

BUSINESS PLAN GUIDE

INTRODUCTION

A business plan is a description of your business, including your product or service, your market, your management team, and your financing needs. You should consider that a well-prepared business plan plays two important roles:

- 1) It is a useful management tool that can help you plot a course for your company, and
- 2) It is a vital sales tool that will impress potential financial sources with your planning ability and general competence as a manager.

Other things being equal, a well-prepared business plan will increase your chances of obtaining a financial commitment.

EXECUTIVE SUMMARY

Many investors or lending institutions like to review a short summary of a business plan so they can quickly decide if it is worth their time to review the whole plan. Therefore, your objective in the Executive Summary is to convince them to study your plan further.

The Executive Summary should describe all the key elements of your business plan in just one or two pages. It should include the following information:

1. A brief description of the management team.
2. A brief description of your product(s) and market.
3. The amount of money you are seeking, in what form, and for what purpose.
4. A summary of your financial projections.

*Because it gives the reader an overview of your business and indicates how your business plan is organized, the **Executive Summary** is usually written after all the other sections of your business plan are completed.*

COMPANY AND INDUSTRY

The purpose of this section is to provide background information on your company, and to describe the nature and current condition of your industry. It should include the following information:

1. **Company**
 - a. Date and state of incorporation
 - b. Principals and what role(s) each of the principals played in bringing the business where it is today

- c. Business purpose and highlight of progress to date, including major developments such as the introduction of a new product or service

2. **Industry**

- a. Present your view of the current status and prospects for the industry
- b. Describe the principal participants and how they are performing, including growth in sales, profits, and current market share
- c. Describe the affect of major economic, social, technological, or regulatory trends

PRODUCT OR SERVICE

Your objective in this section is to completely and concisely describe your product or service along with any proprietary features and future development plans. It should include the following information:

1. **Description** Describe the company's product or service in detail indicating its nature and application. Include material such as engineering studies, photographs, and selling brochures.
2. **Research and Development** Describe the nature and extent of research and development work that must be completed before your product or service is placed on the market. The cost and time required to achieve a marketable product or service should be indicated.
3. **Proprietary Features** Describe any patents, trade secrets, and other proprietary features. Discuss any other factors that have allowed, or could allow, you to obtain an advantageous position in your industry.
4. **Future Development** Discuss plans for extension of your present product or service, and development of new or related products or services.

MARKET

Your objective in this section is to convince the reviewer that you understand your market and can achieve your sales target. It should include the following information:

1. **Market Definition** Define the target market by describing the potential customers, their locations, their interest in the product or service, and the seasonality of their purchases. If the company has a track record, discuss how its product or service has been received in the marketplace. It is important to discuss any negative reactions to your product or service along with your present or planned actions to overcome the negative reactions.
2. **Market Size** Describe the market's current size. The market should be determined based on a review of statistical data and from discussions with potential distributors, sales representatives, and customers.

3. **Market Trends** Describe the market's growth potential. Market projections should be made for at least three years and should clearly state the assumptions used, including major factors such as industry trends, new technical developments, and new or changing customer needs.
4. **Competition** Name and discuss all major competitors. You should compare your product or service with your competitors' on the basis of price, performance, service, warranties, and other important features. Then, review the strengths and weaknesses of your competitors. If they are doing well, explain why you expect to succeed. If there are no competitors, discuss the possible development of competition and from whom it is likely to come.

MARKETING PLAN

Your objective in this section is to provide projections of sales and market share, and to convince the reviewers that your marketing plan will achieve the projections. It should include the following:

1. Estimated Sales and Market Share

- a. Provide an estimate of sales and market share (units and dollars).
- b. Base this estimate on your assessment of your customers and their acceptance of your product, your market size and trends, and the competition.
- c. Identify any major customers who have made or are willing to make purchase commitments.

2. Strategy Include a discussion of the following:

- a. Targeted customers (initial and later)
- b. Methods of identifying and contracting potential customers
- c. Product features that will be emphasized

3. Pricing Discuss the price to be charged for your product or service and compare your pricing policy with those of your major competitors. Explain how the price you set will enable you to:

- a. Gain acceptance of your product or service
- b. Maintain and increase your market share
- c. Produce profits

You should justify pricing that is above or below your major competition.

4. Sales and Distribution Describe how you plan to sell and distribute your product or service including the following:

- a. If distributors or sales representatives will be used, describe how they will be attracted, compensated, and what geographic areas will be covered.

- b. If a direct sales force will be used, describe how it will be organized and controlled. This should include the number and location of sales personnel and commission and/or salary they will receive.
5. **Service and Warranty Policies** Discuss the importance of these to your customers, and your policies and methods for handling service problems.

OPERATIONS

Your objective in this section is to describe how the product or service will be manufactured or delivered including location, plant and equipment, processes, and labor.

