communicate the value your business will bring so that it may be presented to an investor. It includes the summary of your business, relevant biographic information of key management, marketing and operations initiatives, financial benchmarks, and funding requirements.

WHY IT'S IMPORTANT

An Executive Summary is extremely important because it is the first thing someone reading your business plan will see. This first impression may determine whether a potential investor finances your company or not. It also gives readers an overview of what they will read and will act as an introduction to your business. The Executive Summary should be written in language that will persuade a potential investor to want to learn more about the company.

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Mission & Vision

TIME FOR COMPLETION: APPROXIMATELY 5 HOURS

Your Mission & Vision will communicate the company's core beliefs and intention. Although this is likely the most brief section of the plan, it requires you to fully analyze your goals and position, and determine the unchanging aspects of the organization.

WHAT'S IN IT?

The Mission & Vision section is often comprised of a mission statement, the vision, core values, and the core purpose. Depending on the nature of your business, all of these may not be relevant.

The Mission Statement is typically only one or two sentences to convey your company's fundamental purpose and reason for existing. The objective is to communicate what it will do to achieve its vision, how it will do it, and who it will do it for. The vision should be a short sentence stating the overarching perspective on how the world will benefit from your business in the ideal future. Keep this general enough to adapt operational changes. A good place to start is with your own personal goal for the business.

Core values are a short list of words or phrases that all members of the company will strive to embody, often encompassing personal values of key management to drive the culture of the business. This will shed light on the moral foundation and be the initial framework for prioritizing and decision making. The core values are qualities of the company that would not be given up for any reason, even if it means going out of business. The core purpose is usually only one sentence, and is the most basic definition of what the company does and why it is in existence. The core purpose gives meaning and focus to what the company has set out to do.

WHY IT'S IMPORTANT

It is an opportunity to show your passion for what you wish to accomplish and how you will go about doing so. More importantly, this section of your business plan serves to create the identity of your company. The mission, vision, purpose, and values that you state here will guide you and your team members through all of the challenges and successes that lay ahead of you in your business venture.

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Product Description

TIME FOR COMPLETION: APPROXIMATELY 5-25 HOURS

The objective of the Product Description is to clearly explain what products or services your business will offer. The information provided in this section will become the basis of your Marketing Plan. You should never assume that your product will sell itself, include a comprehensive description of the product using specifics and detailed language. It should be written so that the reader can easily understand what the product is and what it does. The Product Description should also compare your product to other similar products on the market. This gives you the opportunity to clearly define what advantages your product has over the competition, as well as to address any weaknesses that you may need to improve upon.

WHAT'S IN IT?

A Product Description contains an overview of your product or service, features, benefits, and advantages, as well as any product development activities or liability issues. The overview should paint a complete picture of the product by answering the following questions in detail:

- What is the product or service you are going to offer?
- What does this product or service do?
- How does the product or service perform its function?

If possible, add pictures, blueprints, and any other graphical descriptions of your product to make the explanation as clear as possible. Visual representation will enhance investors interpretation and understanding. By doing this while comparing with competing products, you should strive to make it clear why your product is superior to the competition. The Product Description should also take time to focus on the problem(s) that your product will solve and the benefits to potential customers. A complete description of your product, the problems it solves, and a comparison with competitors should all work to make a case as to why your product will be successful.

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WHY IT'S IMPORTANT

This section of the business plan is your opportunity to completely hash out your product idea, down to the finest detail. In doing so, you should gain a complete understanding of your product. The information you learn from this section will help you improve your product and differentiate you from competitors.

By writing a cohesive Product Description that explains the details of the product, why it is needed, and how it has advantages over its competitors, you are making a strong case for why your product will succeed and be profitable. Without this information, investors have no way of knowing if you completely understand your product, or how you plan to compete with others, which makes for a very risky investment.

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Market Analysis

TIME FOR COMPLETION: APPROXIMATELY 20-30 HOURS

A Market Analysis is conducted to define and determine the attractiveness of several potential markets, and to understand those markets' evolving opportunities and threats as they relate to the strengths and weaknesses of a particular business. The focus of this section should be on your target market — or the people you intend to sell your products/services to. This can include individual customers, known as business to customer (B2C), or other businesses, known as business to business (B2B). In a way, the Market Analysis is the ground work for your company's plan of attack.

WHAT'S IN IT?

