How to write a Business Plan

## Guy Kawasaki : Eleven questions with Tim Berry

1. **Question:** Who even reads business plans anymore?

**Answer:** How about “Who *should* read a business plan”? It’s not about whether venture capitalists read plans, it’s about planning to make your business better. So here’s who should read a plan:

First, you the owner, manager, author of the plan--and you’d better be the owner of the plan too—not some consultant. The plan is by you and for you and if tracking it, reviewing it, managing and executing it aren’t important to you, then you don’t understood planning. Planning isn’t about the document; it’s about controlling your destiny, running your business better, setting goals and tracking progress, and keeping your eyes on the horizon while not tripping over potholes in front of you. If you’re not going to read it regularly, then don’t ask anybody else to.

Second, team members, boards of directors, and collaborators. A business plan is a way to coordinate, communicate, and collaborate with accountability and tracking. It should get all the key people on the same page. Nobody can execute a plan they don’t know about.

Third, relevant outsiders. Banks, investors, boards of advisors, key consultants, and even occasionally—but only with caution—vendors or prospective new high-level employees.

1. **Question:** What’s the most important qualities of a plan?

**Answer:** First, a plan should set priorities with the understanding that you can’t do everything. After all the buzzwords and analysis, strategy is focus. What can you do better than anyone else? What’s your core competence?

Second, specifics. What’s going to happen, when, how much it’s going to cost, and who’s responsible for it.

Third, cash flow. Growth spurts in a company are good things, meaning more sales, and presumably more profits, but unplanned growth can suddenly sucks up liquidity and in the worst cases kill the company. Growth without prior planning can be as fun a hard kick in the stomach.

Here’s a story to illustrate the concept growth versus cash flow: Willamette River runs through Eugene where I live. More people drown in the slow deep portions of the river than in the rapids because people think they’re okay when it’s slow. Cash flow is like that, you think it’s okay when you’re growing and profitable. Profits are good, but cash and profits aren’t always timed together.

1. **Question:** In what order should you do the summary, pitch, and projections?

**Answer:** That’s another chicken and egg question, and the answer depends on who you are, how you think, and how you work. I go through periods of months and in at least one episode years in which I think in broad bullet point terms first, then fill in details, and then I’ll swing over and start thinking in numbers and projections first, then filling in the concepts. I’ve watched people with planning for a lot of years, and it’s a style question.

What’s most important with this order of execution is to understand that it will never be sequential. In whichever order you do it, you will always be doubling back. I’ve done it in every conceivable order, but I’ve never done a plan from step one to step N. Fleshing out the second step will almost always bring up reasons to revise what you did in the first step, and the third step will make you rethink the first two.

At every point that you stop and work with plan, share it, talk about it, or manage it, then you’ll need to review the parts for alignment. I’m not talking about the big fat “Business Plan” as opposed to the larger and more useful real plan, the live plan. You need to keep alignment between the concepts and the numbers, and between the summary, the pitch, and the plan. In the real world it’s hard because a good plan is so alive that whichever part you touch changes.

1. **Question:** What about the theory that you should develop a pitch instead of a plan?

**Answer:** A good presentation is a great way to communicate the core of a plan, but it doesn’t substitute for a plan. A pitch without a plan is like a movie trailer without a movie. The plan and the pitch should work together. Which comes first is chicken and egg, a matter of personal style, but it’s crazy to have a pitch without a plan, or, if you’re aiming high in the investment world, a plan without a pitch.

VCs like the contrarian buzz they get when they say they want the pitch instead of the plan, but they’re really always assuming there’s a plan in the background, aren’t they? They’ll probably have some analyst read it. We hear about some rare exceptions, but they are interesting for just that, they are so rare.

Furthermore, the whole pitch versus plan discussion is limited to the exclusive top of the pyramid: the 5,000 or so deals that get VC funding in an average year plus another 25,000 or so that get angel funding. For the other twenty-six million or so businesses in this country, planning is vital and a pitch is an excellent part of the planning process, not a replacement for it.

