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AFTER RECEIVING FINANCING, DO *INC.* 500 COMPANIES CONTINUE TO UTILIZE THEIR BUSINESS PLAN?

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ABSTRACT

Small, successful companies included on the INC. 500 list were surveyed to determine whether these companies use a business plan once financing has been obtained. The responding CEOs indicated that the business plan is a document of substantial importance in obtaining funding and in managing operations. Additionally, these CEOs were questioned regarding the importance of specific sections of their business plan when using the business plan to: (1) obtain funding and (2) manage their business. When it comes to obtaining funding, INC. 500 CEOs rank the Executive Summary and the Financial Section as the top two most important sections of the business plan. When it comes to managing the company, the Finance Section of a business plan was ranked first in importance over all other sections. CEOs and top management of small companies should take appropriate steps to craft an effective business plan, revise it periodically to reflect a changing environment, and refer to it often to assist their company in achieving even greater success in their operations.

INTRODUCTION

Many start-up companies find it difficult to move from opportunity identification to successful implementation without significant support from debt or equity funding partners. Emerging companies with few years of business experience need funding to stabilize cash flow, build inventory, weather seasonal sales dips, and fend off attacks from competitors. Well-established companies with excellent track records need funding for researching and developing new products, increasing market share, and entering undeveloped markets.

Without a well-constructed business plan, however, the probability of obtaining funding from banks, venture capital firms, or angel investors is relatively low for either type of company. Hence, many companies devote considerable resources to the development of a well-constructed business plan to satisfy investor requirements and receive necessary funding.

Yet, some researchers, like Bhide (1994), argue that many small companies do not bother with well-formulated plans because they work in rapidly changing industries and niches. On the other hand, if a business plan is used to secure investor funding, is the business plan then set aside—much like the ticket that allows the holder to enter the sports arena, but the ticket is then stuffed in a pocket or thrown away? The purpose of this study is to determine how small, successful companies use their business plan. Is the plan useful after obtaining financing as a frequent reference point for strategic and operational decisions? If so, are certain sections of the plan more valuable than others? Accordingly, the study examines *INC.* 500 companies to determine how these small, successful companies utilize their business plan for initial funding and for managing their companies once financing has been obtained.

LITERATURE REVIEW

The Importance of Planning

A substantial stream of research has investigated the impact of planning on the success of the firm. Fulmer and Rue (1974) noted, for example, that Henri Fayol wrote about the importance of the ten-year plan in 1916. Since then, the value of long range planning (LRP) has grown in popularity, been widely discussed, and generally accepted. Fulmer and Rue argue, however, that many firms are engaged in LRP not because they wish to but because they feel they must - due to LRP's popularity.

Other researchers indicate that planning is fundamental to business success. Latham and Saari's (1979) study found substantial evidence indicating that setting goals often leads to increased performance. Further, Thune and House (1970) found that planning does pay. They examined six industries and found that formal planners significantly out-performed informal planners.

However, Bhide (1994) interviewed 100 founders of *INC.* 500 companies and concluded that entrepreneurs invest little time on their initial business plan. Specifically, 28 percent had drafted complete business plans, but 40 percent had no business plan at all. Further, 26 percent had rough "back-of-the-envelope" type plans and 5 percent had created some financial projections for investors. Trying to adapt quickly to changing market conditions, these business owners lean on their flexibility to remain viable and do not take the time to write detailed business plans.

Orser, Hogarth-Scott, and Riding (2000) surveyed 1,004 small and medium-sized businesses and found that the presence of a business plan was highly correlated with performance (revenue increases). However, much like Bhide's research, only one-third of the firms surveyed indicated that they were involved in an ongoing, formal planning process.

Similarly, Sanberg, Robinson, and Pearce (2001) reported that at least one-half of the small businesses they studied did not have a business plan. Their research indicated that most small company owners agreed that a business plan's importance is primarily for establishing a line of credit, obtaining loans, or attracting investors. However, they add that the business plan has minimal value once funding has been received.

Perry (2001) investigated the influence of planning on small business failures. A failure was defined as a business that required bankruptcy protection. Failed firms and non-failed firms were analyzed from the Dun & Bradstreet credit-reporting database. The researchers concluded that very little formal planning goes on in small businesses; however, non-failed firms utilized more planning than failed firms.

