How To Develop A Business Plan

A Guide for Established Businesses

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www.tricountycc.edu

Business Plan for an Established Business

This business plan consists of a narrative and several financial spreadsheets. The narrative template is the body of the business plan. It contains more than 150 questions divided into several sections. Work through the sections in any order you like, except for the ***Executive Summary**,* which should be done last. Skip any questions that do not apply to your business. When you are finished writing your first draft, you will have a collection of small essays on the various topics of the business plan. Then you will want to edit them into a flowing narrative.

The real value of doing a business plan is not having the finished product in hand; rather, the value lies in the process of research and thinking about your business in a systematic way. The act of planning helps you to think things through thoroughly, to study and research when you are not sure of the facts, and to look at your ideas critically. It takes time, but avoids costly, perhaps disastrous, mistakes later.

The business plan narrative is a generic model suitable for all types of businesses. However, you should modify it to suit your particular circumstances. Before you begin, review the section titled ***Refining the Plan***, found at the end of the business plan. It suggests emphasizing certain areas, depending upon your type of business (manufacturing, retail, service, etc.). It also has tips for fine-tuning your plan to make an effective presentation to investors or bankers. If this is why you are writing your plan, pay particular attention to your writing style. You will be judged by the quality and appearance of your work as well as your ideas.

It typically takes several weeks to complete a good plan. Most of that time is spent in research and rethinking your ideas and assumptions. But then, that is the value of the process. So make time to do the job properly. Those who do make the time for proper planning never regret the effort. And finally, be sure to keep detailed notes on your sources of information and on the assumptions underlying your financial data.

Business Plan

Owners:

Business name:	Your Business Name
Address:	Address Line 1
	Address Line 2
	City, ST ZIP Code
Telephone:	(555) 555-0100
Fax:	(555) 555-0101
E-mail:	someone@example.com

Table of Contents

Executive Summary

Write this section *last!* We suggest that you make it two pages or less. Include everything that you would cover in a five-minute interview.

Explain the fundamentals of the business: What is your product, who are your customers, who are the owners, and what do you think the future holds for your business and your industry?

Make it enthusiastic, professional, complete, and concise.

If you are applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment.

The *Executive Summary* explains the purpose of this proposal. It should include a very brief summary of the business as an introduction. Then it should include the basic points of the financing proposal. This section is frequently written last and can be modified for different presentations. The Statement is sometimes called an *Executive Summary* and should include:

1. What is the business? What are its objectives?
2. How is the business structured or organized (single proprietor, partnership, corporation, limited liability company)?
3. Who are the principals involved in the business?
4. Why will the venture be successful?
5. What is the total amount of funding needed to implement the plans?
6. How will the funds benefit the business?
7. How much of the funds are being requested from this funding source? At what terms (interest, payment rate, time)? What is the ‘deal’ offered?
8. What other sources of funding are being considered?
9. How will the funds be repaid?
10. Why does the loan or investment make sense?

11. What are the critical risks and assumptions for this venture? What strategies are planned to overcome these risks?

General Company Description

Mission statement: Many companies have a brief mission statement, usually 30 words or fewer, explaining their reason for being and their guiding principles. If you have a mission statement, this is a good place to put it in the plan, followed by company goals and objectives and business philosophy.

What business are you in? What do you do?

What is your target market? (Explain briefly here, because you will do a more thorough explanation in the *Marketing Plan* section.)

Describe your industry. Is it a growth industry? What changes do you foresee in your industry, and how is your company poised to take advantage of them?

Now give a detailed description of the business:

Form of ownership: Sole proprietor, partnership, corporation, or limited liability company (LLC)?

Company history: Years in business, previous owners, successes, failures, lessons learned, reputation in community, sales and profit history, number of employees, and events that affected success. Discuss significant past problems and how you solved and survived them.

Most important strengths and core competencies: What factors will make the company succeed? What are your major competitive strengths? What strengths do you personally bring to the business?

Significant challenges the company faces now and in the near future: If you are asking for funding, go on to explain how the new capital will help you meet these challenges.