1. **Location** Describe the location of the business, including the advantages and disadvantages of the site, considering the following:
 - a. Wage rates
 - b. Labor unions
 - c. Proximity to customers
 - d. Access to transportation
 - e. State and location
 - f. State and local laws (including zoning)
 - g. Utilities (including rates)
2. **Plant and Equipment** Describe the facilities in use or to be acquired. For facilities to be acquired, state whether the facilities will be leased or purchased, and state the costs and timing of the acquisitions. Comment on the future plan and equipment needs based on sales projections, including the cost of additional capacity and its timing.
3. **Processes** Describe the processes necessary to produce your product or service, including:
 - a. Method
 - b. Quality control, production control, and inventory control procedures
 - c. Raw materials or components (including source, cost, and related contracts)
 - d. Organization and control of purchasing function
 - e. Breakdown of fixed costs
 - f. Breakdown of unit costs by product or service
4. **Labor** Describe, exclusive of management, to what extent the local labor force is sufficient in terms of quality and quantity to produce your product or service, if applicable. Address the type of training needed and the costs to your company.

MANAGEMENT

The experience, talent, and integrity of your management team are of primary concern. Before agreeing to finance your company, an investor or lender will conduct a thorough reference check of each member of your team. Accordingly, this section of the business plan should describe the following:

1. **Organization:**

- a. What the key management roles will be
- b. Who will fill each position
- c. How the individuals' talents compliment each other

2. **Key Management:**

- a. The duties and responsibilities of each individual
- b. Career highlights of each individual (a resume should be attached)
- c. The weaknesses of the management team
- d. Each individual's compensation and ownership

3. **Board of Directors:**

- a. Identify board members
- b. Explain how the members can benefit the company
- c. Disclose the members' investment in the company, if any

4. **Professional Services** Properly selected professional advisors can help you to establish the credibility of your business venture. Therefore, it is important to state the legal, accounting, public relations, advertising, banking, and other service organizations you have selected for your company.

OVERALL SCHEDULE

A wellprepared and realistic schedule is critical to the company's success as it indicates the ability of management to plan the company's development; therefore, a schedule should be prepared that shows completion dates for major aspects of the business plan.

CRITICAL RISKS AND PROBLEMS

The development of a business has risks and problems, and it is best to identify these negative factors and discuss them in a forthright manner. To determine the risks and problems that require discussion, you should determine which business plan assumptions or potential problems are

most critical to the success of the venture. Then, describe your plans for minimizing the impact of unfavorable developments in each risk area.

FINANCIAL INFORMATION

The amount of financial information needed in your business plan will depend largely on the stage of your financing and the amount of money you are seeking. Your plan should describe, in general terms, the type and amount of funding you are requesting. In addition, you will need current information on the company's present financial status and financial projections. If your company has already started operations, you must include current financial statements.

1. **Funding Request** State how much money you need and what you will do with it.
2. **Capitalization** Explain the capital structure of the company and what effect funding will have on that structure. As part of this explanation, you should identify who the stockholders are, what their positions in the company are, how much stock they own, and how much they paid for it.
3. **Use of Funds** Your explanations of how you plan to use the funds should be consistent with your financial projections. If you want seed capital, you might simply state that the money will be used to develop the product and set up a marketing organization. In a subsequent round of financing, you can refer the reader to your financial projections for details, but explain briefly how much of the money will be used for R & D, manufacturing, capital equipment, etc.
4. **Current Financial Statements** If your company has a track record, provide financial statements for the last three years or from inception. Additionally, you should provide:
 - a. Detailed breakdown of income statement categories
 - b. Operating statistics and explanations of unusual fluctuations
5. **Financial Projections** Provide threeyear cash flow, profit and loss, and balance sheet projections. If your company has a track record, the projections should be on a quarterly basis for the first year and annually thereafter. Otherwise, the projection should be on a monthly basis the first year, a quarterly basis the second year, and annually thereafter. When making financial projections, it is important to explain your assumptions. The assumptions you should include are:
 - a. Sales increases by unit or total dollar volume and product mix
 - b. Gross margin in total and by product line
 - c. Inventory turnover
 - d. Useful life of the company's assets and related depreciation schedules
 - e. Capital expenditures
 - f. Investment rates on debt and interest income on temporary investments of excess funds
 - g. Effective income tax rate

6. **Future Financing** You should also explain, clearly and concisely, anticipated future funding. Do you want capital investment in stages, or all at once? If you seek staged financing, when will you require the future funding and what are the milestones for reaching that point? Will you use debt financing? If so, when, how much, and on what expected terms?

Your financial projections and your funding request must be keyed to your market expectations. You should begin your financial projections with a sales forecast. Many firsttime entrepreneurs make the mistake of starting at the production cost level and assuming that the marketing department can sell everything they make for a profit. Starting with a sales forecast will also help you define how much cash you will have coming from operations and when it will come in. This is essential to forecasting cash flow and determining how much equity and debt capital you will require until the company generates a positive cash flow.

CONCLUSION

In summary, your business plan should describe:

- A. Your company and industry
- B. The product or service
- C. The market and marketing approach
- D. How the product or service will be made
- E. Who is involved in the company
- F. How much money the company needs and what it will do with it

By following these guidelines, you should be able to provide investors or lending institutions with a plan that is wellprepared and persuasive in conveying the potential of your company.