A Market Analysis summarizes the size and potential of your target market, describes current market trends, and gives demographic information about your target market. The demographic information you want to collect about your target market will vary depending on whether your company is B2B or B2C. B2B's should focus on a target region, customers' industries and size of companies. B2C's should focus on their customers' location, personal demographics (age, gender, educational background, income, etc.), as well as psychographic characteristics (interests, values, personality, etc.) that define why they are the ideal recipients of your product or service. This section should include a table that lists all of the potential market segments you will target, along with all of the information you have collected in your research. After you have studied your potential customers, you should look into past and future trends of the market, keeping in mind factors such as:

- Price sensitivity
- Demand for variety
- Level of emphasis on service and support that your target market desires
- Regional trends that affect only the members of your target market in a specific area

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WHY IT'S IMPORTANT

Understanding who will buy your product and what motivates them to buy is the foundation for creating an informed and effective marketing strategy. Most of this information will have to be found internally by your firm by doing research of your past customers. If you are a new firm who doesn't have any history yet, try finding the answers to these questions by contacting either a firm that is similar to yours, or a trade association related to your industry.

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Industry Analysis

TIME FOR COMPLETION: APPROXIMATELY 30 HOURS

An Industry Analysis is an analysis of the conditions in an industry at a particular time, including the behavior of and relations between competitors, suppliers, and customers. Understanding the different factors at work — political, economic, environmental — within a given industry is an important component of effective strategic planning for any company. Start by defining what type of industry you are in, and then determine what sector of the industry you will occupy. Once this is established, you can research which factors have a potential impact on your business, as well as the major organizations in the industry.

WHAT'S IN IT?

The Industry Analysis should cover several different topics about the industry including:

- Industry size and growth trends
- Major organizations in the industry
- Important factors that affect the behavior of the industry

The industry size section should include revenue figures, the number of companies, and the number of employees in the industry. The major organizations section should specify who your potential competitors are, as well as your suppliers, distributors, and trade organizations. Make sure to include specifics on each organization such as who owns the company, a brief description of the company, who their target market is, when they were established, their contact information, and their most recent annual revenue. Factors currently affecting the industry may include government regulations, environmental factors, as well as economic and market conditions. Thoroughly researching these factors is necessary as any of which can affect your chances of starting a successful business in the industry.

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WHY IT'S IMPORTANT

The Industry Analysis will help business owners understand the big picture of their environment and identify the various threats and opportunities facing their business, ultimately helping them identify ways to create competitive advantages. Knowing what political, economic, and market factors affect your industry will better prepare you for market entry by understanding the major forces that affect how you do business.

INSIDER TIPS:

- Identify and contact trade organizations to find most of this information.
- Build these relationships and bookmark great resources. As your business grows you will need to keep up with changes in the industry.

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Competitive Analysis

TIME FOR COMPLETION: APPROXIMATELY 20-30 HOURS

A Competitive Analysis is an assessment of the differences between your business and your competition, as well as a detection and examination tool used to define the factors that cause these differences. This section breaks is broken down into direct and indirect competitors, and gives you an idea for how to go head-to-head with these competitors in order to reach potential customers.

WHAT'S IN IT?

The Competitive Analysis first gives an overview of both your direct and indirect competitors in relationship to your business, and also gives a list of all your competitors based on this definition. In the most basic sense, direct competitors are those that sell a similar product to the same target customers as your business, while an indirect competitor is any company whose product could be a substitute for yours. This section then quantifies who the largest competitors are based on industry revenue, and outlines your company's market share goals. After you've become an expert on what the competition has to offer, this section is an analysis of what unique advantages will benefit your company and what barriers to entry your company may have. Some barriers to entry may include technology, capital investment, real estate, facilities, or legal regulations.

WHY IT'S IMPORTANT

A Competitive Analysis is incredibly useful because it reveals your company's true position within the market. It shows you what your competitors are doing and demonstrates to potential investors how you differ from the competition. After completing a Competitive Analysis, you will have a better understanding of your competitive advantage(s) and be able to foresee potential barriers to entering the marketplace.

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INSIDER TIPS:

Your competition can be one of your greatest sources of new ideas when starting a business. There is no need to reinvent the wheel. The successful companies in your industry have figured out what works best through years of testing and copying what works. It can only be beneficial for you to examine your competitors thoroughly in an attempt to gain insight into what is really working in your particular industry.

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Marketing Plan

TIME FOR COMPLETION: APPROXIMATELY 20-30 HOURS

The Marketing Plan gives a complete picture of your marketing goals, strategies and tactics. Creating this plan helps answer any questions that will help your product reach your potential customers. Some of the processes that you will go through when writing a Marketing Plan include setting goals, creating your company's brand, and choosing the marketing strategies that you will use to generate potential customers.

WHAT'S IN IT?

