

Writing A Business Plan

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Objectives

This module contains basic information for teaching entrepreneurs how to write a business plan.

Participants will learn...

1. the reasons for preparing a business plan,
2. the components of a business plan, and
3. business plan format.

Total Time Required

2 to 4 hours

A combination of lecture and hands-on approach is recommended. Participants should be given time to work on a basic outline of their business plan and report it orally to the entire group.

Materials Needed

- PowerPoint

Audio/Visual Equipment

- Overhead projector
- Blackboard or flip chart

Going Further

Participants who want to continue the development of their business plan should be given a 2 to 6 week time period to do so with follow-up and feedback from the instructor.

Additional Background Reading

Business Plan Basics - http://www.entrepreneur.com/Your_Business/YB_Node/0,4507,131—,00.html

Creating an Effective Business Plan - http://home3.americanexpress.com/smallbusiness/tool/biz_plan/index.asp

The Business Plan - Road Map to Success - <http://www.sba.gov/starting/indexbus-plans.html>

Writing a Business Plan - <http://www.business.gov/busadv/frame.cfm?urltest=http://www.bplans.com/&catid=10021&urlplace=maincat.cfm>

Writing your Business Plan - http://www.toolkit.cch.com/text/P02_5001.asp



The Business Plan

There are two basic reasons for preparing a business plan. First, it requires the entrepreneur to thoroughly investigate the factors that will have a bearing on the success of the business. Second, it will enhance the ability of the entrepreneur to secure financing by providing an organized overview of the venture for lenders and investors. It also provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

The following outline has been prepared to help the entrepreneur assemble the facts that are essential to good business planning. Complete your business plan using the accompanying outline to ensure that the necessary details are included. Keep in mind that thoroughness, clarity and rationality of the plan are all factors that will play key roles in successful financing, starting and operating your business.

Because these guidelines are written to cover a variety of businesses, rigid adherence to them is not possible or even desirable for all businesses. Not all parts of all sections will be necessary for each individual's business plan.

This information was adapted (with permission) by Beth Duncan from "A Guideline for Preparing a Business Plan," written by the:

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Business Plan Outline

- I. EXECUTIVE SUMMARY**
- II. THE INDUSTRY, THE COMPANY AND ITS PRODUCTS**
 - A. The Industry
 - B. The Company
 - C. The Products or Services
- III. MARKET RESEARCH AND ANALYSIS**
 - A. Target Market
 - B. Market Size, Makeup and Trends
 - C. Competition
 - D. Market Share and Sales
 - E. Pricing
 - F. Sales Tactics/Distribution
 - G. Advertising and Promotion
 - H. Packaging
 - I. External Market Influences
- IV. OPERATING PLAN**
 - A. Location
 - B. Facilities and Improvements
 - C. Strategies and Plans
 - D. Labor Force
- V. MANAGEMENT TEAM**
 - A. Organization
 - B. Key Personnel
 - C. Management Compensation and Ownership
 - D. Board of Directors
- VI. THE FINANCIAL PLAN**
 - A. Cash Flow Analysis
 - B. Sources and Uses of Funds
 - C. Income Statement (Profit and Loss Statement)
 - D. Balance Sheet



I. Executive Summary

An executive summary should be written to summarize the important components of the business plan. Ironically, this is the first section of the business plan, but it is the last section written. Its purpose is to convey to the potential financial lender or investor, in two pages or less, the relevant points of the business venture. Therefore, it is written after the entire business plan has been prepared.

The executive summary is a written version of a one to two minute pitch. In other words, imagine that you are “pitching” your idea to a potential investor and only have one to two minutes of their time. To convince the potential investor this is a good investment, you must condense your message into a package of key points about the business.

The executive summary must capture the reader’s attention. If you cannot capture the investor’s attention within the first two pages, then the chances of the remainder of the business plan being read are not very good. The following information should be included in the executive summary:

- ❖ Company name, address and phone number;
- ❖ Brief description of the business;
- ❖ Brief description of your target market;
- ❖ Brief description of your strategy to make the business a success;
- ❖ Brief description of the owners and key people, including names, addresses, phone numbers and managerial/technical experience; and
- ❖ Brief analysis of the financial needs of the business, including the planned use of any borrowed/ invested funds.

II. The Industry, the Company and its Products

The purpose of this section is to assist you in describing your business venture in a detailed but succinct manner. You must clearly present the business you are in, the product you will offer and the nature of your industry.

A. THE INDUSTRY

Present the current status and prospects for the industry in which the business will operate. Discuss new products and developments, new markets and customers, and any other trends that could affect the business. Identify all sources of information used to describe these trends.

