

# Guide to Writing a Business Plan

*The Guide to Writing a Business Plan* is designed to help new or existing business owners take an objective look at their business, identify areas of strength and weakness, pinpoint needs that otherwise might be overlooked, spot opportunities early, and begin planning how best to achieve their goals.



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## Introduction

The process of putting together a business plan forces you to take an objective, critical, unemotional look at your business project in its entirety. The business plan is an operating tool that, if properly used, will help you manage the business more effectively in order to achieve success.

By taking an objective look at your business, you can identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot opportunities early, and begin planning how to best achieve your business goals. The business plan also helps you see problems before they grow large and helps you identify their source, thus suggesting ways to solve them. A well-prepared business plan will even help avoid some problems altogether.

The business plan also provides information needed by others to evaluate your venture, especially if you will need to seek outside financing. A thorough business plan can quickly become a complete financing proposal that will meet the requirements of most lenders.

Since many business plans are submitted to banks or other sources of financing, it is important to realize how a banker analyzes a business plan and what questions will be asked during this analysis. A banker's job is to assess the degree of risk for each proposed loan and to be satisfied that the loan can be repaid by the borrower while still allowing the business to operate profitably. This analysis is based on factors such as: the nature of the business, the purpose of the loan, the amount of the loan, the ability to repay the loan and the character and management skills of the business owner.

Bankers, lawyers and certified public accountants are professionals in their fields and should be included in the planning at whatever point their knowledge and expertise can be helpful. Hiring a professional to prepare a business plan won't do you any good if *you*

don't thoroughly understand it. There are numerous software packages on the market that will assist you in preparing your business plan. However, you should not rely on the software and simply "filling in the blanks" – you must understand the document and avoid preparing a document and the meaning of its content.

If you are a start-up business seeking financing, you will not have a demonstrated track record that shows the company's ability to run profitably. A well organized, insightful business plan must convince a banker or other funder of your ability to understand your market, demonstrate your technical knowledge required in the field, and the company's ability to understand and respond to customer needs. The plan must ultimately show your ability to manage the business so it can be operated in a profitable way and repay the loans.

## Why Write a Business Plan?

A business plan is a road map for the development of your company. It includes a written description of your business and corresponding financial data. The goals of a business plan are:

1. To develop and implement your ideas into actual business practices, products or services.
2. To identify the strengths and weaknesses of your company and its competitors, and to provide a strategy to further your company's growth.
3. To develop guidelines for the operation of your company.
4. To assist you to obtain money from lenders or investors.

## What it Includes

The body of the business plan can be divided into four distinct sections: 1) the description of the business, 2) the marketing plan, 3) the operations plan and 4) the financial plan. Additional sections of the business plan should include the executive summary, supporting documents and financial projections.

## A. The Business Plan Outline

### 1. Business Description

Explain the following when describing your business:

1. Legal structure – is it a sole proprietorship, partnership, Limited Liability Company (LLC) or a corporation?
2. Business type. For example: retail, wholesale, construction, manufacturing or service.
3. The products or services offered.
4. The business history.
5. Why your business will be profitable both in the near-term and long-term.
6. When your business will be open (days, hours)?
7. Your strategy to be successful in the market you plan to operate.
8. The business goals and objectives.

Attach a cover sheet before the description that includes the name, address, telephone number, website and other general information about the business. An executive summary will list the names of all the owners and board members if applicable.

### 2. Product/Service

Describe the products and services you sell and the benefits they provide to your customers. Successful business owners know what their customers want or expect from them. Describe your strategies to build customer satisfaction

and loyalty. Include what features you offer that set your products or services apart from the competition.

### 3. The Location

Describe your location or the requirements for a future location. Consider these questions when addressing this section of your business plan:

1. What kind of customer access does the location need to have?
2. What kind of space is need for the foreseeable future (about five years)?
3. Describe any features needed such as a loading dock, display windows, traffic count, access to transportation (roads, railroads, etc.), parking, etc.