1. **Question:** What’s the optimal process for writing a business plan?

**Answer:** Grab whatever part gets your attention first and get going. Understand that it’s not sequential it’s iterative, and a good plan is never done. Some people do the numbers, then the concepts, most people do concepts first, but it doesn’t matter. Planning isn’t a waiting room where you sit until you’re done. Build it in parts, mix and match, choose items from a menu. If you like, do a sales forecast and see where that leads you.

My favorite process starts with what you want for the business on the long term, moves to establishing a conceptual identify: what are you best at, how do you want the world to distinguish your business from all others. Then it goes to the marketing: what message, to whom, through what media. Then it goes to sales forecast, costs, expenses, and last but frequently most important, cash flow. Key concept: a good business plan is never done.

1. **Question:** What are some of the common mistakes?

**Answer:** The worst by far is focusing on the plan instead of planning. This generates the idea that you create a plan as a document, and the related misunderstanding that the plan is for somebody else. You don’t postpone life while you’re developing a plan; you’re always developing the plan. In the meantime, “Get going.” Here are some other common mistakes:

* + Blue-sky blurry: lots of strategic thinking without any hard facts. Planning requires specifics: dates, deadlines, responsibility assignments.
  + Trying to do everything. I use the rule of displacement: everything you do rules out something else.
  + Thinking that being the lowest price option is important. It isn’t. The price and volume thing they talk about in economics classes is for 200-year-old lumps of coal, not your business. Use price as a statement of quality. Leave the low-price strategies for Walmart and Costco.
  + Mistaking profits for cash. Profitable companies go broke all the time. You don’t spend profits. Plan your working capital well.

1. **Question:** When do you revise a plan?

**Answer:** You need to revise a plan regularly, like steering a car or walking, both of which are constant small course corrections; but you also need to stick to a strategy consistently for two to three years at least to see it working.

It’s better to have a mediocre strategy consistently applied over a long term than a series of brilliant strategies contradicting each other every six months. The hard part is knowing which is which. Don’t ever stick to the plan like running into a brick wall just because some cliche says you’re supposed to; that’s just dumb. But you also need the patience to let things work. Sometimes we keep solving the same problem repeatedly because we don’t have the patience to let the first solution work before we change to the next solution. It’s paradoxical.

1. **Question:** What’s the best format?

**Answer:** Form follows function. Planning isn’t about the “Business Plan” document, it’s about the planning process that creates management. The vast majority of business plans are for the business themselves—not to be read by outsiders, and they should stay on a computer and in bullet points and financial projections because that’s how they can be used.

Until your plan needs to go to outsiders you keep it simple and practical. I’ve been running my company with a business plan for twenty some years now, it gets revised often, discussed and managed often. But we print it when our bank asks for it—maybe every five yeras or so.

However, when you do have a “business plan event,” as we call it—meaning loan application, investment, or review for board of directors or advisors—then give your readers a break. Include charts to illustrate numbers. Use easy to read bullets. Use 12-point fonts for people over 50. Make an easy outline to follow. Include an executive summary that could stand alone if it has to because it will. Have chapters describing the company, what it sells, the market, the plan specifics —strategy, tactics, and programs, the management team, and the financial projections. Don’t be afraid to use PDF documents, they travel well and are convenient for all concerned. And let your readers decide whether they want hard copy.

1. **Question:** How can you project numbers for a new business with no history?

**Answer:** Aim for the educated guess. Educate the guess with back-up information laying out assumptions for how many potential buyers, what sort of penetration process through the market you’re projecting, and what experience shows in other industries. Look for indicator factors you can tie your numbers to, like web traffic and click-through and conversion rates for one kind of web business, or page views and ad views and ad revenues, on another.

Don’t sit around debating projections—start selling. Prove your sales projections with sales. One of the best things about working with Philippe Kahn during the early days of Borland International was how he jumped out of the planning and into the sales at a moment’s notice. Nothing made the projections more credible than the $90K bundling deal from a computer manufacturer that also put dollars in the bank account (and $90K bought more in 1983 than it does now). There’s no data substantiation better than actual sales.