A Marketing Plan contains many different parts. The first section of the Marketing Plan includes sales goals, marketing goals, and creating a detailed sales forecast that shows how you will reach your goals. Then, you will use your research from previous sections of the plan to summarize your market position, and create a list of your company's strengths, weaknesses, opportunities, and threats. This information is then used to create your marketing strategy. This includes a branding strategy, a list of distribution channels, a pricing and marketing strategy, and a customer service plan. Your branding strategy includes your current and ideal customer profile, your core message, your company name, and tag line.

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WHY IT'S IMPORTANT

You may have a great product or service, but no product sells itself. In order to be successful, you need to create a well thought-out strategy for how to generate potential customers and sales. Investors will analyze this section carefully to determine several things:

- Are your sales and marketing goals attainable?
- Is your budget large enough to fund your marketing strategies?
- Is your sales forecast calculated realistically?

If these attributes check out and your branding, positioning, and other marketing fundamentals are concrete, you stand to gain confidence from investors.

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Operations Plan

TIME TO COMPLETE: APPROXIMATELY 10-40 HOURS

The Operations Plan is one of the most essential components of the business plan. It essentially tells the reviewer how you are going to get your product/service out to market. That is, it outlines how you are going to get your product out of the production stage, and on to the doorstep of your target customer. As an internal planning document, the Operations Plan should be detailed and in-depth. The Operations Plan should highlight the important facts for potential investors. The relative importance of an Operations Plan will depend on the nature of the business. For example, a production facility will probably require significant attention to detail in the Operations Plan.

WHAT'S IN IT?

The Operations Plan will give you a detailed outline about the structure of your business. It will also answer the following questions about your product:

- How will your product be made and then delivered to the customer?
- What regulations and organizations are there to monitor the industry?
- How do you plan to stay up-to-date?
- Who are your suppliers?
- How do you receive the product?
- How long will it take?
- How much does it cost?
- What is your backup plan?
- What quality control measures do you have in place?

An Operations Plan also acts as a guide book on inventory management and purchasing procedures.

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WHY IT'S IMPORTANT

The purpose of the Operations Plan is to describe the where's and how's of your business, meaning where you will locate the business (along with any physical necessities) and how you will produce your products or services for your clients. Business plan reviewers know the importance of a well thought-out Operations Plan, and place considerable weight on this section since it can predict the success or failure of a business. This document will also give the entrepreneur an opportunity to work out as many potential problems on paper as possible prior to commencing operations.

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Management Team

TIME FOR COMPLETION: APPROXIMATELY 20 HOURS

The Management Team section describes the team that will help you succeed in building your business. Completing this section will take a considerable amount of time and energy dedicated to researching and building relationships.

WHAT'S IN IT?

The business plan should include a statement as to how employees will be selected, trained, and rewarded. This is very important for business plan reviewers so that you can give them a feel for the company's style. When you are developing your Management Team section, begin with an objective assessment of the company's requirements. Based on these assessments, the composition of the rest of the company may be defined as the following:

- Key management
- Board of advisors
- Board of directors
- Professional service providers.

A resume for each key team member should also be added in the appendices of the business plan.

WHY IT'S IMPORTANT

The quality of the people employed determines the success of your business. Many ventures ultimately fail because the proper talent has not been assembled. Individuals with strong technical backgrounds might ignore the importance of including a management team comprised of people with the appropriate business background, and vice versa.

If you are preparing your business plan for financing purposes, you need to take particular care in crafting your Management Team section. Even if you are developing your business plan for internal use, an accurate evaluation of your key employee's strengths and weaknesses will help you make the best use of your management team.

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Financial Projections

TIME FOR COMPLETION: APPROXIMATELY 35 HOURS

Projecting your financial statements is a very important part of your business plan. It gives an idea of how your business will perform financially according to both current market assumptions and the business model you choose. If you do not know all of the numbers involved, ask somebody already in the business, or call service providers and ask them for estimates regarding operating expenses and any other cost estimates they would be willing to provide for you. This is a great way to start building your financial model.

WHAT'S IN IT?

The Financial Projections section should include a spreadsheet that can help you in preparing your projections. It usually includes key metrics such as the startup expenses, marketing goals, unit sales and costs, personnel expenses, profit and loss statement, cash flows, and the balance sheets. The first year's projections are prepared month by month, then annually for the following two to four years.

WHY IT'S IMPORTANT

Your financial projections give you an idea of how your business should be doing at any moment in time. It also shows your potential investors how you will be profitable over time. You have to be as realistic as possible in estimating your initial costs as they will determine how you will start your business as well as your expected profits. A business can easily fail if the management honestly believes that they will sell more products and services than their market research suggests is possible. Therefore, financial statements in a business plan should always be conservative so that the numbers are realistic and believable. It is a good idea to find actual sales data and/or estimates from companies that are already operating in your industry and/or someone with experience relevant to your industry to base your assumptions on. You may have to get creative to find good data for your financial projections, but anything solid that you do find will benefit you immensely when it is time to make realistic projections about the future. This is crucial information you need to start building your team and determine how much cash you need to reach profitability.

