

Doing Business in Missouri ...

The Business Plan

Doing Business in Missouri...The Business Plan is designed to provide information to new or existing business owners on how to put a business plan together.

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Section 2

The Business Plan

A business plan is the written expression of your business idea and projections on markets

The process of putting together a business plan, including the thought you put in before beginning to write it, forces you to take an objective, critical, unemotional look at your business project in its entirety. The business plan is an operating tool, which, if properly used, will help you, manage the business and work effectively towards its success.

The importance of planning cannot be over emphasized. 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. **You must do the work.** A professionally prepared business plan won't do you any good if you don't thoroughly understand it. That level of understanding only comes from being involved from the very start. The best way to enhance your chances of success is to plan and follow through on your planning. It is also important to note that 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 "fill in the blanks" – you must understand the document and avoid preparing a document that has a "cookie cutter" look to it.

It is important to emphasize that businesses with several years of successful operation will find it far easier to obtain financing than start-ups, as lenders will be much more receptive and confident in your ability to repay a loan at that point. In fact, without a strong business plan that has realistic expectations and forecasts, demonstrates managerial experience, and provides collateral, it may be impossible for a new business to get financing, as they represent a high risk of default.

This doesn't mean you can't get a loan as a start-up, but rather that you will have to compensate for the lack of a track record by being strong and well prepared in other areas. Demonstrate by your enthusiasm and the thoroughness of your business plan that you are committed to the venture and that it will succeed. Keep in mind that when applying for a loan, you're selling both yourself and your business. The business owner should remember that he/she bears the financial responsibility for

all decision-making and that the success or failure may be the result of these decisions.

Several organizations offer guidance and assistance in preparing business plans.

These include the **Missouri Small Business Development Centers (MO SBDC)**. A list of center locations is available online at:

www.missouribusiness.net/sbdc/centers.asp.

Remember that as you develop your business plan, you may have to modify or revise your initial questions.

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

A business plan is about business results guiding decisions. The plan itself has no value if it doesn't help you improve business. Its value is the decisions it leads to. Whether it's every month or every quarter, you need to track results, analyze the difference between your plan and actual results and manage accordingly. Change things that need to be changed. Compare plan to reality. What went wrong,

and how can you fix it? What went right, and how can you take advantage of it?

What It Includes

What goes in a business plan? 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 financial management plan
4. The management plan

Addenda to the business plan should include the executive summary, supporting documents, and financial projections.

Description of the Business

In this section, provide a detailed description of your business. An excellent question to ask yourself is: "What business am I in?" In answering this question include your products, market and services as well as a thorough description of what makes your business unique. Remember, however, that as you develop your business plan, you may have to modify or revise your initial questions.

The business description section is divided into three primary sections. Section 1 actually describes your business, Section 2 the product or service you will be offering and Section 3 the location of your business, and why this location is desirable (if you have a franchise, some franchisers assist in site selection).

1. Business Description

When describing your business, generally you should explain:

1. Legalities - business form: proprietorship, partnership, corporation. The licenses or permits you will need.
2. Business type: merchandizing, manufacturing or service.
3. What your product or service is.
4. Is it a new independent business, a takeover, an expansion, a franchise?

5. Why your business will be profitable. What are the growth opportunities? Will franchising impact on growth opportunities?
6. When your business will be open (days, hours)?
7. What you have learned about your kind of business from outside sources (trade suppliers, bankers, other franchise owners, franchisers, publications).

A cover sheet goes before the description. It includes the name, address and telephone number of the business and the names of all principals. In the description of your business, describe the unique aspects and how or why they will appeal to consumers. Emphasize any special features that you feel will appeal to customers and explain how and why these features are appealing.

The description of your business should clearly identify goals and objectives and it should clarify why you are, or why you want to be, in business.

2. Product/Service

Try to describe the benefits of your goods and services from your customers' perspective. Successful business owners know or at least have an idea of what their customers want or expect from them. This type of anticipation can be helpful in building customer satisfaction and loyalty. And, it certainly is a good strategy for beating the competition or retaining your competitiveness.

Describe:

1. What you are selling.
2. How your product or service will benefit the customer.
3. Which products/services are in demand; if there will be a steady flow of cash.
4. What is different about the product or service your business is offering.

