


## 20 Reasons Why You Need a Business Plan

 Written by Pete Kennedy on Wednesday, April 9, 2008  
Categories:

### Business Planning

**1. To prove that you're serious about your business.** A formal business plan is necessary to show all interested parties -- employees, investors, partners and *yourself* -- that you are committed to building the business.

**2. To establish business milestones.** The business plan should clearly lay out the long-term milestones that are most important to the success of your business. To paraphrase Guy Kawasaki, a milestone is something significant enough to come home and tell your spouse about (without boring him or her to death). Would you tell your spouse that you tweaked the company brochure? Probably not. But you'd certainly share the news that you launched your new website or reached \$1M in annual revenues.



**3. To better understand your competition.** Creating the business plan forces you to analyze the competition. All companies have competition in the form of either direct or indirect competitors, and it is critical to understand your company's competitive advantages.

**4. To better understand your customer.** Why do they buy when they buy? Why don't they when they don't? An in-depth customer analysis is essential to an effective business plan and to a successful business.

**5. To enunciate previously unstated assumptions.** The process of actually writing the business plan helps to bring previously "hidden" assumptions to the foreground. By writing them down and assessing them, you can test them and analyze their validity.

**6. To assess the feasibility of your venture.** How good is this opportunity? The business plan process involves researching your target market, as well as the competitive landscape, and serves as a feasibility study for the success of your venture.

**7. To document your revenue model.** How exactly will your business make money? This is a critical question to answer in writing, for yourself and your investors. Documenting the revenue model helps to address challenges and assumptions associated with the model.

**8. To determine your financial needs.** Does your business need to raise capital? How much? The business plan creation process helps you to determine exactly how much capital you need and what you will use it for. This process is essential for raising capital and for effectively employing the capital.

**9. To attract investors.** A formal business plan is the basis for financing proposals. The business plan answers investors' questions such as: Is there a need for this product/service? What are the financial projections? What is the company's exit strategy?

**10. To reduce the risk of pursuing the wrong opportunity.** The process of creating the business plan helps to minimize opportunity costs. Writing the business plan helps you assess the attractiveness of this particular opportunity, versus other opportunities.

**11. To force you to research and really know your market.** What are the most important trends in your industry? What are the greatest threats to your industry? Is the market growing or shrinking? What is the size of the target market for your product/service? Creating the business plan will help you to gain a wider, deeper, and more nuanced understanding of your marketplace.

**12. To attract employees and a management team.** To attract and retain top quality talent, a business plan is necessary. The business plan inspires employees and management that the idea is sound and that the business is poised to achieve its strategic goals.

**13. To plot your course and focus your efforts.** The business plan provides a roadmap from which to operate, and to look to for direction in times of doubt. Without a business plan, you may shift your short-term strategies constantly without a view to your long-term milestones.

**14. To attract partners.** Partners also want to see a business plan, in order to determine whether it is worth partnering with your business. Establishing partnerships often requires time and capital, and companies will be more likely to partner with your venture if they can read a detailed explanation of your company.

**15. To position your brand.** Creating the business plan helps to define your company's role in the marketplace. This definition allows you to succinctly describe the business and position the brand to customers, investors, and partners.

**16. To judge the success of your business.** A formal business plan allows you to compare actual operational results versus the business plan itself. In this way, it allows you to clearly see whether you have achieved your strategic, financing, and operational goals (and why you have or have not).

**17. To reposition your business to deal with changing conditions.** For example, during difficult economic conditions, if your current sales and operational models aren't working, you can rewrite your business plan to define, try, and validate new ideas and strategies.

**18. To document your marketing plan.** How are you going to reach your customers? How will you retain them? What is your advertising budget? What price will you charge? A well-documented marketing plan is essential to the growth of a business.

**19. To understand and forecast your company's staffing needs.** After completing your business plan, you will not be surprised when you are suddenly short-handed. Rather, your business plan provides a roadmap for your staffing needs, and thus helps to ensure smoother expansion.

**20. To uncover new opportunities.** Through the process of brainstorming, white-boarding and creative interviewing, you will likely see your business in a different light. As a result, you will often come up with new ideas for marketing your product/service and running your business.