

Proving the Premise

What you should know before starting to write your business plan

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So many people start with a business idea, but fail to prove their premise in their business plan. This article will present business concepts and then discuss the premise that must be proven in the plan. It will suggest resources in the library for the entrepreneur to use to support their plan, as well as some unusual research approaches. After reading the article, if you are considering starting a business, you'll have a good idea of what your plan needs to prove before or submit it to a potential investor, or launch it yourself.

A business plan begins with a business concept. The concept includes a description of the business, what makes it unique and why the entrepreneur believes it will be successful. Sample concepts include:

A Sandwich Shop in Madison, Wisconsin that will serve sandwiches to college students between 11:00 AM – 11:00 PM. This will be successful because the location is across the street of the main classroom building on campus. There are no other Sandwich Shops in the area.

A destination spa targeting males in Savannah, GA. Currently, there are no destination spas for males in Savannah and there is a need for this type of service for male grooming.

A home-based business in Boulder, Colorado to assist the elderly to allow them to stay in their homes longer, rather than to move into an independent living or assisted care facility. This will be successful because many elderly wish to stay in their own home rather than to be forced to move.

A dentist practice in Wichita, Kansas. This will be successful because the average retirement age of a dentist is 55, and many dentists in Wichita are at or reaching retirement age in the next five years.

A convenience store franchise in Peoria, IL. The franchisor offers a pre-written business plan and help in ensuring my success in this area. The store is established and will be purchased from an existing franchisee.

What does each of these plans have to prove in their business plan? What is the basic premise they must prove to make their plan viable? Let's examine each of them one at a time.

The Sandwich Shop

The Sandwich Shop is starting with a specific location in mind, so the task is to prove that this is a good place for the store. The entrepreneur will need to analyze the demographics in the area, in order to prove whether or not there is enough student traffic in the area. This can be accomplished by looking at two resources in the library – The Sourcebook of County Demographics, and the Source Book of Zip Code Demographics. Another tried and true way of ascertaining whether or not the target location will support the business is by sitting in the parking lot and counting people during different times of the day for a few months. Another source in the library is the Lifestyle Market Analysis which surveys the interests and spending habits of a population pool. This research leads us to the fundamental proof the plan must address. The plan needs to show us how many potential customers there are, how many sandwiches must be sold to break even and finally, how many more sandwiches must be sold a day to make a reasonable living. If the plan does not prove this, it is not a viable plan. The key metrics for this type of plan are: Average Price Per Unit / Average Cost Per Unit / Average Profit Per Unit.

Destination Spa for Males

The first question that comes to mind with this plan is: Would males come to this spa? If there are currently no spas for males, one would have to question whether there is a market for this type of service. The entrepreneur may consider doing a mail or phone survey to find out. The first step would be to determine the income bracket and zip codes of targeted prospects. A trip to the library can yield a good address and phone list. The survey could be addressed to the male in the house and describe the services and the price range. It could ascertain whether or not the male would utilize the services. Another way to accomplish the survey would be to stand in the parking lots of targeted shopping centers and ask males walking by. A general article search on InfoTrack or Nexis.com to ascertain whether there are male-oriented spas perhaps in other cities. If some are found, these owners could provide a lot of helpful insight.

Once it is determined that there is a need, the plan can take the course of others by proving how many services and at what price must be sold each day to break even and to make a reasonable profit. Often spas make large margins on the products they sell, so considering an exclusive product line to compliment the services would augment the revenue stream.

Home Based Elderly Care

This business is geared toward providing services to allow the elderly to live at home. Services include in-home care and personal assistant services such as cooking, running errands, coordinating other companies to provide maintenance services and taking the elderly to and from doctor appointments. With this kind of plan, of course, the most important information to find is how many elderly currently live in their own homes in the targeted area. Another thing to discover is how many elder care homes exist already in the area that may be competing for the same business. This information can be found by researching the demographics by zip code and by looking in the yellow pages. A map of the area could be used to visualize eligible population as well as homes for the elderly in the area. The target market for this type of service could also be the children of elderly parents since they sometimes make decisions on their parent's behalf.

Capacity is another key discussion in this type of plan. The plan needs to include an estimate of how much time it will take to service each client, and how many elderly can be served in a day. Decisions regarding pricing need to be made – does the company charge per service or per hour? Will the market bear the price the company needs to charge to make a reasonable profit?

The Dentist Office

The dentist mentions that many dentists in Wichita are reaching retirement age. Therefore, this plan needs to evaluate the population of Wichita to determine if it is growing or shrinking. If people are abandoning this city to move to others, then natural attrition in dentists will likely sustain the population. However, if there is a growing population in the area, then the dentist can justify a sustained revenue stream. The plan should begin with a study of the population in the desired income bracket and zip codes. Next, prepare an assessment of how many dentists practice in the targeted area and a forecast of how many will retire. This information, combined with a dentist to patient ratio will prove the premise in this plan. This type of information is readily available from the ADA and in industry-specific publications.

Convenience Store Franchise

A franchise offers an instant business plan and usually a lot of help and sage advice from the franchisor. The red flag in this concept is the fact that the franchise was previously owned by another franchisee. Due diligence must be done to find out why the current franchisee is selling. Questions such as "How long did they own the franchise before deciding to sell it? Are they losing money? If so, why? Were the franchise fees too high?" Often, franchise fees are based on the monthly revenue earned, not on profit margin. Many franchisees pay their franchise fees only to find there is nothing left for them. Further probing needs to reveal: "Are they being kicked out by the franchisor? This can happen depending on the franchise agreement. Did they breach their franchise agreement somehow? If so, what did they do to breach it and why?" Did a

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competing store open nearby? Is there enough traffic and population to support the store? The franchisor may have decided to sell for a good, legitimate reason, and it is up to the purchaser to find out these answers before plunging in.

Conclusion

Understanding what the plan must prove is the first step to writing a plan. With the basic premise in mind, an entrepreneur will be able to focus research to discover facts, statistics and survey results to support their argument and prove their premise.

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