

The Importance of a Business Plan

Developing a business plan is the first step to a successful business. This guide will provide an outline in organizing your effort to gather and evaluate information about your business. As you gather information, you can begin the process of writing your business plan. By planning your business needs, you will develop an essential part of the business - its strategy.

Effectively completed, your business plan must identify the strengths, weaknesses, opportunities, and threats that may affect your business and the strategy you will use to succeed.

Business Plan Outline

The following is a suggested outline of the material that should be included in your business plan. Although all parts are necessary for the business plan to be complete, this guide will only focus on the detailed portions of the plan. Every business plan is unique, as is every business. This guide was designed with a general purpose in mind; therefore, some things may not apply to your business. Consult your counselor if you have any questions on what to include.

Cover Page:

The cover page is the first impression of your business plan. It should include the name of the company, company address, company phone number, owners and their addresses/phone numbers, and the date of the plan. Incorporate the company logo, if there is one

Table of Contents: (Optional)

Executive Summary:

This portion should be brief; usually one or two paragraphs, and should state your present situation and the goals for your business. For example, describe your idea, how much money you need, what you need it for, how much money you will bring (or have put) into the business, and a brief schedule of your goals. Since you won't know some of these facts until you complete your business plan, write this section last.

Business:

The business portion of the business plan provides an overview of your planned business operation. You should briefly describe your product/service and how you will maintain a sustainable competitive advantage.

Management:

The management plan of your business outlines the organizational structure that defines the lines of authority and the responsibilities of the key players.

Market:

The marketing plan includes information on the total market with an emphasis on your target market and how you plan to make your product/service available.

Money:

The money section of your business plan will show past, current and projected financial activity. Documents that should be included are the sources and uses of funds statement, three-year income projection and cash flow projection, notes and critical assumptions for the projections, and a break-even analysis.

Exhibits:

Include documents needed to substantiate what has been presented in the body of the plan. Examples would include resumes, purchase agreements, bids, contracts, etc.

The Business

- Describe Your Business* Include detailed information about the overall industry and how your business will maintain a sustainable competitive advantage. Tell about your history, present status and future projections. Project a sense of what you expect to accomplish in the first years.
- Describe your Product(s)* Outline your product or service in terms of marketability. Describe the purpose of your product, the need it satisfies and what makes your product unique. List future products or services you plan to provide.
- If manufacturing, tell all about the manufacturing process. Give a detailed description of your products from raw materials to finished items. Also describe product development and research efforts. Describe the stage of development, formal testing and alternative uses for your product. Include your quality assurance procedures. Identify your primary suppliers and alter suppliers.
- Proprietary Information* Describe any specific knowledge or technology that you have and your competitors do not. Describe any efforts taken to obtain patents, copyright trademark or name registration.
- Regulations* Describe any regulations that affect the sale and use of your product. Remember to check on the local, state and federal levels. Identify the agencies that must regulate your business and the potential positive or negative impact.
- Facility and Equipment* Describe the building, its location and the equipment needs for your business and how you determined this need. Also, describe how long the facility will meet your needs and the actions you plan to take at that point.
- If manufacturing, what is the maximum production capacity of the facility and equipment and your expected level of production.
- Operational Needs* Describe your transportation and utility needs and any associated costs.
- Barriers* Describe the most significant barriers you expect while launching and operating your business. Explain how you expect to overcome these problems.

Management

<i>Ownership Composition</i>	Define the form of the business organization (i.e. sole proprietorship, partnerships, corporation, limited liability company). Specify who the owners of your business are and what percentage they own. Also, describe members of your board of advisors.
<i>Management</i>	Describe who is behind the business. For each owner, tell about his or her responsibilities and abilities. Indicate the level of knowledge and formal training in the industry. Support with resumes. Also, indicate who manages the business on a day-to-day basis, who is responsible for long-range planning and who initiates changes. Indicate how this person monitors industry trends. Be sure to indicate who has primary operational, marketing and accounting responsibilities and their qualifications to do so.
<i>Personnel</i>	Indicate the number of employees and briefly define their positions. Describe who will be doing the work, why they are qualified, the responsibilities of each position, and the wages and benefits.
<i>Security</i>	Address in terms of inventory control, theft of information and employee screening.
<i>Consultants</i>	List professionals that will provide services to your business. These include accountants, lawyers and consultants, such as the SBDC or SCORE. It is easy to underestimate the need for a team of professionals that can provide you insight to management issues you don't have time to learn. Knowledge of taxes, record keeping and legal issues can make or break a business. If you can't afford a professional, you may need to reconsider the feasibility of your venture.