In 2002, Hormozi, Sutton, and McMinn (2002) postulated that a business plan is an effective tool used by businesses to organize their goals and objectives into a coherent format. According to these authors, no matter the size or stage of development, companies use business plans to improve internal operations and to market the business to potential outside investors. Hormozi et al. emphasized that a business plan should be written by: (1) new business owners, (2) new business owners seeking outside financing for start-up, (3) existing business owners seeking outside financing for expansion, and (4) business owners who want to increase the success of their businesses.

While studies indicate that fewer than half of companies participate in planning, Ibrahim, Angelidis, and Parsa (2004) examined the planning practices of small firms in the United States and found that planning practices of smaller businesses might be more sophisticated than generally perceived. Almost 81 percent of the 663 responding firms reported that they prepare some type of written long-range plans, and more than 69 percent of these firms prepare plans covering the next three years.

As indicated above, some researchers emphasize business planning for attracting potential investors while others find the business plan a useful medium for guiding internal operations. Although there appears to be some debate about how many firms directly participate in a formal planning process, there is much less debate about the value of planning. Planning does appear to be important.

The Important Sections of a Business Plan

Herter (1995) asserted that every business, regardless of size, needs an effective, comprehensive business plan because the process of developing the plan forces the entrepreneur to think about the harsh reality of the business world rather than the more common dream world. He believed that the business plan should have a well-defined format. But, which sections of a business plan should be emphasized?

Schneider (1998) regarded business plans as the difference between success and failure. A comprehensive business plan, according to Schneider, includes a description of the business, products, market, competition, promotion strategy, management operations, personnel needs, and projected financials (income statement, balance sheet, and cash-flow statement).

Hormozi et.al. indicated the need for four parts in the business plan: (1) the introductory section (including the executive summary); (2) business section (industry and the market analysis, product information, management team description, and marketing strategy); (3) financial statements; and (4) appendix (assumptions used to forecast previous sections).

While Hormozi, et. al. stressed the financial section of the business plan, Sahlman (1997) downplayed it. Sahlman believed most business plans wasted time on numbers and devoted too little attention to four interdependent factors critical to every new venture: (1) the people, (2) the opportunity, (3) the context, and (4) the risk and reward. Sahlman's research focused on the marketing plans and situation analysis.

Burmeister (2003) emphasized that when presenting a business plan to venture capitalists, the executive summary is the most important section. Venture capitalists have a scarcity of time, not capital. Thus, presenters must convey their case quickly and effectively. While Burmeister was concerned about one particular audience - venture capitalists - for the business plan, Mason and Stark (2004) were adamant that entrepreneurs customize their business plan according to whether they are seeking funding from a bank, venture capital fund, or business angel investor. Mason and Stark's research indicated that bankers stress the financial aspects of the business plan whereas equity investors emphasize both market and finance issues.

Kuratko and Hodgetts' (2001) sample format for a complete business plan included the following sections: Executive Summary, Business Description, Marketing, Location, Management, Financial, Critical Risks, Harvest Strategy, and a Milestone Schedule (p. 296).

Timmons and Spinelli's (2004) recommended outline for a business plan indicates the following sections: Executive Summary; Industry/Company/Products or Services; Market Research and Analysis; Economics of the Business; Marketing Plan; Design and Development Plans; Manufacturing and Operations Plan; Management Team; Overall Schedule; Critical Risks, Problems, and Assumptions; Financial Plan; and Proposed Company Offering (p. 403).

Timmons and Spinelli agreed with Kuratko and Hodgetts regarding a schedule of milestones or deadlines critical to the venture's success. A "milestone" schedule should show the timing and interrelationship of the major events necessary to launch the venture and realize its objectives. By showing critical deadlines, a well-presented schedule can be extremely valuable in convincing investors that the management team is able to plan for growth while recognizing obstacles and minimizing investor risk. Milestones help managers stay on track and meet their deadlines.

Schermerhorn (2006) offered a slightly different version in his business plan sections: Executive Summary, Industry Analysis, Company Description, Products and Services Description, Market Description, Marketing Strategy, Operations Description, Staffing Description, Financial Projection, Capital Needs, and Milestones (p. 153).