Long term: What are your plans for the future of the business? Growth? If so, at what rate and how will you achieve it?

Are you developing strategies for continued growth, increased production, diversification, or eventual sale of the business? What are your time frames for these?

Products and Services

Describe in depth your products and services. (Technical specifications, drawings, photos, sales brochures, and other bulky items belong in the *Appendices.*)

What factors give you competitive advantages or disadvantages? For example: the level of quality, or unique or proprietary features.

What is the pricing, fee, or leasing structure of your products and services?

Marketing Plan

Notes on Preparation:

Market research: Why?

You spend so much time on marketing-related matters — customers, competitors, pricing, promotion, and advertising — that it is natural to assume that you have little to learn. However, every small business can benefit from doing market research to make sure it is on track. Use the business planning process as your opportunity to uncover data and to question your marketing efforts. It will be time well spent.

Market research: How?

There are two kinds of market research: primary and secondary.

Secondary research means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available from public libraries, industry associations, chambers of commerce, vendors who sell to your industry, and government agencies.

Start with your local library. Most librarians are pleased to guide you through their business data collection. You will be amazed at what is there. There are more online sources than you could possibly use. Your chamber of commerce has good information on the local area. Trade associations and trade publications often have excellent industry-specific data.

Primary market research means gathering your own data. For example, you could do your own traffic count at a proposed location, use the yellow pages to identify competitors, and do surveys or focus group interviews to learn about consumer preferences. Professional market research can be very costly, but there are many books that show small business owners how to do effective research.

In your marketing plan, be as specific as possible; give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important sales projection.

The Marketing Plan:

Economics

- Facts about your industry
- Total size of your market

- Percentage share of the market you have. (This is important only if you are a major factor in the market.)
- Current demand in target market
- Growth history
- Trends in target market — growth trends, trends in consumer preferences, and trends in product development
- Growth potential and opportunity for a business of your size
- What barriers to entry keep potential new competitors from flooding into your market?
    - High capital costs
    - High production costs
    - High marketing costs
    - Consumer acceptance/brand recognition
    - Training/skills
    - Unique technology/patents
    - Unions
    - Shipping costs
    - Tariff barriers/quotas
- How could the following affect your company?
    - Change in technology
    - Government regulations
    - Changing economy
    - Change in your industry

Products

In the *Products and Services* section, you described your products and services as you see them. Now describe them from your customers' point of view.

Features and Benefits

List all your major products or services.

For each product or service, describe the most important features. That is, what does the product do? What is special about it?

Now, for each product or service, describe its benefits. That is, what does the product do for the customer?

Note the differences between features and benefits, and think about them. For example, a house gives shelter and lasts a long time; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so you can sell the benefits.

What after-sale services are supplied? For example: delivery, warranty, service contracts, support, follow-up, or refund policy.

Customers

Identify your customers, their characteristics, and their geographic locations; that is, demographics.

The description will be completely different depending on whether you sell to other businesses or directly to consumers. If you sell a consumer product, but sell it through a channel of distributors, wholesalers, and retailers, you must carefully analyze both the end user and the intermediary businesses to which you sell.

You may have more than one customer group. Identify the most important groups. Then, for each consumer group, construct a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class/occupation
- Education
- Other

For business customers, the demographic factors might be:

- Industry (or portion of an industry)
- Location
- Size of firm
- Quality/technology/price preferences
- Other

Competition

What products and companies compete with you? List your major competitors, including their names and addresses.

Do they compete with you across the board, just for certain products, certain customers, or in certain locations?

Use the following table to compare your company with your three most important competitors.

In the first column are key competitive factors. Because these vary with each market, you may want to customize the list of factors.

In the cell labeled "Me," state honestly how you think you stack up in customers' minds. Then decide whether you think this factor is a strength or a weakness for you. If you find it hard to analyze yourself this way, enlist some disinterested party to assess you. This can be a real eye-opener.

Now analyze each major competitor. In a few words, state how you think they stack up.

In the last column, estimate how important each competitive factor is to the customer. 1 = critical; 5 = not very important.