Consider including the following documentation of your Management Plan in the Exhibits:

<i>Personnel Resumes</i>	Should be limited to one page and include work history, educational background, professional affiliations, honors and special skills.
<i>Legal Documents</i>	All legal papers pertaining to your legal structure, proprietary rights, insurance, titles, etc.
<i>Schedule</i>	Prepare a schedule of employee staffing. Determine the number of hours the business will be open and indicate the level of staffing during the schedule period. These numbers should correspond with your estimates of payroll expenses on your projected financial statements. (See the Money section of this guide)

Marketing

Product/Service

When you think about a product, you usually think of something tangible that has to be designed, manufactured, and packaged. That applies if you are manufacturing a product. But what if your business is retail, wholesale, construction, or even service? The idea of a product applies, and is an essential ingredient in any good marketing plan, for nearly every type of business. In the retail and wholesale trades, your product consists of two or three basic parts.

First, the actual products on your shelves need to be selected. What will be the product mix of the items you select? For example, if you sell primarily impulse items but you carry a core of items to keep people coming back, describe your strategy.

The second area is service in retail and wholesale. Have you been in a store where finding someone to help you is like trying to find an ice cube in the Sahara desert? Or, one where you're pampered? What will your service be like, and how does it make sense in the overall business strategy?

What about overall atmosphere or theme? This is a third area of concern. What will your customer "take away" from his or her experience with you? Too many times businesses, both large and small, forget to pay attention to how a customer will feel after they're done doing business with you. That is why the idea of "*what the customer takes away from the experience*" is critical to Service businesses. In fact, in many service businesses, what the customer remembers from the experience is the only "tangible" product. Their washing machine may work, or their taxes may be done, but if the customer goes away with a bad impression, will that customer likely ever come back?

Whatever your line of business, describe "what" you will offer to bring customers in the door the first time, and then keep them coming back.

Target Market

Describe your market niche. Identify who your customers will be and describe their characteristics. Business markets might be classified by industry, company size, location, or product use/application. Consumer (household) markets might be segmented by demographics, (age, gender), geographic location, economic status, lifestyle, product application or benefits sought.

Estimate the approximate size and growth potential of the target market(s) using population figures, sales tax info, industry information, etc. Estimate how much of the total market you will capture.

Marketing con't

Competition

Evaluate indirect (products/services that can be substituted for yours) and direct competition in terms of location, market and business history. Describe how you will differentiate your business from competitors with regard to Product (features and performance), Service (delivery and installation), Personnel (expertise and courtesy), and Image (atmosphere and events).

Explain why customers will leave your competition and switch to your business. Also, describe what you will offer that your competitor can't easily copy and what you will do to combat competitive reactions.

Market Entry

Tell when you plan to enter the market and how you arrived at your decision.

Location

If your choice of location is related to a target market, cover it in this section of your business plan. If necessary describe traffic count and flow, income and demographic characteristics of the surrounding area.

Industry Trends

Give current trends; project how the market may change and what you plan to do to keep up. Define the life cycle stage of the industry (introduction, growth, maturity or decline) and give support. Also, describe new technologies being introduced and changes in production methods, operations or sales.

Methods of Distribution

Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports or rate sheets.

Promotion

How will your promotional activities (such as advertising, personal selling or publicity) be tailored to your target market? Include rate sheets, promotional material and time lines for your promotional campaign.

