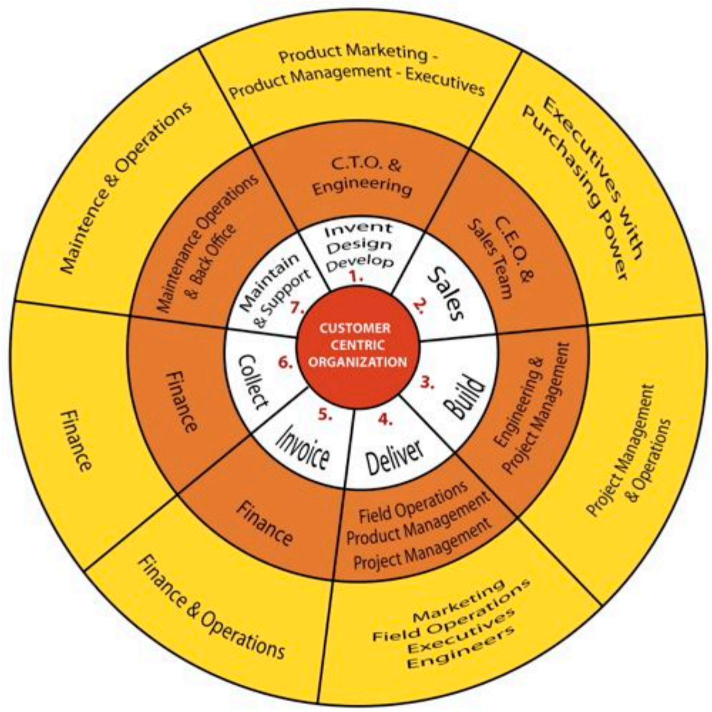
This blog post was ghost-written for John B. Georges (posted with his byline) as part of a seven-part series of advisory posts written for entrepreneurs (on his now-defunct blog).

Three reasons startups *must* have a finance and operations plan

I've been an entrepreneur for nearly two decades. Since selling NextG, I've also been advising startups. One big problem I see over and over is that entrepreneurs resist creating a finance or operations plan (for the purposes of this conversation, we'll lump them together as the *plan*) until they're way down the road. Some entrepreneurs actually spend millions in startup capital while flying blind. They don't want to think that hard about operations, profit and loss, cash flow and balance sheets.



There are a variety of reasons. Creating a plan is not fun. Sticking to it might be challenging. Many entrepreneurs are technical and don't see the value. Others just don't want to know the details — it might require them to make decisions based on logic instead of gut instinct. Or they think they're already using common sense.

Well, I say the plan is ***job number one*** — whether you're a well-funded startup or a solopreneur building something on the side. Sure, it can be daunting at first. It might even seem like you're doing so much guesswork that it's pointless. But you have to start *somewhere* and keep working on it. Trust me, the plan will become more useful and relevant every time you review it. The more data you acquire about your market and your development process, the more specific your plan will become.

#1. It's the smart way to prioritize product development

When you're building a product (or a service) there can be dozens of different directions to pursue. You and your team (or maybe even your customers) will think of better functions and features while working on the first few iterations. In fact, nearly every day someone will say "It would only take a little more effort to add in this really cool feature. Let's make it happen!"

If you're flying by the seat of your pants, there's really no reason to say no. That is, until you realize you're close to running out of money and you're still not ready to release your product. However, if you're constantly measuring your ideas and progress ***against your plan*** you'll know when feature creep is allowable and when it's not. And if you decide new features or directions are crucial to product success, you'll know when you need to raise money or cut back in some other areas to make that happen.

#2. It's crucial for the how and when of fundraising

If you aim to release your product in June, but you want to add additional features that will push the release date to September, your plan should help you calculate how much money you'll need to keep going that long — and whether that's even feasible. For instance, you might find out you'll have to raise money in February, not April, like you had planned.

If you don't figure that out until it's already February, you will be in a poor position to negotiating for funding — if you can get it at all. You might be forced to take money you don't want (meaning you have to give up a lot of equity to get it). Or maybe you'll have to take on a partner that's not ideal. And then you'll be stuck with that person for a *long* time.

Speaking of equity, many entrepreneurs have an attitude about protecting ownership and not raising enough money. I advise you to give a little more equity up front to get the financial cushion you need. That's what I've done. Market conditions can change quickly, affecting demand. Supplies for your product may cost more than anticipated. You may have to increase head count faster than expected. That extra cash may be what saves you.

#3. It will help keep your team focused

If you have a team, I advise looping them in on the plan as well. In fact, working on the plan can be a *great* team building exercise. If the team members can see all the moving parts, there will be less friction. For instance, when an engineer says "I don't have enough to do what I need" or "I think this is a must-have change" he or she will see exactly what it is you have to work with and what would have to happen in order to make a change.

The finance and operating plan is also a timing plan. It's about *when* things will happen and it's a way to keep team members on track for expected goals. When they see how all the parts (and people) are interconnected, they'll be more motivated to hit their deadlines. Instead of thinking of you as someone who is just nagging at them to get things done, they'll know about the cascade of events that will happen when goals are met — or not. I suggest you meet weekly to ensure your company becomes and stays profitable. Yes, you'll have to be that anal! I did that with my startups. It worked out pretty well.

I actually think it's fun to create and add to the plan because you can see your company coming together before your eyes and it helps unify people around a common goal.

Don't put it off!

Many entrepreneurs say "let's just get something launched and all that stuff will fall into place." The problem is, it doesn't fall into place. The longer you put it off, the more likely you are to drive your startup off a cliff.

You need that plan to create guideposts and to gauge what is necessary to reach milestones. Just add new details regularly, assess your progress, and tweak the navigation as needed. Trust me. The plan will guide your journey — and it will certainly help you avoid breakdowns along the way.

Next time around we'll cover *how* to create the plan!