B. THE COMPANY

Briefly describe what business area your company is in, or intends to enter, what products or services it will offer, and who are or will be its principal customers. Also discuss the ownership and legal form of the company. Consult with your attorney for about which form of corporation, partnership or sole proprietorship is best for you.

C. THE PRODUCTS OR SERVICES

1. Description: Describe in detail the products or services to be sold, as well as the application of your product or service. Emphasize any unique features of your product or service and highlight differences between what is currently on the market and what you will offer. Define the current state of development of the product or service; include photographs, if applicable.



2. Proprietary Position: Describe patents, trade secrets or other proprietary features. Discuss any head start that you might have that would enable you to achieve a favorable position in your industry.

III. Market Research and Analysis

The purpose of this section is to present enough facts to determine if your product or service has a substantial market in a growing industry and can achieve sales despite a competitive market. This section is one of the most challenging to prepare and also one of the most important. Almost all subsequent sections of the business plan depend on sales estimates that are developed in this section. The sales levels you project, based on the market research and analysis, directly influence the size of the operation, the marketing plan and the amount of debt and equity capital required.

Market research defines the need for the product, aids in predicting market share, identifies competition, provides direction for efficient use of advertising and promotional dollars, identifies problems and opportunities, and establishes benchmarks by which to measure progress and success.

Basic research need not be expensive. Examples of primary (non-published) sources include personal focus group interviews, mailed questionnaires, telephone surveys, license plate studies, traffic counts, and sales analysis reports. Examples of secondary (published) research sources include rating services, advertising media, census information, local government sales tax data, chamber of commerce information, and forecasts.

Because of the importance of market analysis and the dependence of other parts of the plan on the sales projections, you may want to prepare this section of the business plan before you do any other. Allow enough time to do this section thoroughly and check alternate sources of market data.

A. TARGET MARKET

One of the primary objectives of market research is to identify the target market. Basically, who is going to buy your product? Group the customer base into categories defined by geographics (where customers are located), demographics (age, gender, occupation, marital status and income levels), and psychographics (lifestyle characteristics, including frequency of purchasing products or services, method of payment, leisure and reading preferences).

B. MARKET SIZE, MAKEUP AND TRENDS

Describe the primary market for your product, both geographically and in terms of total sales volume. Also, describe the seasonal fluctuations and the potential annual growth of the total market for your product or service and discuss the major factors affecting that growth (industry trends, economic trends, government policy, population shifts).

C. COMPETITION

Describe who your current competitors are and why customers buy from them. Compare your product to that of your competition on the basis of price, performance, service, warranties, and other pertinent features. Present a short discussion of the current advantages and disadvantages of competing products and services and state why they are not meeting customer needs. Know the similarities, the differences, and the ways in which your product is unique. Develop reasons why customers should choose your product over that of another company.



An effective marketing strategy cannot be developed without a thorough knowledge of the competition. Read all annual reports, newspaper articles, advertising, company literature, and published statistics related to the competition. Question suppliers and attend trade shows and business fairs. Continually seek information on competitors' products, research and development activities, production methods and costs, organizational designs, financial status, marketing strategies, and general strengths and weaknesses. If the business is a retail establishment, remember that location is a prime consideration.

D. MARKET SHARE AND SALES

Summarize what it is about your product or service that will make it saleable in the face of current and potential competition. Identify major customers who are willing to make purchase commitments and, if possible, attach their commitment letters to your plan. Discuss which customers would be major purchasers in the future and why. Based upon your assessment of the advantages of your product or service, market size and trends, customers, the competition and their product, and the sales trend in prior years, estimate your share of the market and your sales in units and dollars for the next two years. Be sure to state any assumptions upon which your projections are based.

E. PRICING

The pricing policy is one of the most important decisions you will have to make. The price must be right to penetrate the market, maintain a market position, and produce profits.

Discuss prices to be charged for your product or service and compare your pricing policy with that of your major competitors.

F. SALES TACTICS/DISTRIBUTION

Describe the methods that will be used to make sales and distribute the product or service. Will the company use its own sales force, independent sales representatives or distributors? Discuss the margins to be given to retailers, wholesalers and salesmen and compare them to those of your competition.

G. ADVERTISING AND PROMOTION

Describe approaches the company will use to bring its product to the attention of prospective purchasers. The schedule and cost for advertising and promotion should be presented. If advertising and promotion will be a significant expense item, an exhibit of how and when these costs will be incurred should be included.

Publicity, often referred to as "free advertising," means getting the company's name, product or service in the media at no charge. Publicity is especially important for entrepreneurs with limited advertising and promotional budgets.