3. The Location

The location of your business can play a decisive role in its success or failure. Your location should be built around your customers, it should be accessible and it should provide a sense of security. Consider these questions when addressing this section of your business plan:

1. What are your location needs?
2. What kind of space will you need?
3. Why is the area desirable? Is the building desirable?
4. Is it easily accessible? Is public transportation available? Is street lighting adequate?
5. Are market shifts or demographic shifts occurring?

It may be a good idea to make a checklist of questions you identify when developing your business plan. Categorize your questions and, as you answer each question, remove it from your list.

The Marketing Plan

Marketing plays a vital role in successful business ventures. How well you market your business, along with a few other considerations, will ultimately determine your degree of success or failure. The key element of a successful marketing plan is to know your customers – their likes, dislikes, and expectations. By identifying these factors, you can develop a marketing strategy that will allow you to arouse and fulfill 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. (Potential franchise owners will have to use the marketing strategy the franchiser has developed.) 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? Declining?
3. Is your market share growing? Steady? Declining?
4. If a franchise, how is your market segmented?
5. Are your markets large enough to expand?
6. How will you attract, hold, increase your market share? If a franchise, will the franchiser provide assistance in this area? Based on the franchiser's strategy? How will you promote your sales?
7. What pricing strategy have you devised?

1. Competition

Competition is a way of life. We compete for jobs, promotions, scholarships to institutes of higher learning, in sports and in almost every aspect of your lives. Nations compete for the consumer in the global marketplace, as do individual business owners. Advances in technology can send the profit margins of a successful business into a tailspin causing them to plummet overnight or within a few hours. When considering these and other factors, we can conclude that business is a highly competitive, volatile arena. Because of this volatility and competitiveness, it is important to know your competitors.

Questions like these can help you:

1. Who are your five nearest direct competitors?
2. Who are your indirect competitors?

3. How are their businesses: Steady? Increasing? Decreasing?
4. What have you learned from their operations? From their advertising?
5. What are their strengths and weaknesses?
6. How does their product or service differ from yours?

Start a file on each of your competitors. Keep copies of their advertising and promotional materials and their pricing strategy techniques. Review these files periodically, determining when and how often they advertise, sponsor promotions and offer sales. Study the copy used in the advertising and promotional materials, and their sales strategy. For example, is their copy short? Descriptive? Catchy? How much do they reduce prices for sales? Using this technique can help you to understand your competitors better and how they operate their businesses.

2. Pricing and Sales

Your pricing strategy is another marketing technique you can use to improve your overall competitiveness. Get a feel for the pricing strategy your competitors are using. That way you can determine if your prices are in line with competitors in your market area and if they are in line with industry averages.

Some of the pricing strategies are:

- service costs and pricing (for service businesses only)
- service components
- material costs
- labor costs
- overhead costs
- retail cost and pricing
- competitive position
- pricing below competition
- pricing above competition
- price lining
- multiple pricing

The key to success is to have a well-planned strategy, to establish your policies and to constantly monitor prices and operating costs to ensure profits. Even in a franchise where the franchiser provides operational procedures and materials, it is a good policy to keep abreast of the changes in the marketplace because these changes can affect your competitiveness and profit margins.

3. Advertising and Public Relations

How you advertise and promote your goods and services may make or break your business. Having a good product or service and not advertising and promoting it is like not having a business at all. Many business owners operate under the mistaken concept that the business will promote itself, and channel money that should be used for advertising and promotions to other areas of the business. Advertising and promotions, however, are the lifeline of a business and should be treated as such.

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. Use catchy phrases to arouse the interest of your readers, listeners or viewers. In the case of a franchise, the franchiser will provide advertising and promotional materials as part of the franchise package; you may need approval to use any materials that you and your staff develop. Whether or not this is the case, as a courtesy, allow the franchiser the opportunity to review, comment on and, if required, approve these materials before using them. Make sure the advertisements you create are consistent with the image the franchiser is trying to project. Remember the more care and attention you devote to your marketing program, the more successful your business will be.

The Management Plan

Managing a business requires more than just the desire to be your own boss. It demands dedication, persistence, the ability to make decisions and the ability to manage both employees and finances. Your management plan, along with your marketing and financial management plans, sets the foundation for and facilitates the success of your business.

Like plants and equipment, people are resources—they are the most valuable asset a business has. You will soon discover that employees and staff will play an important role in the total operation of your business. Consequently, it's imperative that you know what skills you possess and those you lack since you will have to hire personnel to supply the skills that you lack. Additionally, it is imperative that you know how to manage and treat your employees. Make them a part of the team. Keep them informed of, and get their feedback regarding, changes. Employees oftentimes have excellent ideas that can lead to new market areas, innovations to existing products or services or new product lines or services that can improve your overall competitiveness.