Table 1: Competitive Analysis

FACTOR	Me	Strength	Weakness	Competitor A	Competitor B	Competitor C	Importance to customer
Products							
Price							
Quality							
Selection							
Service							
Reliability							
Stability							
Expertise							
Company reputation							
Location							
Appearance							
Sales method							
Credit policies							
Advertising							
Image							

After you finish the competitive matrix, write a short paragraph stating your competitive advantages and disadvantages.

Niche

Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world.

In one short paragraph, define your niche, your unique corner of the market.

Marketing Strategy

Now outline a marketing strategy that is consistent with your niche.

Promotion: How do you get the word out to customers?

Advertising: What media do you use, why, and how often? Has your advertising been effective? How can you tell?

Do you use other methods, such as trade shows, catalogs, dealer incentives, word of mouth, and network of friends or professionals?

If you have identifiable repeat customers, do you have a systematic contact plan?

Why this mix and not some other?

Promotional Budget

How much will you spend on the items listed above?

Should you consider spending less on some promotional activities and more on others?

Pricing

What is your pricing strategy? For most small businesses, having the lowest prices is not a good strategy. Usually you will do better to have average prices and compete on quality and service. Does your pricing strategy fit with what was revealed in your competitive analysis?

Compare your prices with those of your competition. Are they higher, lower, the same? Why?

How important is price as a competitive factor?

What are your payment and customer credit policies?

Location

You will describe your physical location in the *Operational Plan* section of your business plan. Here in the *Marketing Plan* section, analyze your location as it affects your customers.

If customers come to your place of business:

- Is it convenient? Parking? Interior spaces? Not out of the way?
- Is it consistent with your image?
- Is it what customers want and expect?

Where is the competition located? Is it better for you to be near them (like car dealers or fast-food restaurants) or distant (like convenience food stores)?

Distribution Channels

How do you sell your products or services?

- Retail
- Direct (mail order, World Wide Web, catalog)
- Wholesale
- Your own sales force
- Agents
- Independent reps

Has your marketing strategy proven effective?

Do you need to make any changes or additions to current strategies?

Operational Plan

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.

Production

How and where do you produce your products or services?

Explain your methods of:

- Production techniques and costs
- Quality control
- Customer service
- Inventory control
- Product development

Location

Describe the locations of production, sales, storage areas, and buildings.

Do you lease or own your premises?

Describe access to your buildings (walk in, parking, freeway, airport, railroad, and shipping).

What are your business hours?

If you are trying to get an expansion loan, include a drawing or layout of your proposed facility.

Legal Environment

Describe the following:

- Licensing and bonding requirements
- Permits
- Health, workplace, or environmental regulations
- Special regulations covering your industry or profession
- Zoning or building code requirements

- Insurance coverage
- Trademarks, copyrights, or patents (pending, existing, or purchased)

Personnel

- Number of employees
- Type of labor (skilled, unskilled, professional)
- Where do you find new employees?
- Quality of existing staff
- Pay structure
- Training methods and requirements
- New hiring in the coming year?
- Who does which tasks?
- Are schedules and procedures in place?
- Do you have written job descriptions for employees? If not, take time to write some. Written job descriptions really help internal communications with employees.
- Do you use contract workers as well as employees?

Inventory

- What kind of inventory do you keep: raw materials, supplies, finished goods?
- Average value in stock; that is, what is your inventory investment?
- Rate of turnover and how it compares with industry averages?
- Seasonal buildups?
- Lead time for ordering?

Suppliers

Note the following information about your suppliers:

Their names and addresses.

Type and amount of inventory furnished.

Credit and delivery policies.

History and reliability.

Do you expect shortages or short-term delivery problems?

Are supply costs steady or fluctuating? If fluctuating, how do you deal with changing costs?

Should you be searching out new sources of supply, or are you satisfied with present suppliers?

Credit Policies

Do you sell on credit? If so, do you really need to? Is it customary in your industry and expected by your clientele?

Do you carefully monitor your payables (what you owe to vendors) to take advantage of discounts and to keep your credit rating good?

