

# Sample Business Plan Financials: Bob’s Rent-A-Bike

PART 1 OF 4



In this video, entrepreneur Bob Adams walks you through the financial part of Rent-A-Bike's business plan. ➤



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**Profit and Loss Projection (Also Called Income Statement) for Bob’s Rent-A-Bike**



**Cash Flow Projection, Bob's Rent-A-Bike**



**Key Ratio's for Bob's Rent-A-Bike**





# Your Business Plan IS Your Business

PART 1 OF 3



Having a great business plan can make all the difference! Bob Adams explains why having a differentiated business plan is absolutely crucial when starting a business.



HAVING A GREAT business plan is absolutely, positively the single most important thing you can do to ensure the success of your business.

What Is a Business Plan? Part 1 of 3

# How Important Is Your Business Plan?

It is generally more important than raising all the money that you could ever need or even hiring the very best employees that you could possibly find. It is usually more important than having the first product to market or having the lowest cost structure. It is generally even more important than having a better product or service than your competitors.

Every single thing you do in your business should be guided by your business plan. So, in essence, if you have a great plan, then the business plan is the business.

By having a great plan, you are taking a huge step toward strategizing, positioning, planning, and managing your business well. If you don't have a plan, you probably aren't managing your business at all. At best you are running your business by the seat of your pants; at worst you are setting yourself up for unnecessary challenges and disappointments.

## Why You Will Fail Without a Good Business Plan

Many small businesses never rise to their full potential, suffer from low profit margins, and aren't able to grow significantly because they never put together and follow a great business plan.

Often small business owners create a product or deliver a service that they believe is better than a competitor's while, in reality, it's not better at all. Sometimes their product or service is different from competitors but not in a way that customers really care about.

A great business plan analyzes key variables such as your target market and your competitors, as well as your strengths and weaknesses, to help you develop, change, or refine your business concept. It helps you challenge yourself to determine whether your concept is viable, and, importantly, if your concept is truly differentiated from your competitors in a way that really matters to customers. This is the part of the "secret sauce" that can lead to vastly higher profit margins and a dramatically faster growing business.

## Good Business Plans Lead to Higher Profits

A great business plan pulls together all of the major issues facing your business in a balanced and analytical way. Creating your plan helps you to decide where to focus your resources and time in ways that will matter the most. Once your business is operating, your business plan gives you a framework, a big picture, for evaluating the day-to-day issues and opportunities that you will encounter.

Businesses operating without plans tend to give less thought to how they package, price, and deliver their goods and services. They tend to operate more by chance and impulse, and less by analysis and deep thought. They tend to take on expenses that seem like a great decision at the time, but aren't necessarily the best decision based on the overall needs of the

business. They also tend to run out of cash or become so cash flow crimped that they must cut back on crucial expenditures that limit their future potential.

Particularly with very small businesses, owners who don't have a business plan tend to spend too much time on activities that aren't that important and too little time on those activities that could really drive their business ahead.

## **Running a Business Without a Plan Is Like Piloting a Ship Without a Rudder**

OK, so you bring a lot of energy, ideas, and enthusiasm to your business. Great, that's analogous to having built a big ship with a strong engine. You may even have some money to invest; that's like having lots of fuel to fire up the engines and set your ship in motion.

But not having a business plan is like not having a rudder or a navigational map. Where is your ship going to go if you don't have a plan? How are you going to steer your business if you don't have a rudder?

How important is a rudder? Consider the fate of Germany's great warship Bismarck, arguably the most powerful and most heavily armored battleship of all time. In the Battle of Denmark Strait in 1941, Bismarck quickly fired on and blew up the British Royal Navy's battle cruiser the HMS Hood, and seriously damaged another British battleship, the HMS Prince of Wales. Bismarck suffered minor damage herself, despite several direct hits.

There was fear that Bismarck was invincible and would roam the Atlantic sinking Allied convoys and warships at will. In desperation, Prime Minister Winston Churchill ordered the British Navy to take whatever risks necessary to sink Bismarck. The navy ordered dozens of warships to follow Bismarck, leaving troopship convoys carrying tens of thousands of soldiers totally unprotected from the danger of German submarines.

A squadron of British fighters and torpedo planes eventually located and attacked Bismarck. They caused little overall damage but did score a direct hit on her hull. After another chase, the British Navy located and attacked Bismarck again, damaging the ship's rudder and eventually making it impossible for it to steer.

Taking advantage of Bismarck's broken rudder, British warships were able to carefully position themselves to inflict such damage on Bismarck that its crew gave up and scuttled the ship.

To come to my point, if even the greatest warship in the entire world, equipped with the heaviest armor and the most powerful guns of that era, couldn't survive without a workable rudder, what do you think your chances are of success for your business without a workable business plan, which is basically the steering system of your enterprise?