Press releases are effective only if they are genuinely newsworthy, and should be accompanied by a photograph if possible. Company newsletters, sponsorships of local athletic teams, donations of gifts for charitable functions, and participation in civic organizations are all good sources of positive publicity. Capitalize upon every opportunity to get your company's name in front of the public at no charge.



H. PACKAGING

Describe how the product will be packaged. Packaging refers to the presentation of goods or services. Proper packaging attracts the customer, effectively communicates product attributes, identifies the brand and seller, lists ingredients, and makes the product easier to handle. Effective package design decreases cost associated with storage, labor, shipping and pilferage. Poor packaging, however, creates an impression of inferiority and significantly lessens sales.

I. EXTERNAL MARKET INFLUENCES

Describe how each of the following external forces impacts your ability to sell your product.

Economic Factors. Economic analysis requires data on employment levels, inflation, mortgage rates and area bankruptcies. Free sources of this information include libraries, banks, educational institutions, investment houses, government agencies, newspapers, business publications, and trade associations. Compare and contrast several sources before drawing conclusions or implications.

Political and Social Factors. Depending upon the nature of the business, operations may be affected by local, state, regional, national and world political situations. National deregulations, tax increases, or elimination of trade barriers, for example, can have a profound impact. At the state or local level, the acceptance or rejection of bond issues, election of new officials, or renovation plans might affect a company's marketing philosophy. The media, periodicals, trade journals and general business publications are good references.

Social analysis includes a study of the demographics of the customer base. Important factors include the age groupings, income level, type of employment, mobility, marital status, and leisure habits of customers, as well as the number of women and teenagers in the local work force. Chambers of commerce are helpful in gathering local information.

Technology Factors. Technology is growing and changing rapidly. The World Wide Web provides an additional market channel to consider and has enabled small companies to sell their product and compete effectively with the larger companies. Describe the impact the Internet will have on the sales of your product. Also, describe if you will use the Internet to order your product for resale or raw materials for manufacturing.

IV. Operating Plan

The operating plan should describe facilities, location, space requirements, capital equipment, and the labor force required to provide the company's product or service.

The discussion guidelines given below are general enough to cover different businesses. Only those that are relevant to your particular business should be addressed in your business plan.

A. LOCATION

Describe the planned location of the business and discuss the advantages and disadvantages of the site in terms of wage rates; labor availability; proximity to customers and suppliers; access to wholesalers, distributors and transportation; state and local taxes and laws; utilities; and zoning.



B. **FACILITIES AND IMPROVEMENTS**

If yours is an existing business, describe the facilities currently used. If your firm is new, describe how and when the facilities to start business will be acquired. Discuss how and when space and equipment will be expanded to the capacity required for future sales projections. Discuss any plans to add to or improve existing space. Explain future equipment needs and indicate the cost and timing of such acquisitions.

C. **STRATEGIES AND PLANS**

Describe the process involved in production of your product or service. Also present a plan that shows cost-volume information at various sales levels of operation with a breakdown of material, labor, purchased components, and overhead. Manufacturers should briefly describe their approach to quality control, production control and inventory control. Explain the quality control and inspection procedures the company will use to minimize service problems and ensure customer satisfaction.

D. **LABOR FORCE**

Exclusive of management functions, does the local labor force have the necessary skills, in sufficient quantity and quality, to produce the product? If their skills are inadequate, describe the training that you would use to upgrade them.

V. Management Team

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management team with a balance of technical, managerial and business skills. The proposal should include a description of the organizational structure, key management personnel and their primary duties, and the board of directors, if applicable.

A. **ORGANIZATION**

In a table, present the key management roles in the company and the individual who will fill each position. Discuss any current or past situations where the management personnel have worked together and indicate how their skills complement each other and result in an effective management team.

B. **KEY PERSONNEL**

Describe the exact duties and responsibilities of each key member of the management team. For each individual, include a brief statement of career highlights that focuses on his or her ability to perform the assigned role. A complete resume for each member should be included as an exhibit to the business plan.

C. **MANAGEMENT COMPENSATION AND OWNERSHIP**

State the salary that is to be paid to each member. Set forth stock ownership planned for key personnel, the amount of their equity investment, and any performance-dependent stock options or bonus plans that are contemplated.



D. BOARD OF DIRECTORS

Discuss the company's philosophy as to the size and composition of a board of directors. Identify proposed board members and include a short statement about each member's background.

VI. The Financial Plan

The financial plan is basic to the evaluation of a business opportunity and should represent your best estimate of future operations. For an existing business, balance sheets and income statements for the current and previous three years should be provided.