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Business Plan Writing Strategies

Writing a business plan can be a time-consuming and challenging task, but there are several strategies that you can use to complete your business plan more easily.

STRATEGY	DIFFICULTY	CUSTOMIZATION	PRICE
On Your Own	Highest	Highest	Lowest
Using a Book	Med-high	Medium	Low
Using Software	Med-low	Low	Medium
Using a Professional Business Plan Writer	Lowest	High	High

ON YOUR OWN

While writing a business plan on your own is the most difficult strategy, you will benefit from the opportunity to customize your plan as you see fit while saving money compared to the other strategies. There are many quality free resources available from organizations like the Small Business Administration (SBA.gov) and SCORE (SCORE.org). These organizations are in place to help you succeed, so getting the most you possibly can from them should be a priority.

USING A BOOK

Following a book is one of the most common and affordable ways to write a business plan. The main drawback to using a book is that it will take a lot of time and energy to find and compile all of the necessary information. You will most likely have to find support and guidance from other sources if you have questions about what the book is trying to teach you. There are dozens of business planning books available, so take the time to find one that will provide the appropriate information for your business.

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USING SOFTWARE

Software is a bit more expensive than using a book, but it will guide you through the business plan writing process in a quicker, more automated fashion, and automatically set up the format of your business plan. Like books, the main drawbacks of using software to write your business plan are the limitations of using an automated template and the lack of personal support.

USING A PROFESSIONAL BUSINESS PLAN WRITER

Using a professional business plan writer is usually the easiest way to complete your business plan, but is also the most expensive. These professionals typically create a complete business plan for you based on the information you give them about your business. Enlisting a professional to prepare your business plan can give you the advantage of a custom strategy and a presentation geared toward investors. If you find a business plan writer who is also an experienced entrepreneur, the strategic input that you gain could be very valuable. Understanding the milestones investors look for is like having studied all the right material for a test. It gives you an edge in your fund-raising efforts. Before you hire a business plan writer, make sure they will work with you to create a business plan that truly reflects your business and vision, and has a strategy you can execute. To learn more about professional business plan writing and consulting services from The Startup Garage, go to TheStartupGarage.com/Business-Plans.

Regardless of the method you choose to create your business plan, the content should still be similar. A complete business plan contains an executive summary, a strong research foundation, a detailed description of your product(s), plans for marketing, operations, and management, as well as financial projections to show how your business will be profitable.

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Conclusion

There is no one perfect way to write a business plan. There are many business planning experts with varying business plan writing formats and numerous entrepreneurs that have been successful without one. With the strongest business plan, a company will only be as successful as the execution of the team.

So there's no guaranteed success, but writing one will increase your chances. It will act as a roadmap and self-check for you to keep your operation day-to-day in line with the over-arching business strategy. It will continue to evolve, but even the most experienced entrepreneur needs a plan.

The business plan has several other valuable uses:

- The plan will not only help you allocate resources effectively, but will also help you manage all the moving parts and cut down on stress. You may (and probably will) come upon obstacles as your new business swings into operation. Being prepared with a plan, strategy and safety net could be the difference of you continuing operation.
- A business plan will help enlist others in your idea. To make your business successful you'll need some combination of partners, investors, employees, etc. These people are usually more easily compelled to offer the support you're looking for if you have a business plan. Giving time or money to a startup is always a risk. If you show a convincing plan for success, partners, investors and employees will be more likely to jump on-board.
- A business plan can be used as a guide — or roadmap — as you operate your business. If done well, your business plan will have created a cohesive strategy for the first 3-5 years of operation. You'll continue to learn a tremendous amount about entrepreneurship — including: improving processes for efficiency, adjusting for your market, expanding and refining your network and data. Your business plan should evolve with you. Your strategy should be periodically revised, kept fresh and ahead of the competition.

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If you didn't before, you now have a good understanding of what goes into writing a business plan. It's a time-consuming process and can be challenging. All the individual steps are necessary to building the business. Consider your own strengths and weaknesses, as well as the scope of your idea when determining how to excute on writing the plan.

Once you've completed your business plan, you will need to set up your operational infrastructure. This includes getting your business license, registering as a legal entity, setting up an office if necessary and planning all the operational processes — such as accounting, IT and customer service. The Startup Garage offers a variety of resources for executing on these pre-launch activities. Visit our blog, or connect on any of the platforms below.

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