Developing an Effective Strategic Business Plan

Author Details: Federico De Andreis
Università degli Studi Giustino Fortunato-Viale Raffaele Delcogliano 12
82100 Benevento, Italy

Abstract
Writing business plans is often the first step for entrepreneurs in developing new venture ideas. Trade press publications support their value and include templates or even software for crafting the business plan. This paper attempts to identify the degree and the methods of strategic business planning in the enterprises. Results indicate that determining a strategic business plan it is necessary for the value of the company, for its success and longevity. This paper seeks to provide a new conceptual definition of strategic planning, deeding the feature and contents of this economic instrument through the definition of the general aspects of an effective business plan, its goals, its feasibility, and its structure. The purpose of this research is to contribute to the body of knowledge of those who are preparing a business plan, bearing anyway in mind every business project has specific peculiarities.

Keywords: strategy, strategic plan, management, entrepreneurship, business, business overview.

Introduction
A new project was born from an idea, an intuition. On this basis, an organized process of verifying the idea must be planned, in order to prepare a "feasibility study," better known under the name of the business plan.
A business plan is a written document that describes in detail how a business - usually a new one - is going to achieve its goals; it lays out a written plan from a marketing, financial and operational viewpoint and it is important to allow a company to set out its goals and, if it necessary, to attract investments.
Although they are especially useful for new companies, every company should have a business plan; however, for example in some cases, when an established business is moving in a new direction.
So in other words, it can be defined as a strategic planning tool that allows companies to prepare a strategy, developing new ideas or ventures, i.e., a technique commonly used to help organizations set the clearest goals, choose the most effective means to achieving them, and, in general, ensure substantial progress.
Thus, the business plan may be intended as a representation of the operating, financial and capital effects of a business project on the ongoing management of the enterprise. It is based on the identification of some work ideas, on their subsequent transformation in qualitative and quantitative data and, finally, on the processing of such information under certain techniques more or less articulated.

General characteristics of a business plan
A business plan should be substantially performed two types of functions. The first function is allowing the company to rationalize and explain the "business idea." Its drafting requires, in fact, the identification of success factors and of the project shortcomings, allowing the company itself to focus the business idea in detail. The second function is to let to assessment by third parties of the economic initiative, its potential, and the risks connected.
Basically, the business plan aims to involve other subjects in the creation of the business idea.
The main structure of the business plan must respond to a series of pre-established principles because this document represents the economic, financial and patrimonial results for a specific entrepreneurial project.
The reason of this inflexible structure derives from the internal and external purpose of the business plan.
Observing, therefore, this principle of drafting allows either the management or the financial and to the credit institutions, to have a clear and direct vision of the general framework of reference.
The feasibility plan, in fact, should be:
Synthetic. It must be a summary document, with a persuasive and well focused logic. A business plan must be long enough to contain the relevant information, but not overly long-winded to discourage reading. About the length, some authors attempt a standard quantification of an adequate number of pages, about forty (corresponding to two hours of reading) with a maximum preparation commitment from six months up to a year. The SBA - Small Business Administration (a United States government agency that provides support to entrepreneurs and small businesses) reaffirms that, although it cannot talk about a standard length for a
business plan, this plan may be developed in up to thirty or forty pages, including the supporting documents section.

**Understandable.** It means easy to understand to people not involved in the work. The document must be developed and written clearly and fluently, keeping in mind a potential reader; it should, therefore, be understandable to a wide audience and contains a follow-up of all the steps in a short and direct form. Furthermore, the project exposure must be clear, especially if the receiving is a financial or credit institution supposed to decide on the funding required. In fact, it might be possible that these institutions do not own the necessary qualifications in order to know in detail the sector in which the company intends to operate, nor the dynamics existing in it.

The comprehensibility is also critical to the management in order to get a really clear idea about the project in its entirety.

**Credible.** The economic and financial predictions contained in the plan must respect mainly three principles: they must be truthful, realistic and easily verifiable. Impartial analysis, awareness, and responsibility of the management are, in fact, fundamental elements to create the companies’ credibility.

**Complete and exhaustive.** The principle of completeness refers to the complex of economic and financial data contained in the strategic plan. A business plan, therefore, to be considered as complete, must include information about the prospective financial statements, the cash flows and the ratio analysis that is essential to understand the relationship between performance and risk of a project, verifying the feasibility of the plan.

**Realistic.** The plan cannot be drawn up solely on the basis of the strengths of the business idea or of the opportunity that the project aims to offer; it is also necessary to identify and indicate the weaknesses of the enterprise, the critical aspects of the company mission and the potential threats that exist in the external environment, together with the actions useful to eliminate them.

**Coherent.** The feasibility plan is structured around inseparable parts, i.e., a series of descriptive–qualitative, technical-quantitative and economic-financial analysis. Each of them is closely related to the other, so the coherence of the plans is essential to avoid an incomplete work setting. **Convincing.** The business plan must be able to convince investors that it is a feasible and worth project, good for an investment, denoting good opportunities for development and a positive relationship between the degree of risk and return. Basically, this document must demonstrate the trade efficiency of the business proposal.