Developing financial pro formas or projections is a vital aspect of your business plan. It is important that you take the time to thoroughly research your projections so that they will be as realistic as possible. Be liberal with your expenses and conservative with your revenues. It is much better if your financial surprises are pleasant ones.

Too often people try to determine their start-up costs without considering their costs of operation after the business has opened. In order to finance the business properly, determine whether you will need additional cash at the outset to support periods of operating losses that often occur during the early months of operation. With that thought in mind, start the pro forma work with the cash flow statement.

A. CASH FLOW ANALYSIS

A cash flow statement is nothing more than a presentation of the monthly cash receipts and cash disbursements that you expect to incur while operating your business. It is important to address this on a monthly basis because many businesses pay for their goods and expenses in one month but do not collect the money until the following months, or longer. Numerous businesses fall into the cash flow trap. Also, many of your expenses are going to be fixed expenses – those expenses that stay the same regardless of your sales level. Fixed expenses might be rent, insurance, salaries or contract obligations. While some businesses may generate “unearned” revenues such as rent, interest or similar incomes, the primary concern of most small businesses, is *sales*.

1. **Sales** – Sales revenue is that income your business receives by selling its goods and services to others. Your business may sell more than one type of goods and services, so you should keep your sales figures separated by product or service. Notice on the Cash Flow Analysis worksheet how sales are typically lower during the early months of operation. It will take time to develop a customer base for your business, so it will be necessary to borrow enough at the outset to carry the business through this building period. Your first step is to post your projected monthly revenues to your cash flow statement.
2. **Cash Receipts** – Cash receipts reflect *when* you actually receive the cash for the goods that you sold. Some of your sales may be for cash, meaning that you receive those funds at the time of sale. However, some of your sales may be on credit, and you may be required to mail invoices for your sales. If this is true, then you have to “carry” the outstanding cash as accounts receivable. Some of this cash may be received in 30 days, some in 60 days, some longer; some of your accounts receivable may never be collected. All of these considerations must be brought into play when preparing the cash receipts section of your cash flow statement. It is the actual receipt of the cash that determines whether you have the cash on hand to pay your bills.



3. **DISBURSEMENTS** – It is now time to identify the payments you will have to make each month for your expenses. Be careful and realistic while considering these disbursements. The cash flow example on the following page identifies some of the more common expense categories, but each business will experience its own peculiar expenses.

In our example, “material purchases” is the amount that will be paid to suppliers to replace the goods that were sold. It is based upon sales and the cost of those sales. Your research should have identified a “cost of goods sold” percentage for you. If that percentage was 50 percent, for example, then your cost of goods sold will be exactly one-half of your gross sales. If your cost was 25 percent, then your cost of goods sold will be one-fourth of your gross sales.

Be sure to remember that an increase in sales may bring about an increase in certain disbursements, positive or negative, for the current month. The cumulative cash flow, or current position, is determined by adding the present month’s cash flow to that of the previous months.

4. **Net and Cumulative** – Net cash flow reflects the difference between receipts and disbursements, positive or negative, for the current month. The cumulative cash flow, or current position is determined by adding the present month’s cash flow to that of the previous month.



B. Sources and Uses of Funds

Having completed your cash flow worksheet, you now have some idea of what your sales and operating expenses might be and you can determine how much financing you will need.

5. **Uses of Funds** – Make a list of what you will need to purchase in order to begin operation, and determine the cost of each item. The Sources and Uses of Funds Statement 2 gives some of the more common items that you must have before you start operation. Bids need to be secured for any construction, while pricing lists should be provided for equipment, machinery and inventory. Be sure to ask your local utility company if any deposits are required. Also, refer to your cash flow statement to see if you must prepare for a period of cash shortage.
6. **Sources of Funds** – After you have identified your financing needs, it's time to address where the funds must come from. Either the investor or investors must provide the necessary capital, or the business must make arrangements to borrow the funds. In most cases, you will use both sources of funds. The example shows that the entrepreneur has injected \$100,000 of his own funds. That is 25 percent of the entire project cost, which is approximately what a bank would require. The remaining 75 percent or \$300,000 was arranged through two separate loans: one long-term loan for the land and building and a second, shorter-term loan for the equipment, machinery and fixtures.
7. **Cash Balance (Working Capital)** – Obviously, the funds remaining after the initial purchases represent your working capital. As shown by the cash flow analysis, this additional capital is necessary as a cushion to absorb the negative operating cash flow you have in your first seven months of operation (according to the example).