Your management plan should answer questions such as:

- 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?
- If a franchise, what types of assistance can you expect from the franchiser?
- Will this assistance be ongoing?
- What are your current personnel needs?
- What are your plans for hiring and training personnel?
- What salaries, benefits, vacations, holidays will you offer? If a franchise, are these

issues covered in the management package the franchiser will provide?

- What benefits, if any, can you afford at this point?

If a franchise, the operating procedures, manuals and materials devised by the franchiser should be included in this section of the business plan. Study these documents carefully when writing your business plan, and be sure to incorporate this material. The franchiser should assist you with managing your franchise. Take advantage of their expertise and develop a management plan that will ensure the success for your franchise and satisfy the needs and expectations of employees, as well as the franchiser.

The Financial Management Plan

Sound financial management is one of the best ways for your business to remain profitable and solvent. How well you manage the finances of your business is the cornerstone of every successful business venture. Each year thousands of potentially successful businesses fail because of poor financial management. As a business owner, you will need to identify and implement policies that will lead to and ensure that you will meet your financial obligations.

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.

The start-up budget should allow for these expenses:

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

Worksheet #1: Start-up Costs

Use the worksheet that follows or visit www.missouribusiness.net/docs/startup_annual_expense.pdf to project your start-up costs. Be sure to differentiate between those items that you already own and those that need to be purchased.

Worksheet 1: Start-up Costs			
<p><i>Before your business can earn money, you will need to invest in its start-up costs. These do not include its operating expenses.</i></p> <p><i>Here's a sample format to estimate your startup costs: List the costs of items you have already purchased in the "purchased" column and those you still need in the "needed" column.</i></p>	Capital Requirements	Purchased:	Needed:
	Organization expenses (legal & accounting)	\$	\$
	Truck & Vehicle	\$	\$
	Tools & Supplies	\$	\$
	Furniture & fixtures	\$	\$
	Machines & Equipment	\$	\$
	Building improvements	\$	\$
	Land & Buildings	\$	\$
	Starting inventory	\$	\$
	Cash (Working Capital)	\$	\$
	Other (including living expenses during start-up)	\$	\$
	TOTALS:	\$	\$

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 the following expenses:

- Operating budget
- Personnel/payroll expenses
- Insurance
- Rent
- Depreciation
- Loan payments
- Advertising/promotions
- Legal/accounting
- Miscellaneous expenses
- Supplies
- Utilities
- Dues/subscriptions/fees
- Taxes
- Repairs/maintenance

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 franchiser 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 franchiser 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.

Worksheet #2: Sales and Earnings

You will also want to project your Sales and Earnings (see the following worksheet or visit www.missouribusiness.net/docs/startup_annual_expense.pdf) for the first 1 to 3 years of operation. Projections beyond three years are generally not considered accurate or relevant.

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.

Worksheet 2: Sales and Earnings

It may take several years before your business begins to generate satisfactory profits. To plan appropriately, you should forecast annual sales and earnings for the first couple of years of operation. Do not include start-up costs.

	1st Year	2nd Year	3rd Year
Gross Sales:	\$	\$	\$
Less returns, allowances & discounts:	\$	\$	\$
Net Sales:	\$	\$	\$
Less cost of goods sold:	\$	\$	\$
Gross Profit:	\$	\$	\$
Less Operating Expenses:	\$	\$	\$
Rent	\$	\$	\$
Payroll	\$	\$	\$
Payroll (other)	\$	\$	\$
Telephone	\$	\$	\$
Utilities	\$	\$	\$
Interest & Amortization	\$	\$	\$
Postage	\$	\$	\$
Advertising	\$	\$	\$
Travel	\$	\$	\$
Vehicle Expenses	\$	\$	\$
Taxes (payroll)	\$	\$	\$
Taxes (other)	\$	\$	\$
Supplies	\$	\$	\$
Attorney/Accounting fees	\$	\$	\$
Insurance	\$	\$	\$
Repairs	\$	\$	\$
Other expenses	\$	\$	\$
Total Operating Expenses	\$	\$	\$
NET PROFIT BEFORE TAXES	\$	\$	\$

A 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? Is 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.
- 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), which 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, annually 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