You need to carefully manage both the credit you extend and the credit you receive.

Managing Your Accounts Receivable

If you do extend credit, what are your policies about who gets credit and how much?

How do you check the creditworthiness of new applicants?

What terms will you offer your customers; that is, how much credit and when is payment due?

Do you offer prompt payment discounts? (It is best to do this only if it is usual and customary in your industry.)

Do you know what it costs you to extend credit? This includes both the cost of capital tied up in receivables and the cost of bad debts.

Have you built the costs into your prices?

You should do an aging at least monthly to track how much of your money is tied up in credit given to customers and to alert you to slow payment problems. A receivables aging looks like the following table.

Table 2: Accounts Receivable Aging

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts receivable aging						

Collecting from delinquent customers is no fun. You need a set policy and you need to follow it.

When do you make a phone call?

When do you send a letter?

When do you get your attorney to threaten?

Managing Your Accounts Payable

You should also age your accounts payable (what you owe to your suppliers). Use this format.

Table 3: Accounts Payable Aging

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts payable aging						

This helps you plan whom to pay and when. Paying too early depletes your cash, but paying late can cost you valuable discounts and damage your credit. (Hint: If you know you will be late making a payment, call the creditor before the due date. It tends to relax them.)

Are prompt payment discounts offered by your proposed vendors? Do you always take them?

Management and Organization

Who manages the business on a day-to-day basis?

What experience does that person bring to the business? What special or distinctive competencies?

Is there a plan for continuation of the business if this person is lost or incapacitated?

If you have more than 10 employees, prepare an organizational chart showing the management hierarchy and who is responsible for key functions. Include position descriptions for key employees.

Professional and Advisory Support

List the following:

- Board of directors and management advisory board
- Attorney
- Accountant
- Insurance agent
- Banker
- Bookkeeper
- Consultants
- Mentors and key advisors

Personal Financial Statement

Owners often have to draw on personal assets to finance the business. This statement will show you what is available. Bankers and investors usually want this information as well. They will ask owners to cosign or personally guarantee any business loans.

Document your assumptions, notes, definitions, and any special financial situation. Include details of notes, securities, contracts, etc. on the bottom of a personal financial spreadsheet. Include one such spreadsheet for each principal.

Financial History and Analysis

A solid analysis of the past must precede any serious attempt to forecast the future. A financial history and ratios spreadsheet will allow you to put a great deal of financial information from other statements on a single page for ease of comprehension and analysis. You may also enter industry average ratios for comparison.

In the *Appendices*, put year-end balance sheets, operating statements, and business income tax returns for the past three years, plus your most current balance sheet and operating statement.

Debt Schedule

This table gives in-depth information that the financial statements themselves do not usually provide. Include a debt schedule in the following format for each note payable on your most recent balance sheet.

Table 4: Debt Schedule

To whom payable	Original amount	Original date	Present balance	Rate of interest	Maturity date	Monthly payment	Security	Current/past due

Financial Plan

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a breakeven calculation.

Together, these spreadsheets constitute a reasonable estimate of your company's financial future. More important, however, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

12-Month Profit and Loss Projection

Explain the major assumptions used to estimate company income and expenses. Your sales projection should come from an annual sales forecast. Pay special attention to areas where historical performance varies markedly from your projections.

Four-Year Profit Projection (Optional)

The 12-month projection is the heart of your financial plan. However, this worksheet is for those who want to carry their forecasts beyond the first year. It is expected of those seeking venture capital. Bankers pay more attention to the 12-month projection.

Of course, keep notes of your key assumptions, especially about things you expect to change dramatically over the years.

Projected Cash Flow

The cash-flow projection is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

Your cash flow will show you whether your working capital is adequate. Clearly if your cash on hand goes negative, you will need more. It will also show when and how much you need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from a profit and loss statement, such as:

- If you make a sale in month 1, when do you actually collect the cash?
- When you buy inventory or materials, do you pay in advance, upon delivery, or much later?
- How will this affect cash flow?
- Are some expenses payable in advance?