As already mentioned, therefore, the business plan has a double purpose:

**Internal.** At this stage, the focus is on the overall structure that the promoter of the project considered to achieve the final objective and to sustain the technical solidity. The technical and productive aspects of the plan, the marketing, and the communication and all the aspects related to the organizational structure, must be considered and a technical-productive plan, an organizational plan, and a marketing plan will be developed.

**External.** For the entrepreneur, the business plan represents a fundamental communication instrument for external use; with it, in fact, the redactor develops an articulate business plan and has a chance to make clear and readable all the ideas that might otherwise remain vague, allowing others, not directly involved in the business, to acquire a global vision of those which are his "thoughts" and of the implications that the project could take on a managerial plan. The presentation of a business plan makes credible the operational, financial and organizational strategies of the applicant company and facilitates gaining credit, as it provides the basis for the definition of the ability of the enterprise to generate cash and, consequently, for the risks’ quantification.

**Purposes of a business plan**

As stated, before, the business plan is one of the tools the enterprise strategy; this document is either internally or externally focused. Internally focused plans serve as a document to “rally the troops”; organize the stakeholders, especially employees, of a business and give an overall strategy to each of their regular tasks and actions. This has particular benefit for organization and motivation around the strategic goals that company leaders want to achieve. An internal business plan is a tool used to communicate these goals in a clear, effective, and calculated manner.

The business plan for a startup company is the blueprint for its formation, its operation, and its success; it exposes a new company's strengths and weaknesses; it reveals ways to capitalize on the strengths and minimize the weaknesses, uncovers every facet of the business that can be developed, and points to the best
method for that development. Indeed, the feasibility plan can also be a medium-term planning instrument for existing companies.

The key uses of the business plan can be distinguished as follows:

Promoting a new business venture. Starting a new project requires the creation of a business plan which allows the organization to verify if the “idea” has the right conditions to succeed. The drafting of this document, in fact, pushes the management to examine all the aspects that may impact the project. In such a case, the document can be prepared in order to fully understand the strengths and weaknesses of the plan itself, in other words, its tangible chance of success and to verify whether there is a niche market in which to enter. It also makes it possible to determine the overall expected profit margins and financial needs. In fact, these two elements prove the feasibility of the project since an initiative, although very valuable, could not be financially or economically affordable.

They are investing in an existing business. The companies are a dynamic reality and, in order to operate competitively on the market, they have to follow or even anticipate markets’ trends. It is, therefore, necessary to act earlier than the time when the corporate structure of the company reaches limits of technical obsolescence, in order to let management to continue the production with acceptable cost. Once the need for a production updated has been established, it is time for the enterprises to figure out when it comes time to invest, under which conditions and how to cope with this investment. In this regard, the preparation of a business plan is the most suitable and appropriate form available to the management to assess four significant aspects: “coherence of the project” based on objectives and general strategies pursued by the enterprise; "technical compatibility" of investments with the existing structure; "degree of economic viability" of the initiative, and finally financial "feasibility”.

I am analyzing the dynamics of company development. The need to continually adapt and coordinate the inputs, advises using the business plan as an assessment instrument of the pros and cons (i.e., strengths and weaknesses) of each operative choice. In this context the feasibility plan expresses its action in two main points: 1) Encouraging constant programming guidelines of the company in all its components. The strategic plan should take into account all key aspects of corporate life (manufacturing, organizational, financial, etc.); the company, due to its dynamism, must constantly update these guidelines related to the external environment. 2) Monitoring company performance. A specific and updated business plan allows the management to verify if the company follows the basic guidelines (outlined by management itself) and to establish if the profit margins are in line with expectations, if strategies scheduled tasks appear adequate and competitive and, finally, if the used model still works.

Access to bank credit and to public funding. The access to external sources of financing is a fundamental and preeminent issue in the life-cycle of an enterprise, and an effective business plan represents a useful key to get the founds. Referring to the access to bank credit, the business plan has two functions, i.e., evaluating the most appropriate financing techniques forms for the business needs and submitting the company and its business plan in such a way as to provide the funder the generality of information needed. At this stage, in fact, the company has to consider the multitude of lenders in the market, identifying the most suitable (taking into account several elements, including the economic and financial evaluation of the operation, the time needed and the guarantees - real or personal – requested).

They are promoting new business relationships. Several forms of cooperation between enterprises exist, such as mergers, exchanges of participation, joint ventures, consortia, etc.). In order to promote new relationships, it is not enough relying on the market forces, gaining leadership positions or offering extremely competitive products or services; all of these instruments are, in fact, certainly important, but in itself not sufficient. Therefore, the preparation of a business plan is expressed as plans and actions of internal and external communication. The internal planning aims to identify the existence, or not, of all the basic and the conditions helpful to realizing the strategic goals; the internal communication represents the link between initiative and actions and is useful to motivate the employees directly or indirectly involved in the project.

