The Life Cycle of The Business Plan

For those starting a business, planning is essential and a written record of those plans should be maintained. There are two main purposes for writing the plan:

- To serve as a guide during the lifetime of the business. It is the blueprint of the business and will provide the business owner with the tools for analysis and change.
- A business plan is usually required by a lender if the business owner is planning to secure finance. It will provide potential lenders with detailed information on all aspects of the business' past and current operations and provide future projection.

A typical business plan will include the following:

- An executive summary of the business plan objectives.
- A plan of the organisation including its mission, business model, strategy etc.
- A description of the business' products or services.
- Details of the relevant accounting and other systems.
- The business marketing plan.
- Financial summaries and projections.

The problem

A business plan will only be beneficial if it is updated frequently to reflect the ongoing changes in the business itself as well as the environment in which it operates. It is common for many business owners to prepare a first rate business plan, secure finance and then put the plan in a drawer where it gathers dust. In order to understand why this approach is flawed it is necessary to consider the life cycle of a business.

Stage One – Establishment

The first stage of any small business is establishment. At this stage, the business is being created, planned and the early days of its operations take place. This may be the only stage that a small business may see as it is probably the most difficult stage to survive. Many things can go wrong at this stage and good business planning is crucial to negotiating the initial phase

Without a good business plan, it is impossible to launch a small business, run it effectively and transition through to the next stages of its life cycle.

Stage Two – The Growth Period

The second stage in the small business life cycle is the growth period. During this stage a business is likely to suffer a period of losses until it manages to break even. After break even the objective is to develop sufficient revenue streams in order to finance growth and establish a degree of stability. This is often the stage that the real test of a business' management arises as businesses that contract tend to atrophy and die.

How the business is managed and develops within its designated market will determine whether it will survive and progress to the next stage of the business life cycle. Effectively, this is very much the equivalent to the establishment of "base camp" in a mountain expedition.

Stage Three - Expansion

The third stage of small business concerns expansion. As noted above, a business can follow three paths – contract, remain the same or expand. Invariably, it is only those businesses that expand that will survive in the long term.

This stage is the point at which a business generates sufficient revenue in order that stability is established. This phase will include, employing additional staff, expanding or changing business premises and investing in equipment and intellectual property. This stage will also probably entail the development and expansion of products and services.

Stage Four - Maturity

The fourth stage of small or other business is about maturity. The business will now be stable enough to survive most unforeseen circumstances. It will have enough resources, capital and support to ensure that it will be able to survive most unforeseen circumstances. This may be accomplished by ensuring that the business plan is frequently updated to accommodate the vicissitudes of the economy as well as any difficulties particular to the business.

This may be the stage at which the business owner decides to sell the business either in its entirety or by the issue of shares or a similar equity stake.

Stage Five – Decline or Business Sale

In the small business life cycle the fifth stage of small business often means decline. This is an easy stage to reach for any business because it is the point where a starting business will fail. An existing business, even a mature one, can decline in profits, incur significant losses and eventually fail or cease operations to avoid further losses.

An alternative, and far more preferable, outcome is that the business may be sold and the business owner realises his investment at a profit. However, the profitable sale of a business is not an accident and must be carefully planned for. Accordingly, it is critical that the business plan is updated to include the essential steps required to maximise the proceeds of sale.

Conclusion - Final Outcomes

The various stages of the small business life cycle require that a business plan is regularly reviewed, adapted and updated to the changing circumstances of the particular business and the economy. Building a business requires constant attention and discipline. The regular updating of the business plan encourages such discipline as well as helping to predict problems that might otherwise be missed – with the possible disastrous consequences for the business and its various stakeholders.

Assistance

For assistance with the development of an effective and dynamic business plan, contact your nearest DFK ANZ office.