Pricing

Pricing is determined as a result of market research and the cost of your product or service. Explain your pricing strategy and defend it with material from your research. Factors that may affect your pricing strategy includes your goals, costs, competition and regulatory issues.

Money

Financial Documentation

With the exception of high-tech industries that require long periods of research, start-up companies must expect to generate income in a short period of time. The Money section of your business plan should include historical financial statements, financial projections, and a description of the start-up costs. The following are major documents you will want to include in your business plan.

Summary of Financial Need

Outline total financial need and why you are applying for a loan. Describe the total estimated cost of the project, including the need for working capital. Describe the equity invested into the project. Equity is funding invested into the business that is not repaid on a set schedule; it is typically money the owner or investors contribute to the project.

*3-Year Income Projection**

The income statement shows your business financial activity over a period of time. It is a moving picture showing what has happened in your business and is an excellent tool for assessing your business. The income projections should show monthly projections for your company for the next three years. Projections should be based on economic and industry trends and should be supported by the market analysis.

*Statement of Cash Flow**

This document projects what your business plan means in terms of dollars. It shows cash inflow and outflow over a three-year period and is used for internal planning. Cash flow statements show both how much and when cash flow must flow in and out of your business.

*Balance Sheet**

The Balance Sheet shows the condition of the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment and will show whether your financial position is strong or weak. It is usually done at the close of an accounting period and contains assets, liabilities and net worth.

*Break-even Analysis**

The break-even point is where a company's operating expenses exactly match the sales or service volume. It can be expressed in total dollars or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived from their sales).

Personal Financial Statement

A statement of personal assets, liabilities and net worth. (Each lender typically can provide you with a form for this.)

Tax Returns

Lenders will typically request copies of your last three personal and business (if applicable) tax returns.

Credit Reports

Business and personal from suppliers or wholesalers, credit bureaus and banks. Note: Check your credit report at the local credit bureau to correct any errors before submitting your business plan to a funding source.

<i>Copies of Leases</i>	Include agreements currently in force between your company and a leasing agency.
<i>Contracts</i>	Include all business contracts, both completed and currently in force.

(The SBDC office can assist you with these four financial documents, once you have estimated the projected monthly revenue, expenses and costs involved in your project. If you would like assistance in preparing these items, please follow the guidelines on the next page.)

Instructions for Preparing Projected Financial Statements

After determining your start-up costs and researching the target market, marketing strategies, competition, industry trends and barriers to entry, you are ready to prepare your financial projections. This task is not as impossible as it seems. Remember, projections are estimates needed to start the process of studying the venture's feasibility. They depend largely upon the quality of the research mentioned above. The SBDC staff will help you interpret that research, but in the end, it is up to you to decide what you feel are realistic figures. Use the blank Pro Forma Income Statement worksheets located on the back of this Business Planning Guide. Once you have the basic revenue and expense figures entered into the worksheet, the SBDC consultant can put them into a computerized spreadsheet and help you analyze the financial feasibility of your venture.

Follow the instructions below carefully:

1. First enter your monthly fixed *Expenses* like salaries (including your own), wages, rent, utilities, etc., and variable costs such as inventory (in *Cost of Goods Sold* line). Then enter your estimated monthly revenue (sales). Revenue includes all sales, whether or not they are collected immediately. Cash not collected immediately becomes accounts receivable (customer credit). See Instruction #4 for more details. If you are selling more than one product or service, break them into several major categories. For example, for a convenience store, enter average monthly sales of gas, groceries and souvenirs separately. Make sure the corresponding *Cost of Goods* for each revenue category is entered as well. If you need more than the three revenue categories on the worksheet, use separate sheets of paper.

NOTE: Expense categories listed on the worksheet are the most common. Replace them with categories that are applicable to your business as needed. Enter your estimates one item at a time working from left to right on the worksheet. If an item is a function of something else (for example, Cost of Goods = 40% of Revenue), it is sufficient to enter that percentage on the worksheet and explain this in the Pro Forma Notes (see below).