On the other hand, the external communication addresses the trading partners; in this case, the business plan allows the company to highlight the basis for cooperation or a partnership.

In summary, it is possible to outline three aspects of the business plan in order to promote new business: evaluating the trade agreement proposed, in terms of risks, opportunities and consequences; submitting the
cooperation project developed to the corporate ownership and finally presenting the project to participating partners.

Internal and external analysis

Understanding the environment where a business operates, is a key part of planning, and will allow a company to discern the threats and opportunities associated with an area of business. An external analysis looks at the wider business environment that affects the business. Likewise, an internal analysis looks at factors within the business such as strengths and weaknesses. Examining together an internal and external analysis gives a company a complete picture of the current situation and the steps it can take to plan business actions.

The analysis of the internals elements of the company represents a simple evaluation of resources (assets) and skills and assets of the company itself that could create a competitive advantage against the competitors and define a framework of strengths and weaknesses for a sustainable competitive advantage over time, achieving the targets set initially.

For this analysis company resources (assets) are ordered into a number of categories (Table 1): tangible resources (assets which have a physical existence and can be touched and felt), intangible resources (these assets do not have a physical existence and cannot be touched or felt) and human resources.

Table 1. Difference between Tangible and Intangible Assets

<table>
<thead>
<tr>
<th>TANGIBLE ASSETS</th>
<th>INTANGIBLE ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>They have a physical existence.</td>
<td>They don’t have a physical existence.</td>
</tr>
<tr>
<td>They are depreciated</td>
<td>They are amortized.</td>
</tr>
<tr>
<td>They are generally much easier to liquidate due to their physical presence.</td>
<td>They are not that easy to liquidate and sell in the market.</td>
</tr>
<tr>
<td>Their cost can be easily determined or evaluated.</td>
<td>Their cost is much harder to determine.</td>
</tr>
<tr>
<td>Example: furniture, vehicles, buildings, cash, etc.</td>
<td>Examples: Patents, logo, copyright, brand value, etc.</td>
</tr>
</tbody>
</table>

Instead, the skills are divided into two classes: micro-general and specialist.

The micro-general skills refer to five different elements:

**External integration.** The ability to combine the needs of the market with the product offered. *Internal integration.* The link between business areas, business processes, and company specialist skills.

**Flexibility.** It indicates the ability of the enterprise to adapt its resources to the external environments, in order to facilitate the business development.

**Incremental innovation.** It refers to the improvement (or adaptation) of something that already exists.

**Radical innovation.** It refers to those products or services that are completely new and create a new market category.

Specialized skills, instead, include three classes of skills: production technology, function, and process. The first relates to the enterprises’ ability to integrate multiple technological patterns in order to conceptualize, to design and to implement innovative products in different business areas. The function skills, refer to the cognitive and relational system that regulates the functioning of specialized practice areas, while the last (process skills) constitute the system of knowledge and relationships that presides over the functioning of processes cross-functional business.

The external analysis, instead, is necessary to understand better the various aspects of the environment in which a company operates or intends to operate, identifying the opportunities that the business has and realizing the threats that can occur in the same environment. In order to concretely define goals that derive from the mission and to assess that they are indeed achievable, it is necessary interfacing with the initial situation in which the company operates.

Generally, we can distinguish in “general environment”(macro-environment) and "specific environment" (microenvironment).
The first refers to a combination of elements, not only of an economic nature, that can affect the business in the medium and long term, while the micro-environment is referring to the competitive area in which the company operates, where the business is compared with its customers, suppliers, and competitors, and it is closely related to the short term.

**Conclusion**

Business strategies represent an on-going subject and an area of considerable reference, but at the same with many “grey areas” for which are found - in doctrine and practice management – several opinions, terminologies, and different analysis.

The increasing complexity and dynamics in the business strategy make therefore necessary an effective business plan, useful for new companies and for already existing companies when moving in a new direction.

An idea, translated into a business plan, can change the attitude and the objectives of an enterprise; it can bring the same company to achieve higher targets, using the changes taking place in the external environment and the positive trends of growth opportunities.

The business target should, therefore, be clear, effective and deeply analyzed through a business plan; it should include studies of the business and of the external environment in order to avoid actions that could lead the company to lose competitiveness, or even, in extreme cases, to leave the market sector.

An effective business plan allows the management to analyze the situation of an enterprise as well as the external environment in which it operates, the assets and the resources; it represents the most appropriate instrument to understand better the strategy to be implemented in order to achieve a competitive and sustainable business over time.

A business plan, in fact, to be effective shall contain useful to the strategy and to extend company horizons, diversifying the business into new markets or improving its competitive position, with reference to a number of variables contained in it.

**References**