- Are there irregular expenses, equipment purchase, or inventory buildup that should be budgeted?

And of course, depreciation does not appear at all because you never write a check for it.

Projected Balance Sheet

This is an estimate of what the balance sheet will look like at the end of the 12-month period covered in your projections.

In the business plan section related to your projected balance sheet, state the assumptions that you used for all major changes between your last historical balance sheet and the projection.

Breakeven Analysis

A breakeven analysis determines the sales volume, at a given price, that is required to recover total costs.

Expressed as a formula, breakeven is as follows.

$$\text{Breakeven sales} = \frac{\text{Fixed costs}}{\text{1- Variable costs}}$$

(Where fixed costs are expressed in dollars, but variable costs are expressed as a percentage of total sales.)

Appendices

Include details and studies used in your business plan; for example:

- Brochures and advertising materials
- Industry studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies

Refining the Plan

The generic business plan presented above should be modified to suit your specific type of business and the audience for which the plan is written.

For Raising Capital

For Bankers

Bankers want assurance of orderly repayment. If you intend to use this plan to present to lenders, include:

- Amount of loan.
- How you will use the funds.
- What will this accomplish (how will it make the business stronger)?
- Requested repayment terms (number of years to repay). You will probably not have much negotiating room on interest rate, but you may be able to negotiate a longer repayment term, which will help cash flow.
- Collateral offered, and a list of all existing liens against the collateral.

For Investors

Investors have a different perspective from bankers. They are looking for dramatic growth, and they expect to share in the rewards. Include the following in the plan that you present to potential investors:

Funds needed short term

Funds needed in two to five years

How the company will use the funds, and what this will accomplish for growth

Estimated return on investment

Exit strategy for investors (buyback, sale, or IPO)

Percentage of ownership that you will give up to investors

Milestones or conditions that you will accept

Financial reporting that you will provide

Involvement of investors on the board or in management

Refine Your Plan for the Type of Business

Manufacturing

- Present production levels
- Present levels of direct production costs and indirect (overhead) costs
- Gross profit margin, overall and for each product line
- Possible production efficiency increases
- Production-capacity limits of existing physical plant
- Production capacity of expanded plant (if expansion is planned)
- Production-capacity limits of existing equipment
- Production capacity of new equipment (if new equipment is planned)
- Prices per product line
- Purchasing and inventory management procedures
- Anticipated modifications or improvements to existing products
- New products under development or anticipated

Service Businesses

Service businesses sell intangible products. They are usually more flexible than other types of business, but they also have higher labor costs and generally very little in fixed assets.

- Prices
- Methods used to set prices
- System of production management
- Quality control procedures
- Standard or accepted industry quality standards
- How do you measure labor productivity?
- What percentage of total available hours do you bill to customers?

- Breakeven billable hours
- Percentage of work subcontracted to other firms
- Profit on subcontracting?
- Credit, payment, and collections policies and procedures
- Strategy for keeping client base
- Strategy for attracting new clients

High-Tech Companies

- Economic outlook for the industry
- Does your company have information systems in place to manage rapidly changing prices, costs, and markets?
- Is your company on the cutting edge with its products and services?
- What is the status of R&D? And what is required to bring the product or service to market and to keep the company competitive?
- How does the company:
    - Protect intellectual property?
    - Avoid technological obsolescence?
    - Supply necessary capital?
    - Retain key personnel?

If your company is not yet profitable or perhaps does not yet even have sales, you must do longer-term financial forecasts to show when profit take-off will occur. And your assumptions must be well documented and well argued.

Retail Business

- Company image
- Pricing: Explain mark-up policies. Prices should be profitable, competitive, and in accord with the company image.
- Inventory:

    - Selection and price should be consistent with company image.
    - Calculate your annual inventory turnover rate. Compare this to the industry average for your type of store.

- Customer service policies: These should be competitive and in accord with the company image.
- Location: Does it give the exposure you need? Is it convenient for customers? Is it consistent with company image?
- Promotion: What methods do you use and what do they cost? Do they project a consistent company image?
- Credit: Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?