## B. The Marketing Plan

The key element of a successful marketing plan is to know your customers – their likes, dislikes, expectations. By identifying these factors, you can develop a marketing strategy that will create interest and meet their needs.

Identify your customers by their age, sex, income/educational level and residence. At first, target only those customers who are more likely to purchase your product or service. As your customer base expands, you may need to consider modifying the marketing plan to include other customers.

Develop a marketing plan for your business by answering these questions. Your marketing plan should be included in your business plan and contain answers to the questions outlined below.

1. Who are your customers? Define your target market(s).
2. Are your markets growing, steady, or declining?
3. How large is your market share and explain how you will capture more of it.
4. How are your markets segmented?

5. Are your markets large enough to support business expansion?
6. How will you attract, hold, increase your market share? How will you promote the business?
7. What is your pricing strategy?

## 1. Competition

Answer the following questions in your business plan:

1. Who are your five nearest direct competitors?
2. Who are your indirect competitors?
3. Explain your competitors' strategies used to pursue their markets. How will yours compete with theirs?
4. What are their strengths and weaknesses?
5. How does their product or service differ from yours?

## 2. Pricing and Sales

Describe your pricing strategy and how it compares to the competitors in your market. Explain how you will price your products or services to be profitable while keeping the prices attractive to customers.

## 3. Advertising and Public Relations

Devise a plan that uses advertising and networking as a means to promote your business. Develop short, descriptive copy (text material) that clearly identifies your goods or services, its location and price. Make sure the advertisements you create are consistent with the image you want to project for your business. In your business plan, describe your advertising budget and how it will be spent to promote your business.

## C. The Management Plan

Answer the following in the management section of your business plan:

- How does your background/business experience help you in this business?
- What are your weaknesses and how can you compensate for them?
- Who will be on the management team?
- What are their strengths/weaknesses?
- What are their duties?
- Are these duties clearly defined?
- What are your current personnel needs?
- What are your plans for hiring and training personnel?
- What salaries, benefits, vacations, and holidays will you offer?

## D. The Financial Plan

To effectively manage your finances, plan a sound, realistic budget by determining the actual amount of money needed to open your business (start-up costs) and the amount needed to keep it open (operating costs). The first step to building a sound financial plan is to devise a start-up budget. Your start-up budget will usually include such one-time-only costs as major equipment, utility deposits, down payments, etc. It should allow for these expenses:

- Personnel (costs prior to opening)
- Legal/professional fees
- Occupancy
- Licenses/permits
- Equipment
- Insurance
- Supplies
- Advertising/promotions
- Salaries/wages
- Accounting
- Income
- Utilities
- Payroll expenses

An operating budget is prepared when you are actually ready to open for business. The operating budget will reflect your priorities in terms of how you spend your money, the expenses you will incur and how you will meet those expenses (income). Your operating budget

also should include money to cover the first three to six months of operation. It should allow for these expenses:

- Personnel
- Insurance
- Rent
- Depreciation
- Loan payments
- Advertising/promotions
- Legal/accounting
- Miscellaneous expenses
- Supplies
- Payroll expenses
- Salaries/wages
- Utilities
- Dues/subscriptions fees
- Taxes
- Repairs/maintenance

The financial section of your business plan should include any loan applications you've filed, a capital equipment and supply list, balance sheet, breakeven analysis, pro-forma income projections (profit and loss statement) and a pro-forma cash flow. The income statement and cash flow projections should include a three-year summary, detailed by month for the first year, and detailed by quarter for the second and third years.

The accounting system and the inventory control system that you will be using is generally addressed in this section of the business plan also. If a franchise, the franchisor may stipulate in the franchise contract the type of accounting and inventory systems you may use. If this is the case, he or she should have a system already intact and you will be required to adopt this system. Whether you develop the accounting and inventory systems yourself, have an outside financial advisor develop the systems or the franchisor provides these systems, you will need to acquire a thorough understanding of each segment and how it operates. Your financial advisor can assist you in developing this section of your business plan.