Sections of the business plan shown on the survey instrument were compiled from a review of business plan formats found in popular textbooks on entrepreneurship and small business management (as presented in the aforementioned literature). Having a concise and clear executive summary as the first section was typically recommended. Likewise, sections focusing on the management team, the market plan, the product/service description, and a detailed financial plan were consistently suggested. Further, various writers and business plan users promote the need for sections on situation analysis (or SWOT) and critical milestones.

Given the differences in opinion regarding business plan uses for small businesses and the most important sections within business plans, the purpose of this study is to determine how small, successful companies use their business plan and what sections are most important for obtaining financing and for managing the company.

METHODOLOGY

This study sought the opinions of small, successful company owners – *INC.* 500 CEOs. Annually, *INC.* magazine ranks the 500 fastest-growing, privately-held companies in the U.S. To be eligible for the listing, a company had to be an independent, privately-held corporation, proprietorship, or partnership, have had sales of at least $200 thousand, and have a five-year operating or sales history that included an increase in sales over the previous year's sales.

Surveys inquiring about business plan utilization were mailed to 250 of the *INC.* 500 CEOs. The researchers selected every other firm in the top 500 companies, as listed in *INC.* in 2002. As a result, 59 surveys were returned and 53 were usable, generating a 21 percent return rate.

As indicated above, the survey content was based on the researchers' examination of popular textbooks to determine the essential components of a typical business plan. Six essential components or sections were identified:

- Executive Summary
- Marketing Section
- Management Section
- Financial Section
- SWOT Analysis Section
- Milestones Schedule Section

CEOs were asked to respond to the importance of each of these six sections regarding the two basic questions of this research:

1. How important has a business plan been in obtaining outside funding for your company?
2. How important has a business plan been in managing your company?

RESULTS

Obtaining Outside Funding

The first survey question in section one of the study asked *INC.* 500 CEOs, "How important has a business plan been in obtaining outside funding for your company?" This question received an overall rating of 4.3 (scale: 0 = no importance and 6 = great importance). This solid rating indicates that CEOs have judged the business plan to be an important document in the fund-raising arena.

Relative to obtaining outside funding, *INC.* 500 CEOs were asked to rate the importance of each section of the business plan (executive summary, marketing, management, financial, SWOT analysis, and milestone sections). The mean ratings for each section of the business plan in relation to obtaining outside funding can be seen in Table 1. The executive summary was rated most important in obtaining funding, followed by the financial section, management section, marketing section, SWOT analysis, and, lastly, milestone section.

Managing The Company

The first question in section two of the study asked *Inc.* 500 CEOs, "How important has the business plan been in managing your company?" This question received an overall rating of 4.1 (scale: 0 = *no importance* and 6 = *great importance*). This strong rating indicates that small successful companies continue to use their plan for more than funding. Some previous research studies have suggested that the prevailing business planning paradigm is: *We have received our funding, our business plan can now be retired to company archives.* However, this study indicates that a very different pattern of thinking is widely held by the CEOs of the fastest-growing private companies in the United States. Using the business plan in managing company operations appears to be the practice of the successful CEOs of businesses on the *INC.* 500 list.

Relative to managing the company, *INC.* 500 CEOs were asked to rate the importance of each section of the business plan. The mean ratings for each section of the business plan in relation to managing the company can be seen in Table 2. The financial section wasrated most important, followed by the marketing section, milestone section, SWOT analysis, management section, and, lastly, executive summary.

Statistical analysis was conducted to confirm the conclusions drawn from the initial examination of the means in Table 1 and 2. For obtaining outside funding, Repeated-Measures Anova indicates that the six means of importance are significantly different at the multivariate level (Wilk's Lambda=0.337, $F(5,39) = 15.35$, p-value < 0.001). Subsequent follow-up tests using the appropriate contrasts indicate the following means are significantly different from each other at a 5 percent level of significance as shown in Table 3. (In Table 3, two means with different letters implies they are significantly different from each other at the 5 percent level. Two means with shared letters indicates that they are not significantly different at the 5 percent level.)

