

Why You Need a Business Plan

Business plans are like road maps; it's possible to travel without one, but it will only increase the likelihood of getting lost along the way.

Rather than putting yourself in a position where you may have to stop and ask for directions or even circle back and start over, entrepreneurs often use business plans to help guide them. That's because they help business owners see the bigger picture, plan ahead, make important decisions, and improve the overall likelihood of success.

Why is Business Plan Important?

A well-written business plan is an important tool because it gives entrepreneurs the ability to lay out their goals and track their progress as their business begins to grow. Formulating a business plan should be the first thing done when starting a new business. Business plans are also important for attracting investors so they can determine if your business is on the right path and worth putting money into.

Business plans typically include detailed information that can help improve the business's chances of success, like a market analysis, competitive analysis, customer segmentation, marketing, logistics and operations plans, cash flow projection and an overall path to long-term growth.

Though it may sound tedious and time-consuming, business plans are critical to success. To outline the importance of business plans, here are 10-reasons why you need one for your small business.

1. To Help You with Critical Decisions

While business plans have many purposes, the primary importance of a business plan is that they help business owners make better decisions.

Entrepreneurship is often an endless exercise in decision making and crisis management. Sitting down and considering all the ramifications of any given decision is a luxury that entrepreneurs can't always afford. That's where a business plan comes in.

Building a business plan allows you to determine the answer to some of the most critical business decisions ahead of time. Creating a robust business plan is a forcing function—you have to sit down and think about major components of your business before you get started, like your marketing strategy and what products you'll sell. You answer many tough questions before they arise. And thinking deeply about your core strategies can also help you understand how those decisions will impact your broader strategy.

2. To Iron Out the Kinks

Putting together a business plan requires entrepreneurs to ask themselves a lot of hard questions and take the time to come up with well-researched and insightful answers. Even if the document itself were to disappear as soon as it's completed, the practice of writing it helps to articulate your vision in realistic terms and better determine if there are any gaps in your strategy.

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3. To Avoid the Big Mistakes

According to the Small Business Administration, only about half of small businesses are still around to celebrate their fifth birthday. While there are many reasons why small businesses fail, many of the most common are purposefully addressed in business plans.

According to data from CB Insights, some of the most common reasons businesses fail include:

- **No market need:** No one wants what you're selling.
- **Lack of capital:** Cash flow issues or businesses simply run out of money.
- **Inadequate team:** This underscores the importance of hiring the right people to help you run your business.
- **Stiff competition:** It's tough to generate a steady profit when you have a lot of competitors in your space.
- **Pricing:** Some entrepreneurs price their products or services too high or too low—both scenarios can be a recipe for disaster.

However, the exercise of creating a business plan can help you avoid these major mistakes. Whether it's cash flow forecasts or a product-market fit analysis, every piece of a business plan can help spot some of those potentially critical mistakes before they arise.

4. To Prove the Viability of the Business

Many businesses are created out of passion, and while passion can be a great motivator, it's not a great proof point. Planning out exactly how you're going to turn that vision into a successful business is perhaps the most important step between concept and reality. Business plans can help you confirm that your grand idea makes sound business sense.

A critical component of your business plan is the market research section. Market research can offer deep insight into your customers, your competitors, and your chosen industry. Not only can it enlighten entrepreneurs who are starting up a new business, but it can also better inform existing businesses on activities like marketing, advertising, and releasing new products or services.

5. To Set Better Objectives and Benchmarks

Without a business plan, objectives often become arbitrary, without much rhyme or reason behind them. Having a business plan can help make those benchmarks more intentional and consequential. They can also help keep you accountable to your long-term vision and strategy, and gain insights into how your strategy is (or isn't) coming together over time.

6. To Communicate Objectives and Benchmarks

Whether you're managing a team of 100 or a team of two, you can't always be there to make every decision yourself. Think of the business plan like a substitute teacher, ready to answer questions anytime there's an absence.

Let your staff know that when in doubt, they can always consult the business plan to understand the next steps in the event that they can't get an answer from you directly. Sharing your business plan with team members also helps ensure that all member are aligned with what you're doing, why, and share the same understanding of long-term objectives.

7. To Provide a Guide for Service Providers

Small businesses typically employ contractors, freelancers, and other professionals to help them with individual tasks like accounting, marketing, legal assistance, and as consultants. Having a business plan in place allows you to easily share relevant sections with those you rely on to support the organization, while ensuring everyone is on the same page.

8. To Secure Financing

If you're planning on pitching to venture capitalists, borrowing from a bank, or are considering selling your company in the future, you're likely going to need a business plan. After all, anyone that's interested in putting money into your company is going to want to know it's in good hands and that it's viable in the long run.

Business plans are the most effective ways of proving that and are typically a requirement for anyone seeking outside financing.

9. To Better Understand the Broader Landscape

No business is an island, and while you might have a strong handle on everything happening under your own roof, it's equally important to understand the market terrain as well.

Writing a business plan can go a long way in helping you better understand your competition and the market you're operating in more broadly, illuminate consumer trends and preferences, potential disruptions and other insights that aren't always plainly visible.

10. To Reduce Risk

Entrepreneurship is a risky business, but that risk becomes significantly more manageable once tested against a well-crafted business plan. Drawing up revenue and expense projections, devising logistics and operational plans, and understanding the market and competitive landscape can all help reduce the risk factor from an inherently precarious way to make a living.

Having a business plan allows you to leave less up to chance, make better decisions, and enjoy the clearest possible view of the future of your company.

Understanding the Importance of a Business Plan

Now that you have a solid grasp on the "why" behind business plans, you can confidently move forward with creating your own.

Source: The Importance of a Business Plan, Jared Lindzon, Wave Apps