## **How a Great Business Plan Made All the Difference for Me**

For years I competed in the book publishing business. However, I was a minnow in a highly competitive sea dominated by whales. I entered the industry with no experience whatsoever, had limited resources (having started with just \$1,500), couldn't afford to hire big name authors, lacked efficiencies of scale, and was forced by large booksellers and wholesalers to offer them deeper discounts than our larger competitors, further squeezing my profit margins.

Nonetheless, by the time I sold this business, my profit margins were three times higher than those of the largest publishers. How? I had developed a business plan that truly differentiated us from our competitors in way that mattered. Our competitors sourced most of their books from literary agents who auctioned off new manuscripts to the publisher who offered the highest guaranty and/or the best royalty rate. The authors were the brand names more than the publishers, so an established author had bargaining power.

I sat down with my employees one year and very carefully thought through our strategy and our business plan. We decided we shouldn't make it our primary effort to compete with the biggest publishers for the biggest and most expensive authors. We decided that instead of bidding tons of money for big name authors, we would focus on our own series where we owned the brand. Instead of waiting for a literary agent to propose a book topic to us, we would research and decide what book topics were most saleable and go find our own writers. We paid a good fee, but we paid no royalty. So if the books sold well our costs were a fraction of other publishers.

There are many other instances where having and following a good business plan made a huge difference for me. There were also times when I either didn't have a good business plan or didn't follow it and often ended up with an underperforming business or even an outright failed enterprise.

## **Some Very Famous People Say They Didn't Have a Business Plan**

Yes, I am aware of these tales of people who managed to succeed without a business plan. I admit it is possible to succeed in business without a plan, especially if you start with a truly unique concept and plenty of funding. But not having a plan will greatly decrease your odds of success. Why shoot yourself in the foot and then try to prove that it is still possible to run a marathon? Sure, it's possible. But why handicap yourself?

## **Why Do so Many Entrepreneurs Not Have Business Plans?**

Entrepreneurs who don't have a business plan generally don't appreciate how helpful a plan can be. They may have writer's block and just can't complete or plan. Or maybe they are just lazy about writing one. The nature of the human mind is to avoid deep thinking and to avoid challenging our currently held beliefs. So instead we might tend to work long hours day in and day out, all year long, doing things the same way, as opposed to really thinking deeply about whether or not we are working on the right things at all.

# Why Are Many Business Plans Worthless?

I believe many business plans lack a truly differentiated strategy, utterly failing at one of the core purposes of a business plan. For example, I often hear independent retail business owners say they differentiate themselves by offering superior customer service. Well, that sounds nice, but wait, isn't that what many other independent stores are thinking? Aren't the corporate stores trying to do the same thing? What is "superior customer service" anyway? Some customers don't want sales people offering advice and following them around the store at all. Some customers just don't want any customer service. I've seen a lot of independent retailers go out of business following a strategy of "superior customer service."

To develop a successful differentiated strategy, a good business plan should first carefully analyze customers, customer needs, and competitors. Then, a plan should include a frank and realistic assessment of the business's own strengths and weaknesses as well as current threats and opportunities.

Plenty of business plans do a decent job of summarizing the basic competitive inputs. But many plans fall short when it comes to the critical and insightful analysis that is required to move from summarizing the facts to assessing strengths and weaknesses and then probing for risks and opportunities.

There are many other reasons business plans are often worth little. They may not be realistic. They may not be thorough.

## The Key Difference between a Business Plan and a Budget

Some people confuse a business plan with a budget, or think the budget is what matters most. This is ridiculous; a budget is not a business. The core of your business plan is your written text and particularly the text that you write that defines your business.

Many businesses do not review and update their business plans, especially the non-financial parts, as frequently as they should. I believe every business should carefully review its entire business plan at least once a year. Otherwise you aren't really managing your business; you are just floating with the current.

## Using a Business Plan to Raise Funding

Some people see a business plan simply as a way to raise money. However, I emphasize that a good business plan can allow you to start and grow a business without raising any money. I've never raised equity money. Yet I have built some good-sized businesses. And I have done so by carefully developing, updating and following my business plans.

Sure, a great business plan should be a basic tool to help raise funding for your business. However, if you came to me to raise money and I felt you

were using the business plan primarily to raise money, I wouldn't invest a nickel. Nor should anyone else.

No matter how good of an idea you have, a good business plan can greatly increase your chances of success. But it needs to be a plan truly designed to operate the business, not just a plan designed to sound good on the surface merely to help you raise money. Even if you are absolutely sure you are going to succeed anyway, a great business plan can raise the level of success you might achieve.

## **What Are the Key Elements of a Great Business Plan?**

Perhaps the most important element of a great business plan is whether or not you have really, carefully thought it through. Yes, a great business plan should be relatively complete and address all aspects of your market, your customers, your competitors, and, of course, your business and your budget. But a complete plan isn't necessarily a great plan. You may decide some elements of your plan are much less important and spend less time focusing on them, or even skip them altogether. What really matters is how much deep thought you gave to the elements that matter most.