This analysis indicates that when it comes to obtaining funding, the executive summary is statistically different from the marketing section, SWOT analysis section, and milestone sections. It is not, however, statistically different from the financial section and management section. This appears to indicate that *INC.* 500 CEOs find

Table 1 – Obtaining Outside Funding

1	Executive Summary	5.04
2	Financial Section	5.02
3	Management Section	4.68
4	Marketing Section	4.60
5	SWOT Analysis	3.80
6	Milestones Section	3.30
(Scale: 0 = no importance and 6= great importance)		

Table 2 – Managing Your Company

1	Financial Section	4.40
2	Marketing Section	4.08
3	Milestones Section	3.73
4	SWOT Analysis	3.66
5	Management Section	3.44
6	Executive Summary	3.22
(Scale: 0 = no importance and 6= great importance)		

Table 3 – Obtaining Outside Funding

Executive Summary	5.04	A, E
Financial Section	5.02	B, E
Management Section	4.68	B, E
Marketing Section	4.60	B
SWOT Analysis	3.80	C
Milestones Section	3.30	D
(Scale: 0 = no importance and 6= great importance)		

the executive summary, financial section, and management sections are all vitally important to obtaining outside funding. The marketing section is statistically differentfrom SWOT and milestone sections —indicating that *INC.* 500 CEOs find it next in value. SWOT analysis and milestone sections, though statistically different, appear to be less important to obtaining funding.

For managing the company, Repeated-Measures ANOVA indicates the six means of importance are significantly different at the multivariate level (Wilk's Lambda=0.627, $F(5,43)=5.13$, p-value < 0.001). Subsequent follow-up tests using the appropriate contrasts indicate the following means are significantly different from each other at a 5 percent level of significance as shown in Table 4. In that table, two means

Table 4 – Managing The Company

Financial Section	4.40	D
Marketing Section	4.08	B, E
Milestones Section	3.73	E, A
SWOT Analysis	3.66	E, A
Management Section	3.44	C, A, E
Executive Summary	3.22	A
(Scale: 0 = no importance and 6= great importance)		

with different letters indicate that they are different from each other. (Like Table 3, two means with shared letters indicate that they are not significantly different from each other at the 5 percent level.)This analysis indicates that when it comes to managing a company, the financial section is statistically different from all other sections. In other words, *INC.* 500 CEOs report that the financial section is the most important section when it comes to managing the company. The marketing section, milestone section, SWOT section, and management section are not statistically different; this suggests that these sections are all about equally important to managing the company in the eyes of *INC.* 500 CEOs. The statistical analysis also indicates that the executive summary is least important but not far behind management, SWOT, and milestones.

In addition to the above tests, a paired samples t test (or dependent t test) was calculated to compare the mean score for the importance of the business plan in *obtaining funding* (4.3) to the mean score for the importance of the business plan in *managing the company* (4.1). No significant difference from obtaining funding to managing the company was found ($p > .05$). Although a number of researchers indicated that many companies do not have written plans or conduct long-term planning, this study finds that *INC.* 500 CEOs view the written business plan as important for both obtaining funding and managing the company.

IMPLICATIONS

Obtaining Outside Funding

The top-ranked section was the Executive Summary but only slightly above the Financial Section. There appears to be a virtual tie for the No. 1 item of importance. With a rating of over 5 both sections seem to be extremely important in the minds of the CEOs. Why would a one-page document, the Executive Summary, rate so highly (5.04)? It is often said that investors give a business plan a "one-minute" perusal to decide whether to read the entire business plan. Thus, the typical one-page Executive Summary meets the needs of the swift-moving, time-conscious investor given the inherent assumption that the key sections of the accompanying business plan are effectively covered in that one page. Likewise, bankers are equally, if not more, cautious than private investors. CEOs of the *INC.* 500 have apparently learned that this "quick read" is the norm when seeking funds and, accordingly, place significant importance on their key points in the executive summary.

Essentially tying the Executive Summary for the No. 1 spot, the Financial Section (5.02) gives the private investor or banker critical information needed to make the ultimate decision on funding the enterprise in question. Most business plans provide pro forma income statements, balance sheets, and cash flow statements in detail for the first 12 months by month and quarterly for the second and third years. Many bankers and investors now say that projecting beyond three years is not needed, given the economic swings of our times.

Unless the management team can be perceived as viable for the startup or growing company, the banker or private investor will not trust the rest of the business plan. In this regard, the Management Section (4.68) is perceived as quite important in the minds of the company CEOs. In this section, the major players running the company are identified, complete with resumes. The company owners are anxious to establish significant credibility so as to convince the potential fund provider that their company will be run with experienced professionals. Typically, the functional areas are covered in an effort to reassure the reader of the breadth of skills necessary to facilitate the profitability expected. Thus, the Management Section is understandably a critical section for the fund provider.