2. Develop a set of "Notes and Critical Assumptions to the Pro Forma Financial Statements". This is simply a page that starts with "1. Revenue:" and explains your logic for the numbers you are using. Notes are a valuable tool to help you organize your thoughts. Some items, such as Revenue, may require quite a bit of explanation, while others, such as Insurance, may only require a statement such as "14. Insurance: Coverage of XXX and YYY and ZZZ, based on a quote from So and So Insurance Agency." Not only will these "Notes" make your forecasting more organized, and hopefully easier, they are essential for a reader to understand what you're doing.

3. Remember “Cost of Goods Sold” is the direct cost of merchandise or services that are sold, not what you purchase for inventory (what goes out the door, not what comes in). During certain times of the year, you may anticipate needing more inventory than normal. For example, the owner of a souvenir shop must plan ahead for summer tourists. Consider national and local holidays/events to help plan your inventory needs through the year. Contact suppliers now to learn how long it takes to receive your inventory. If you will purchase large lots of inventory to stock up or take advantage of volume discounts, enter those costs in the appropriate month in the *Seasonal Inventory Purchases* line (lower portion of the worksheet).

4. Will you offer credit? In today’s marketplace, it is not normally necessary for a business to take the place of the local bank in offering credit to customers. If you must, how will you determine credit worthiness, what terms will you offer, and when do you expect to collect the balance of the accounts? Provide a breakdown of the timing of your accounts receivable collections –

_____ % of accounts collected in cash or credit cards (on average)

_____ % of accounts collected in 0-30 days

_____ % of accounts collected in 31-60 days

_____ % of accounts collected in 61-90 days

_____ % of accounts collected in 90+ days

5. Develop a “Sources and Uses of Funds” Statement. (Form on next page 15.) This should list, on the top half, where all funds and/or assets for your project will come from, including all equity (cash “down payment” or other assets you will contribute) and debt (loans) proposed. On the bottom half, list the “uses” of funds, or what you will use the money for. (If you are contributing non-cash assets as equity, be sure to also show these assets in the “uses” section.) The two section totals (sources and uses) should be equal (i.e., don’t show more uses than you have sources).

Land – Based on proposed purchase price or current assessed or appraised value for the property.

Building – If existing building, use current fair market value of building or proposed purchase price. If construction a new building, describe the costs associated with engineering, architect fees, surveys, blue prints, drainage, water, sewer, electrical, HVAC, site preparation, etc. Also include appraisal fees, permit fees, and Phase I, II, and III environmental studies. Get written bids!

Renovations – Describe any costs associated with building or site renovations. Get written bids!

Equipment and Machinery – Describe the acquisition of any equipment or machinery. This includes office equipment.

Furniture and Fixtures – Describe any items that will be purchased such as chairs, lights, etc.

Intangible Assets – This expense represents any franchise or trade name agreements or goodwill.

Inventory – To stock your shelves or for use in your production process.

Working Capital – Cash required to pay the bills until the business is up and supporting itself.

6. Explanation of Expense Categories on Projected Income Statement

Owner’s Salary – Compensation for owners.

Employee Wages – Your hourly wage(s) times the number of employees times the number of hours of month they will be working plus monthly salaries for employees.

Payroll Taxes – Employer’s share of employment taxes. Ordinarily, includes 7.65% for Social Security and Medicare, .8% for Federal unemployment and 1.9% for state unemployment, which totals to 10.35% of wages.

Worker’s Comp –Insurance based on wage classification and amount of payroll projected. Get estimate from commercial insurance agent.

Bad Debts – May be based on a percentage of your total sales. Will vary by industry and credit policy.

Outside Services – Fees for cleaning, snow removal, lawn care, errand services, etc.

Supplies – Shop supplies, cleaning supplies or other supplies used in the business. Do not include inventory purchases in this line.

Maintenance – Repairs or upkeep of your building or equipment.

Advertising/Promotion – Costs related to printing materials, advertising, direct mail, trade show exhibits, or other marketing activities.

Office Expense – Offices supplies and postage that will be used up within a year.