Always try to get data you can pull apart into assumptions. I just used a web example, but even in the less data-rich world, you can project a restaurant sales by breaking it into meals per sitting and sittings per table and people per sitting and tables available and sittings per hour and peak hours and other hours, all of which helps to educate a guess.

Always try to add experience. People who know a business understand general scale in a way that’s extremely hard to duplicate from scratch. I understand that we’re talking about a new business here specifically, but new businesses are usually derivative. If you don’t have the experience yourself, find somebody who does, and entice them into sharing and listening a bit. Buy lunch. Use flattery. That’s why boards of advisors were invented, as a forum for lunch and flattery.

And remember: Start the planning process immediately. You’re projecting a new business only until you’ve finished the first month, and then you have plan versus actual to deal with. You’re laying down a plan so you can track the difference between plan and actual results. Your plan will always be wrong, but you’ll be tracking where, why, and in what direction.

1. **Question:** How do you know when you’re done?

**Answer:** A good business plan is never done. You’re going to be circling back around it for as long as you care about your business and want to manage it better. If your business plan is done then get out of that business, it’s dead. You’re always moving towards the horizon, and you’re business plan is always there to track where you’re going, mark the steps, and help you steer.

The absolute worst business plans ever, anywhere, are those plans in a drawer somewhere. If you’re not keeping it alive, it’s not planning; it’s just a plan. It’s history. It’s of no business value.

1. **Question:** What do you make of these “Web 2.0” entrepreneurs who say that the world is moving too fast for anything as “1.0” as a plan?

**Answer:** They’re referring to the the big fat “Business Plan” when what they need is *planning*. Planning is vital because it keeps you on track and mindful of important long-term strategy and objectives. A plan, on the other hand, a plan taken by itself, is only as good as the implementation it causes.

Planning is exactly what you need to deal with the speed of change. You have to remember that your business plan is always wrong—it has to be because it’s predicting the future and we’re human, we don’t do that very well. But it’s still vital because it’s the way you lay down tracks so you can follow up on the constant difference between plan and assumptions.

Without a plan, when assumptions are wrong you don’t even know what they were, how were they wrong, in what direction, and what can you do about it. With a plan, you use plan versus actual all the time to manage the difference between what you thought and what actually happened.

That’s what I love most about having a GPS unit in a car. When I screw up and take the wrong turn, the GPS still remembers where I wanted to go and tells me how to change my course. That’s what good managers do with a sound planning process.

### About Guy Kawasaki

### Former chief evangelist of Apple Inc., Guy Kawasaki is the co-founder of [Alltop.com](http://alltop.com/), an “online magazine rack” of popular topics on the web, and a founding partner at [Garage Technology Ventures](http://www.garage.com/). Previously, he was the chief evangelist of Apple. Kawasaki is the author of ten books including *Enchantment, Reality Check, The Art of the Start, Rules for Revolutionaries, How to Drive Your Competition Crazy, Selling the Dream,* and *The Macintosh Way.* Kawasaki has a BA from Stanford University and an MBA from UCLA as well as an honorary doctorate from Babson College.

### About Tim Berry

Founder and President of Palo Alto Software and a renowned planning expert. He is listed in the index of "Fire in the Valley", by Swaine and Freiberger, the history of the personal computer industry. Tim contributes regularly to the bplans blog, the [Huffingtonpost.com](http://www.huffingtonpost.com/tim-berry) as well as his own blogs, [Planning, Startups, Stories](http://blog.timberry.com/), [Up and Running](http://articles.bplans.com/writing-a-business-plan/what-makes-a-good-plan/upandrunning.entrepreneur.com), and [Planning Demystified](http://www.allbusiness.com/3476477-1). His full biography is available at [timberry.com](http://articles.bplans.com/writing-a-business-plan/what-makes-a-good-plan/www.timberry.com).