The following questions should help you determine the amount of start-up capital you will need to purchase and open a franchise.

- How much money do you have?
- How much money will you need to purchase the franchise?
- How much money will you need for start-up?
- How much money will you need to stay in business?

Other questions that you will need to consider are:

- What type of accounting system will you use? Is it a single entry or dual entry system?
- What will your sales goals and profit goals for the coming year be? If a franchise, will the franchisor set your sales and profit goals? Or, will he or she expect you to reach and retain a certain sales level and profit margin?
- What financial projections will you need to include in your business plan?
- What kind of inventory control system will you use?

Your plan should include an explanation of all projections. Unless you are thoroughly familiar with financial statements, get help in preparing your cash flow and income statements and your balance sheet. Your aim is not to become a financial wizard, but to understand the financial tools well enough to gain their benefits. Your accountant or financial advisor can help you accomplish this goal.

## Sample Business Plan Outline

### 1. Name of Firm

State the business's legal name

### 2. Owner or Owner-to-be

State owner(s) name, as well as the form and percent of ownership

### 3. Information on the Business

#### A. Type of Business and Product or Service

- State the general and specific nature of the business, (i.e., restaurant, catering, farming, ice cream parlor, day care, craft - birdhouses). State the type of business (manufacturing, service, construction, wholesale, retail, other).
- State the company's goals and objectives
- Describe your product and/or services. Briefly state who buys the product/service and who the final users are (you will discuss your customers very thoroughly under Market Analysis).
- Describe how the product/service is sold to customers (walk-in stores, sales, representatives, mail order catalogs, telephone orders, etc.).
- Describe how and where buyers get the product/service (walk-in stores, mail delivery, etc.).
- Comment on the quality of the product/service.
- Estimate average price of product/service.

#### B. History

- If new, say so. If existing, discuss age of business, prior owners, how acquired and length of time operated by you, image or reputation; number of employees, last year's sales volume and profit and any significant events that have affected the company's development.

#### C. Office/Plant

- Give addresses and description of area and building.
- State whether rented, leased or owned. If rented or leased, state from whom and

under what conditions. State size (square footage).

- Describe type of access to building (major roads, freeways, walking, parking, etc.).
  - Is the location a good one that is convenient to customers? State business hours.
- D. Personnel
- For the present and future, state number of employees, type of labor (skilled and unskilled, etc.), sources of labor (especially minorities, handicapped veterans or other socially or economically disadvantaged grouped), timing of hiring (or layoffs).
  - Comment on the quality of the staff.
- E. Economic/Accounting
- Describe how this business makes money.
  - State how prices are or will be determined and by whom.
- F. Inventory, Supplies, Suppliers, and Equipment
- Describe what inventory, raw materials and/or supplies the business uses (initial and continuing).
  - List your suppliers: name, address, type and percent of supplies furnished and length of time you have been buying from each, reliability and frequency of purchase.
  - How easy or difficult is it to get necessary supplies? If it is difficult, how will you deal with potential or actual shortages?
  - Are the prices of your supplies steady or fluctuating? If fluctuating, how do you deal with changing costs?
  - List the equipment used by the business and comment on its condition. If the equipment has been appraised, include values and state who did the appraisal.

## G. Legal

- State form of business (sole proprietorship, partnership, LLC, corporation) and status (already formed or in process of formation).
- State licensing requirements (type and licensing sources) and status (not yet applied, applied and pending, obtained).
- State zoning requirements and status.
- State insurance requirements (type, source) and status.
- Have building codes been complied with?
- State any health code requirements.
- Describe any other laws and regulations that affect the business.
- Describe lease, if any.
- Trademarks, patents, licenses and copyrights should be checked for legality.

## H. Future Plans

- What are your plans for the future (maintain, expand, diversify, sell, etc.)?