Car/Travel – To reimburse employees for work-related travel in their own vehicles, gas and maintenance of company vehicles, or travel and meal costs for attending trade shows, visiting customers, etc.

Accounting & Legal – Fees for accounting or legal services, including tax return preparation.

Rent - Rent or lease payment made for business space.

Telephone – Local phone service, long distance, cellular, paging and Internet services.

Utilities – Includes gas, electricity, water, sewer, and garbage collection fees.

Insurance – Can include cost of liability, health, fire, flood and worker's compensation insurance. Please reflect how you will pay – monthly, quarterly, annually, etc.

Equipment Lease – Lease payments on equipment used in the business.

Taxes (RE) – Real estate taxes on business property, generally paid in April and October. Call your county assessor to get an estimate of real estate taxes.

Merchant Account Fees - Fees charged to a retailer who accepts credit cards.

Miscellaneous – Other small expenses including Chamber of Commerce or professional organization dues, licensing fees, or subscriptions to business-related publications. May also include an amount as a cushion for unexpected expenses and one time start up costs.

We can add or delete categories as necessary on our spreadsheet.

Sources and Uses of Funds Statement

Uses of Funds

Long-Term Assets

Land	\$	
Building	\$	
Renovations	\$	
Equipment	\$	
Furniture & Fixtures	\$	
Computers & Office Equipment	\$	
Vehicles & Trailers	\$	
Signage	\$	
Other: _____	\$	
Total Long-Term Assets	\$	

Intangible Assets

Franchise Fees	\$	
Legal & Accounting Startup (including LLC/S-Corp formation if applicable)	\$	
Pre-Opening Costs (training, rent during buildout, Grand Opening Advertising, etc)	\$	
Goodwill/Blue Sky (if purchasing existing business)	\$	
Other: _____	\$	
Total Intangible Assets	\$	

Short-Term Assets

Inventory	\$	
Operating Cash (Working Capital)	\$	
Lease & Utility Deposits	\$	
Supplies	\$	
Other: _____	\$	
Total Short-Term Assets	\$	

Total Uses of Funds (total of Long-Term, Intangible and Short-Term Assets above) \$

Sources of Funds

Equity Injection

Cash	\$	
Other Equity (if you own any of the above assets already, what is their fair value)	\$	
Total Equity Injection	\$	

Debt (borrowed money)

Business Loan	\$	
State/Local Economic Development Loan	\$	
Other: _____	\$	
Total Debt	\$	

Total Sources of Funds (must match Total Uses of Funds dollar amount above) \$

Client Name: _____
 Financial Statement: Pro Forma Income Statement
 Date Prepared: _____
 Scenario Designation: Best Case, Most Likely, or Worst Case (please circle one)

Year 1 2 3
 (circle one)

	Month 0 (Pre-Startup Mo)	Month 1 Month 1 is the month you plan to open your doors. Please indicate the actual month here _____	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
REVENUE													
#1 _____													
#2 _____													
#3 _____													
Total Revenue													
COST OF GOODS SOLD													
#1 _____													
#2 _____													
#3 _____													
Total COGS													
EXPENSES													
Owners Salary													
Employee Wages													
Payroll Taxes													
Workers Comp													
Bad Debts													
Outside Service													
Supplies													
Maintenance													
Adv/Promotion													
Office Expenses													
Car/Travel													
Acct & Legal													
Rent													
Telephone													
Utilities													
Insurance													
Equipment Lease													
Taxes (RE)													
Miscellaneous													
<i>*For explanation of expense categories, see instructions on previous page.</i>													
Debt Service													
<i>(can be calculated by SBDC based on projected loan package)</i>													
Seasonal Inventory Purchases													

Use this template to make monthly estimates of revenue and expenses. Copy this form and complete for a 3-year period. Then provide to SBDC to input into a financial spreadsheet

Please reference the instructions for Preparing Projected Financial Statements on the previous page.

Include detailed notes describing how you arrived at the above numbers (i.e. - 2 employees at \$8/hr. working 40 hrs. a week = \$640/week for 4 weeks = \$2560/mo. wage expense).

NOTES