New businesses: Want to avoid the 50% failure rate?

A business plan can help

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You wouldn't build your dream house without a blueprint, construction schedule and budget, right? Why is your business any different? A report by Convergehub reported that a staggering 50% of all small businesses fail in their first year. Imagine if 50% of all houses that got started never ended up getting completed!

So, why is the failure rate for businesses so high? CBInsights, a leading market intelligence firm, found that the top reasons for failure were lack of a sound financial plan (ran out of money), there was no market need for the product or service, the business got out-competed, or it had a flawed business model.

So, how does an entrepreneur improve their chances of success? That's where business planning comes into play. Whether you are starting a new business or have an existing enterprise, a business plan is an essential tool that ensures you have done the proper research necessary to identify and understand the market, competition (existing and emerging) and customer and that you have a sound business model, operational plan and financial forecast outlined to ensure stability and growth.

If you do a quick search on the internet for business plan templates you will find dozens, if not hundreds, of options to choose from — from the traditional long-form narrative business plan to a more contemporary "lean" or one-page startup plan. There is no one-size-fits-all in business planning and it is important to pick a format that fits your style, complexity, type and stage of business, and keep in mind who else may need to see your plan. For example, if you are pitching investors or a bank for startup funding, a one-page business plan may seem a bit too simple, and you may need to produce supplemental information to support the summary.

As the CBInsights report pointed out, ensuring market demand exists is critical to business success. Many business owners start their business from a place of passion or desire: passion for creating a product or delivering a service — or a desire to be one's own boss and follow ones' dreams. These can provide the tenacity to get through the complex times of being a business owner, however, if nobody wants to, or can afford to, buy what you are selling the likelihood of success is slim. So, before you pick a company name, choose a location, build a prototype, or design a logo, do some thorough research, including:

- Industry research: What trends exist in the industry you are entering? Is it a growing industry or shrinking? What challenges and opportunities exist in the industry? BizStats.com or IBIS World (the SBDC can provide no-cost access) are good places to get started.
- Market sizing: How many potential customers are out there for my product or service? This is particularly important in a rural and distributed region like the North Coast or where seasonality can impact the market size. Helpful places to start are talking to organizations such as economic development organizations, the Small Business Development Center, chamber of commerce, visitor's bureau or even the department of transportation can help you understand traffic volumes.
- Financial analysis: How do other businesses in this industry perform financially? Bizminer.com is a very helpful tool that analyzes the company financial data of companies by industry. You can contact your SBDC for access to this tool.
- Customer surveys: What do people think about your offering? Would they buy it at the price point you plan to set? How often would they buy it? Sending out a survey or hosting a focus group of people that look like your target market can seem uncomfortable or awkward, but the insight you will gain will help you ensure that what you are planning to sell will meet an actual need.
- Competition: Who will I compete with once I enter the market? What solutions exist out there that solve the problem that I am intending to solve? Performing a thorough competitor analysis can help you understand whether there is a gap in the market that your solution will serve. It also will provide valuable insight into how much marketing resources you will need to gain traction.

Once you have done your research, refined your product or service and have confidence rooted in data supporting there is adequate demand for your offering, you are now able to move forward in developing the remainder of your business plan including:

- Defining the business model and how your business will function
- Outlining an operational plan, including resourcing and staffing
- What marketing strategy and tactics you will use to reach your target market
- What kind of financial resources your business will need to get started
- Developing a forecast that outlines how your company will perform financially and when you can expect to turn a profit.

This plan then becomes a roadmap for how you will operate and grow your business. Will it be easier to get started without doing all the work to write a plan? Sure, but as Nina and James Whiddon, winners of the top $1,000 prize at the Clatsop SBDC's Business Plan Competition event recently commented, "Few people enjoy writing a business plan. It makes you address hard questions that you might otherwise put off. Once you have answered all of the hard questions, you will have more confidence in your idea and that will be supported by your plan."

If you are ready to get a business started, need help doing market research or have an existing one that seems to be struggling without a plan — the team at the Clatsop SBDC can help at sbdc@clatsopcc.edu.

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