C. INCOME STATEMENT (PROFIT AND LOSS STATEMENT)

With the cash flow worksheet completed, the income statement is easy to compile (see Table 3).

8. **Sales** – Total your monthly sales for each category as shown on your cash flow statement. This figure reflects your total projected annual *gross* sales. From this figure, deduct any refunds that you gave to customers for returned merchandise. This sum represents your total *net* sales.
9. **Cost of Goods Sold** – This is the cost of the products that you sold to your customers. Your beginning inventory (\$10,000) is added to any purchases you made *during* the report period (\$118,994) to identify the amount of *goods available* for sale. Suppose you did *not* sell everything you had available for sale. At the end of this period you counted your inventory on hand and found that you still had \$10,000 of inventory on the date that you prepared this report. Your goods available for sale minus your ending inventory produces the total cost of goods sold (total material costs). In the example, that amounts to \$118,994 (\$128,994 minus \$10,000 of ending inventory).
10. **General and Administrative Expenses** – These are the annual totals of the expenses as listed on the cash flow statement. Note that there are some changes. Payment of the *principal* portion of your note is *not* considered an expense. It will be accounted for later on your balance sheet but does not appear on the income statement. Also, note the addition of an expense category termed “depreciation.” This is not considered on your cash flow statement because you don’t write a check to depreciation. The purpose of depreciation is to account for the fact that your assets will begin to wear out as you use them. A certain piece of equipment may be expected to last for 10 years, for example. If that equipment cost you \$1,000 at purchase and will be worn out or worthless in 10 years, it is said to “depreciate” \$100 per year. In our example the building, equipment, machinery, etc., is depreciated by \$11,400 per year. You don’t actually write a check for the \$11,400, but your assets have devalued by that amount.
11. **Net Income (Pre-Tax)** – Net sales minus material costs and operating costs gives us the net income of the business, However, this amount does not include the payment of taxes on the profit made.
12. **Taxes** – If you have made a profit operating your business, you will be expected to pay both state and federal income taxes. This aspect of your business should be discussed thoroughly with your accountant.
13. **Net Income (After-Tax)** – After taxes have been paid, the remaining profit belongs to your business in the form of retained earnings.



D. BALANCE SHEET

The balance sheet is a comparison of the assets, liabilities and equity of your business. The one shown on the following page is a very basic example of a small business balance sheet.

ASSETS

14. **Current Assets** – These are assets that are considered to be liquid or easily converted into cash. The cumulative cash of the business (#4) is listed along with the ending inventory (#9) and accounts receivable – as well as other similar assets – to form the current assets portion. The ending inventory is a listing of the goods held for sale at the end of your accounting period, and the accounts receivable is a listing of what is owed to you by your customers for previous purchases.
15. **Fixed Assets** – The second category of assets is fixed assets. This is a listing of the assets that are long-term in nature (brick-and-mortar-type assets). It is these assets that depreciate in value over a longer period. Depreciation (\$11,400) for past periods is therefore deducted from the sum of these assets and shown on the balance sheet as accumulated depreciation.
16. **Other Assets** – This is a catchall section for other assets such as deposits held by utility companies.
17. **Total Assets** – This is simply the sum of current, fixed and other assets (categories 14, 15 and 16).

LIABILITIES

Under the liabilities sections, you are dealing with what your business owes to others.

18. **Current Liabilities** – Current liabilities are bills and accounts that you must pay within the next year (short-term notes or accounts payable are examples). Also considered to be a current liability is that portion of any long-term note that must be paid during the upcoming year. This figure can be provided by your banker, accountant or your amortization schedule of notes payable.
19. **Long-Term Liabilities** – Long-term liabilities are the long-term financial commitments your business has made to the bank or other debt holders. If additional debt is not incurred, the “loans payable” section will decrease each year by the amount of principal payments made during the period. In the example in Table 4, the original debt of \$300,000 – as shown in the Sources and Uses of Funds Section – is now reduced to a balance due of \$291,501. Therefore, \$8,499 in principal was paid during that first year of operation (\$300,000 minus \$291,501). Also note that \$9,445 is deducted and shown as less current portion. That is because it is the portion of long-term principal that will be paid during the upcoming year, and it is therefore considered to be a current liability and is listed under that category.
20. **Total Liabilities** – This is the sum of current and long-term liabilities.



EQUITY

21. **Equity** – the equity section reflects your original investment (#6) as well as the accumulation of profits (#13) of the business (retained earnings).
22. **Total Liabilities and Equity** – The sum of your liabilities and equity when added together should equal your assets. Do they *balance*? If not, you have an error in one of your sections.