You want to challenge yourself, challenge your initial thoughts, challenge the way you were planning to do business or are currently doing business. To create a great plan you must approach the planning process with a really positive attitude. You want to approach it with the idea of exploring possibilities. Yes, it may be possible to do something really different. Yes, it may be possible to make some tweaks and have really better results next year. But if you can think positively and envision a great outcome, you will be much more likely to achieve one.

For this reason, I try to think about my business plan when I am in a good mood (which is not necessarily that often) and/or when I am feeling relaxed, such as at night or on the weekend. I tend to not work on it for more than a few hours at a time. But I come back and look and think about key parts of the plan time and time again.

What matters most in a business plan? While it differs in every situation, usually some core element such as those that I have mentioned already (analyzing the market, customers, competitors, your strengths and weaknesses, risks and opportunities) are always critical.

Planning out your marketing is typically very important, but I find that marketing is fragile. It is hard to find marketing that always works, and even if it starts to work it can often fall off. However, great marketing is not a substitute for true product differentiation.

The budget is important too, because this puts down in writing where your priorities are headed.

For most entrepreneurs, how they devote their time is a very important decision that often does not get the strategic thought that it deserves, but tends to be more a reaction to current demands. Thinking about where your

focus, your time, and your energy (and not just your money) belong should be included in your business plan too.

For ongoing businesses I find that what is most important to emphasize in your business plan will change from time to time. You want to be proactive in making changes to your business plan. For example, you may want to focus on three key changes in how you operate your business next year.

Change is difficult, which is why it can help for you to get your proposed changes down in writing in your business plan, and to also focus on just a few changes at a time.

## **How Should I Get Started on My Business Plan?**

The hardest part of creating a business plan for most people is getting started and overcoming the inertia. My advice on this is simple: start on it right now.

Even if you only have a few minutes, jot down a few thoughts, a few sentences, a few fragments. The first words are the most important, so just get something down and then go back and edit them later. Anyone can write a business plan. It's certainly doable. But it's not necessarily easy.

The most difficult parts of the plan, such as doing some deep thinking on alternatives for your unique differentiation, you might want to tackle when you are in the mood. If you're having a bad day or feeling tired, it's not a good time to tackle this critical aspect. So shift around your schedule; work on more mundane parts of the plan when you have less energy, and the more trying parts when you have more energy and are feeling creative.

Don't try to do your business plan all at once or even within a few days. Your business plan is the lifeblood of your business; you want to work on it carefully over a period of time. Don't rush to merely "finish it."

## **OK, I've Finally Completed My Business Plan! Now What?**

Congratulations! If you've really given the business plan process the time and effort it deserves, chances are you have a great roadmap for success. But another great obstacle remains in implementing your business plan to help you succeed: everything else that happens every day.

Soon after you finish your business plan, the tendency is often to jump back into the thick of things: wrestling alligators or whatever else your daily business issues seem to feel like. The tendency is to then forget about your business plan. Instead, you need to discipline yourself to really utilize your plan.

What was your plan for how you were going to change your product or service? What was your plan for how much you were going to spend on marketing this month? What was your plan for prioritizing your time? Set aside a regular specific time to review how you are progressing versus the



schedule in your business plan.

Once, while at a book signing discussing how to run a business, I was asked if there was any one moment when I felt my business was really started to prosper. I thought for a while and said, “Yes.”

While I had business plans for several years, I was unhappy with the profitability of them. One year, I decided that the culprit might be that I wasn’t following the plans. Every year I was sold on the advantages of more marketing and advertising plans than I had budgeted. But the results were disappointing. So that year, I really followed the budget and didn’t overspend on marketing. Bang! Sure enough, sales didn’t suffer and my profits surged – I believe they actually tripled. It likely would not have happened if I didn’t refer back to my business plan throughout the year.

## Why Are You Such a Crazy Fanatic about Business Plans?

One of the differences about my background is that I have started not just many businesses, but many different types of businesses. So I have learned about the universal core reasons for success and failure across the board in business.

More importantly, I am usually the underdog who, on paper, is the least likely to succeed. I go into many businesses not only with no experience, but also into businesses that I know nothing about. Often I’ve also been terribly undercapitalized. My competitors, on paper, usually have all of the advantages.

It’s in these kinds of situations, when all of the odds are seemingly stacked against you, that you learn to quickly get a much deeper insight into what else really matters for business success.

If you have read this far, you should know by now that what I have discovered that really matters in determining my success or lack thereof is whether or not I have a great business plan.

In a nutshell, when you are the perpetual underdog, you learn all of the tricks that really matter to stay in the game. And in the game of business, the number one trick is having a fabulous business plan.

## Takeaways You Can Use

- *Your business plan is the business.*
- *Running a business without a plan is like sailing a ship without a rudder.*
- *If you don’t have a differentiated strategy, your business plan is worthless.*
- *There’s no time like the present to get started on your plan.*

