

# Why Business Planning is not just for Start-ups

By Alan Gleeson

One of the greatest misconceptions about business planning is that a business plan is useful only for start-ups. While start-up companies are indeed one significant segment of business planners, business planning is being utilised by an increasing number of companies as a means to manage growth better, to ensure new ideas have been assessed for commercial viability, and to value a business on exit.

Secondly, the importance of the business planning process is often under-emphasized relative to the primary focus on the final output, the business plan. The very process of producing a business plan enables management to take a holistic view of their organization. It helps them give due consideration to the various factors that mesh together to create the opportunity they are seeking to explore, as well as the resources required and the key drivers needed for success. This article aims to justify a more expansive remit for the business plan, by highlighting a number of key areas where its application is of considerable benefit for all companies.

## 1. Intrapreneurship

Companies are increasingly encouraging employees to create new growth opportunities as competition intensifies in their core (mature) business lines. Mature invariably means competitive, so the focus on growth opportunities is via innovation and creativity, especially in emergent areas. The term intrapreneurship thus refers to "inside entrepreneurs"; where intrapreneurs personify the key characteristics of an entrepreneur, but do so within the company bounds.

Intrapreneurship is not new - 3i, a venture capital/equity investment company, has been one obvious practitioner for many years - and its application of intrapreneurship has helped to spawn a number of new products. Google, a company renowned for innovation, operates a 70 percent rule, whereby employees are expected to spend 70 percent of their time on the core business, 20 percent on related projects, and 10 percent on unrelated new business opportunities. While the generation of new ideas is paramount, ensuring their commercial viability is of critical concern, and writing a business plan is one key way to assess the merits of an innovative proposal in a more rigorous fashion. The plan can thus be produced for an internal opportunity as if it were a stand-alone entity, with the author being required to detail both the opportunity and the resource implications of pursuing it.

## 2. Managing Performance

A business plan can also be used as a management tool to assess 'actual results' against 'planned results'. Using these figures in conjunction with an assessment of year-on-year performance can ensure that managers reflect on performance not just based on the previous year's achievements, but also in relation to the original planned figures. This enables managers to analyse deviations from plan so as to understand what figures are materially different from the planned ones and what drivers shaped the disparities. It also helps to shift the focus away from solely historic comparisons –instead the manager is tasked with planning for the year ahead and hence there is an agreed goal up front and greater transparency on a month by month basis when 'actuals' can be compared with 'planned'.

Such analysis helps to enhance a manager's understanding of the changes that have impacted recent performance. If planned results and actual results are considered on a monthly basis, this analysis may also help the manager take remedial action in a more urgent time frame.

## 3. Planning Strategically

The process of business planning is, in and of itself, a worthwhile pursuit as it forces the authors to remove themselves from the day-to-day tactical/responsive mode in which many managers operate. The planning process forces any manager to consider the future. In particular, they must take into account the resources at the company's disposal and plan to maximise the return on capital, as limited by the wider context.

For many companies, a desire on the one hand to maximise the return from the existing product/service revenue stream, needs to be balanced on the other by a desire to develop new additional revenue streams. By putting a business case together for a particular course of action, a manager ensures that the proposal is financially robust (i.e., worthy of pursuit), that the goals are kept in focus and that resources are allocated accordingly.



**BusinessPlanPro 2007**

- *Wizard Driven*
- *500+ Sample Plans*
- *Step-by-Step Financial Guidance*
- *SBA, Bank and VC approved format*

**#1 Recommended**

Find out Why [Click Here](#)

Hence, a business plan can support a company's focus on exploiting a particular market segment, creating a new product, promoting a new use for a product, etc. Once the plan is committed to paper, it is easier to ensure that there is consensus, ownership of the plan, and a breakdown of tasks, milestones and deliverables to help achieve the goals set out in the plan.

#### **4. Preparing for a Future Exit**

At some point in the life cycle of a business, the founders/investors may decide that they want to cash out of the business. The exit strategy will typically focus on extracting the highest value possible from the sale. An up-to-date business plan detailing the opportunity for new buyers will support any valuations put on the business by its current owners.

Before a company reaches the point of sale, it is important to get everything ready by making sure that all historic accounts, cash flow statements and business plans are up-to-date. It is generally accepted that thorough preparation for a sale, well in advance of the sale date, improves internal management focus, aids performance, and ultimately serves to increase the final valuation.

Once management identifies the key drivers for a typical potential acquirer, a business plan can be put in place to focus the minds of employees and ensure that the sale value is maximized. For example, if the general bases for valuation for the industry are focused more on cash generation than profit, a company can drive short term revenues by undercutting sales prices of competitors by selling at cost + 5%. While such activity may not be sustainable in the long run, it can serve to help cash flow when a sale is being considered and prospective acquirers are reviewing performance. While some managers are not that comfortable with planning and projections, the preparation of a thorough business plan plays a vital role in extracting the maximum value from a sale.

#### **5. Supporting a Company Valuation at Sale Time**

Ascertaining the value of a company is a difficult and ultimately subjective process whereby the sellers are naturally looking to maximise their return and the buyers to minimise their outlay. The bases for valuation are numerous and tend to be the subject of much negotiation, with various multiples being considered as both parties attempt to come up with an agreed price.

The primary aim of the acquirer will usually be to assess the future income generation capability of the company. As a result, negotiations will usually include attempts to agree on an 'earnings multiple', a common method of valuation which focuses on the ability of the firm to generate revenue and cash. These earnings multiples can vary but are correlated with perceived risk, so they tend to go down for smaller companies, where the perceived risk is often higher. Conversely, a higher earnings multiple is likely when a company has strong historic growth figures and a robust business plan. This will usually lead to a higher price.

This analysis of earnings potential will typically be assessed in conjunction with an analysis of historic financial data that is already available, e.g. audited Income Statement/Profit and Loss. This valuation will be used to assess the likely return on investment, and the preparation of a sound business plan valuation document can save both time and money. At the very least, a business plan will identify the key drivers of growth, assess future conditions, and provide a structure to support a more accurate estimate for the value of the company.

## **6. Conclusion**

Business planning is a vital process for any business seeking to effectively focus resources to maximise future value, be it for exit or for maximising return. Much like the value of a map is only truly appreciated when one is driving a long distance and gets lost, the benefits of a business plan may only be truly appreciated when the journey has begun, and different events conspire to alter the company's path along that desired route.

### **About the Author:**

Alan Gleeson is the Managing Director of Palo Alto Software, Ltd., creators of [Business Plan Pro® 2007](#). He holds an MBA from Oxford University and is a graduate of University College, Cork, Ireland. For further information on starting up and business planning, visit [www.bplans.co.uk](http://www.bplans.co.uk) and [www.paloalto.co.uk](http://www.paloalto.co.uk)