The marketing section (4.6) received approximately the same importance rating as the management section. Without a viable marketing plan, the potential investor or banker most assuredly will not advance funds. A solid marketing section would typically provide the promotion and distribution of the product or service, sufficient detail about advertising methods, and channel sources. Given the bombardment of promotional material through various media in today's market, the firm seeking funds must give convincing evidence that this company's marketing strategy and methods are viable.

Both the SWOT Section (3.8) and the Milestones Schedule Section (3.3) appear to be slightly above *middle of the road* in importance – not of great importance but still important. A SWOT analysis provides the potential investor some assurance that the CEO and management team have thoroughly analyzed the strengths that will win the day for the company. In addition, offering a forthright discussion of the company's weaknesses suggests that realism pervades the rest of the business plan. Insight into "opportunities" gives an indication of the foresight and intelligence of the management team. Likewise, a potential fund provider can assess whether the company's management team has done their homework when "threats" are thoroughly addressed. Clearly, a well-thought-out SWOT analysis would be very helpful to the investor or banker.

Managing The Company

The financial section tops the list when it comes to the importance of using the business plan to manage *INC.* 500 companies. Top management in a company would undoubtedly rather examine actual performance as compared with the pro forma financials. It is hard to imagine not having key figures – whether it be in a cash flow statement or an income statement – constantly at the fingertips of the company's management team as reference points.

Similar to the "funding" question above, the Marketing Section follows closely behind the Financial Section in perceived importance. No doubt, CEOs and other top managers in a company would continually check to see if they were following the plans they had carefully laid out in advance to market the product or service. Are all the methods described in the business plan being fully utilized? Has the company strayed from the initial marketing strategy? These and other pertinent questions would be asked often while referring to the detailed Marketing Section.

In the midst of operations, CEOs apparently see the value in checking to see whether projected milestones are being reached. Without these carefully-crafted milestones in the business plan, the management team would only be guessing as to where they might be in relation to where they projected they needed to be on a certain date. Whether the milestone is opening a new store, getting a new product to market, or achieving a key financial position, the usefulness of checking and re-establishing milestones as needed is apparent to the CEOs in this study. Hence, the 3.73 rating indicates the need for the milestones schedule in the business plan because of the ongoing assistance it provides for the management team.

The responding CEOs indicated that SWOT analysis is a useful tool (3.66) as they manage their operations. Referring to the initial SWOT analysis in their business plan, top management may decide it is time for another complete SWOT analysis as conditions may have changed significantly over the past several months. A periodic assessment of their strengths and weaknesses profiled against the backdrop of new threats or exciting opportunities outside their firm can only be deemed "smart business."

The management section of a business plan is still useful in terms of running a company. Revisiting the business plan, the CEO and other members of management may realize that they are deficient in an area of expertise needed. Perhaps company management team members have left and have not been replaced. Perhaps a division of the company has been downsized or enhanced and changes need to be made. Perhaps an important, growing section of the business is without leadership and immediate recruitment of a professional in a certain area of expertise is critical.

Finally, the executive summary received a rating of 3.22. As a CEO or management team member rereads this one-page summary, he or she cannot help but reexamine the moorings of the business. Has our mission changed? Do we still have the uniqueness of product or service stated in the business plan? Are we meeting our overall marketing and financial projections? Thus, the bigger picture can be seen vividly. Perhaps changes need to be made in certain directions. Overall, it is not surprising that the executive summary moved from first place for obtaining funding to last place for managing operations. For an ongoing management team who examines the other sections of the Business Plan often, the Executive Summary should not need significant changes.

The CEOs have spoken: the business plan is a document of importance in both obtaining funding and in managing operations. Using the business plan to help them run their business is equally important to using the business plan to get the all-important funding necessary for company survival or growth. These *INC.* 500 companies have achieved much success; their CEOs have provided insight into the usefulness of their business plans in achieving this success.

Small companies trying to improve and grow would do well to strengthen the quality of their business plans and sharpen this helpful tool. Whether needing additional funds from outside investors or looking for ways to improve their ongoing business operation, CEOs and top management of small companies should take appropriate steps to use an effective business plan to help their companies achieve even greater success.

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