## 4. Market Analysis

### A. Customers (market)

- What is your market, or, who are your customers (wholesalers, retailers, consumers, government, etc.).
- Why does this market NEED your product/service? (All markets are created on the basis of need). One product/service often satisfies several needs.
- How long will this market need your product/service? If your product/service a fad or continuing need; being phased out or created by new technology?
- List the characteristics of your average customers: age, location (market area), average income/sales, sex, life style (family or single), working and other important information. The more you understand about your market, the better you can see to it.
- What do customers like and dislike about your product/service or business?

- Estimate how much the total market will spend on this or similar products/services in the next year.

### B. Environment

- Discuss any environmental factors (economic, legal, social or technological) that affect your market or product/service. Environmental factors are those which have significant effects on your operation, but over which you have no control (i.e., county growth, rising energy costs, prices, etc.).

### C. Competition

- Discuss your competition; number of competitors (direct or indirect), type of company (i.e., product or service), location, age, reputation, size (sales or customers), market share.
- Estimate how much of your product/service ALL the competitors will provide in the next year.
- List major competitors (names and addresses). Discuss their product/service, features, age of business, price, location/distribution, reputation/image, market share, size, product/service quality and marketing strategy.

### D. Competitive Advantages and Disadvantages

- Discuss how your product/service meets market needs and how you can compare with the competition in terms of product/service features, location, distribution, price, other.
- Compare your estimates of the market's demand and the competition's supply.
- The relationship of supply and demand will affect your marketing and sales strategy. High demand with low supply usually means less competition and less advertising. Low demand and high supply indicates a very competitive situation and a need for extensive marketing.

#### E. Projections

- Give your projections in terms of either the number of customers, items sold, or contracts obtained, etc.

### 5. Market Strategy

#### A. Sales Strategy

- Present your marketing strategy. In other words, tell how you will get the edge on your competition and get customers. This is your action plan to get business.
- Your product/service will sell because one or more of the following is attractive: advertising, pricing (high, medium, low), distribution system (limited, widespread, etc.) and promotion.

#### B. Promoting Strategy

- Describe how you plan to promote your product/service. State how you will promote: advertising, direct mail, personal contacts, sponsoring events or other word of mouth, trade associations, etc.).
- If you plan to advertise what media you will use: radio, television, newspaper, magazines, telephone book yellow pages, Internet, and/or other (billboard, etc.). State why you consider the media you have chosen to be the most effective.
- State the content of your promotion or advertising: what your product/service is, why it is attractive, business location, business hours, business phone number, web site, and other. When you are designing your advertising, remember you are selling to satisfy someone's needs. Refer back to your Market Analysis on need.

### 6. Management

- Why have you chosen this type of business?

- For key management personnel (e.g., the owners), include the following: resumes, personal financial statements, tax returns for the last three years and personal family budget.
- Describe prior experience that qualifies management to run this type of business. State why you can run this business. State how much time management will devote to running this business. Discuss local contacts that may assist you in your business.

### 7. Financial

#### A. Source and Uses

- Describe the project to be financed.
- State where the money to pay for the project will come from (sources) and show in detail how it will be used (uses). The most common uses are equipment, leasehold improvements, inventory and working capital.

#### B. Statement

- If business is an existing one, include business tax returns and financial statements for the last three years. Financial statements should include:
  - ◆ Balance Sheet
  - ◆ Income Statement
  - ◆ Accounts Receivable and Aging
  - ◆ Accounts Payable and Aging
  - ◆ Debt Schedule
  - ◆ Reconciliation of Net Worth
- For both existing and new businesses, project the following financial statements for the next three years (monthly for the 1st year, quarterly for 2nd and 3rd years).
- Operating (or Income) Statement with explanation (sales, expenses, profit):
  - ◆ Balance Sheet
  - ◆ Reconciliation of Net Worth
  - ◆ Cash Flow with Explanation
  - ◆ Break-even Analysis