

WRITING A BUSINESS PLAN

Have you actually written down your business ideas? If you have not, it is essential that you do so.

The process of writing your business plan forces you to take an objective view of the business in its entirety. Most entrepreneurs have great ideas, but without a plan of action, the business proceeds haphazardly. Writing down the specific details of the business in a business plan allows the entrepreneur to take an objective view and make realistic decisions.

Taking an impartial view of the business allows you to identify its strengths and weaknesses, as well as opportunities and possible threats. The business plan should give enough information to help detect problems, needs, and possibly overlooked details. Planning helps determine how to achieve your business goals.

The importance of planning cannot be overemphasized. It is the key to unlocking the door to success. Once you have opened that door you will find many more doors each with their own set of variables, problems, and situations. You must have a logical, well-organized plan to refocus you on the elements that will make your business successful.

A completed business plan becomes an operating tool that will help you to manage your business and work toward its success. A completed plan is the chief instrument used to communicate your ideas to vital people, such as bankers, business people and partners. If you are seeking financing for the business, the plan becomes the basis for the loan proposal.

When preparing your plan, it is important to give yourself time and privacy to do some creative thinking. Once you have gathered some information and know quite a bit about your business, give yourself enough time to clearly bring out the facts and reach the proper conclusions. This is the time to establish your marketing goals, objectives, targets, and develop an operations outline and financial information.

Blocks of time are crucial. Set aside certain time periods, perhaps every Thursday night or Saturday morning. Though it is difficult to allocate time if you are working for someone or are currently operating a business you must discipline yourself to do so. Set up a time line for completion of your business plan. Establish a timeline for beginning and talking with certain people. Commit to completion of sections by a certain date. Set a date certain for completion of the entire plan.

Your written plan should be long enough to cover your subject thoroughly. If you go much above thirty pages, including supporting documents, review your plan and see whether you can make the same impact with fewer words. Typically, as long as you are brief and to the point, less is more because in as few words as possible you have made the desired impact.

Writing too much can weaken your proposal by repetition. Double check that you have not promised anything you can't deliver. If the plan and supporting documents is fewer than twenty pages, it's possible that you need to do a more research to make sure that you have covered everything.

As you read the following section, keep in mind that you need to do all you can to enhance your chances for raising capital or otherwise increase benefits for your small business. Another important fact to keep in mind when preparing your plan is that you will not be creating it in the same order that it is presented. It is important that you do

the proper research before you actually write the business plan, which may be incorporated as part of a loan agreement.

The business plan should have a cover. A plain businesslike cover is preferable to a flashy one. A lender is more likely to think well of you if you remain conservative rather than if you spend money on unnecessary show.

This is the order of the plan as it should appear in the bound copy:

I COVER PAGE

Name of the business

Address

Telephone Number

Name of Owner(s)

Logo (A professional, businesslike logo can be used to dress up the cover page.)

Submitted to (for financing only)

II SUMMARY

Should tell the reader what you want. This is very important. All too often, what the business owner wants is buried in the body of the business plan. Make clear what you are looking for, and be specific. (1/2 to 1 page, for Financial Plan)

☐ Name of the business Include the legal form of operation (sole proprietorship, partnership, corporation, limited partnership, Limited Liability Company).

Amount of money needed

How the money will be used

Effect of the money on the business

- OR -

If the primary purpose of the package is not to obtain a loan or equity funding, then the objective should state that the plan is designed to explain the operation of the business. Thus, there might be a word to the employees or others who are going to be reading it.

Company name and type

Goals and policies of the plan

How the plan will be implemented

Effect of the goals and policies on the business

III TABLE OF CONTENTS (You will prepare this last.)

IV THE BUSINESS

In describing your business, you must tell:

What your business is, or will be if it's a start-up situation;

How you plan to run it; and

Why you think it will be successful.

Market Analysis

Give some statistics for the industry segment represented by your business.

Who are the potential customers for your product or service? Where are they located?

What are their characteristics? What is the size of your market? What percentage of the market will be yours?

Discuss the growth potential of the market. Is it increasing or decreasing? Is it a fad? Is it seasonal? Is the market always there, always the same? Does it simply grow with the population? As the market grows, does your share of it grow? What are the factors affecting the growth of your market, and of your market share?

How will you satisfy or service your market? Is your product of superior quality, of different color? Did you add wings, sleeves, or make it metal instead of plastic? What is different about your business that will enhance its acceptance in the market?

Give information about your pricing and promotion in this section of the plan. Factors influencing your pricing policies include the type of operation you will have—wholesale, retail, upscale, etc. Are you going to be the most expensive place in town? Are you going to be a discounter? Will you discount for quantity buys? Show that the pricing will generate sufficient income to sustain the business. It is important to be knowledgeable about pricing structures in your industry, and be able to justify reasons for your particular pricing policies.

Pricing

Pricing is a primary attribute of your financial plan; Pricing based on costs will determine whether or not your business can be profitable.

Competition Analysis

List your four or five nearest competitors, by business name and address, and owner, if known. How do your competitors' operations differ from the one you plan? How can yours be better than theirs? Talk to their suppliers. Talk to their customers. Talk to their business neighbors. Is the operation steady? Is it increasing or decreasing, and why? What can you do to take advantage of their weakness?

Your goal is to assure yourself that your business will differ from the competition, and how your choices will give you a profit. Be specific in showing how you will give your business a competitive edge. The bottom line in this section is the statement that after viewing your nearest competitors, you know that your business model is better because of this, that, and that.

Location Analysis

State where you plan to establish your business or where it is located if it is an ongoing business. Note the community and the district within which the business will be located and the limits of the geographic area the business will serve. If you have two or three alternative locations in mind, mention them, emphasizing the most likely one. Describe special features of the neighborhood, of your building lot, of the other businesses in the area. Consider the physical features of your business and, whenever possible, relate them to your profit potential. What floor are you on? What kind of space do you have? Do you have air conditioning, heating, plumbing? Are you on the corner? Is your street one way, two or four-lane? Is there ample parking? Have you done a traffic count and analyzed flow patterns?

State whether the location is leased or owned. If you plan on leasing, include a copy of the lease in the supporting documents. Note the length of the lease, projected increases, maintenance agreements, and whether a janitorial service is involved. Some leases are known as triple-net, which means basically that you are responsible for everything in the building: landscaping, air conditioning, plumbing, etc. If you own the premises, state the financial details, property tax rates, and so on.

If your business derives orders from the internet or a catalog then identify the storage

and shipping location for your products.

Management Expertise

In preparing this section, cover these areas:

- 1) Related work experience that you and the other owners have had;
- 2) Education of the owners;
- 3) Salary, duties and responsibilities of key personnel;
- 4) Outside resources available to the business, and experts who can help run the business on a part-time basis;
- 5) Banking needs.

What you're doing is writing job descriptions of those closest to the business. Clarifying who does what, where, how, and why is essential for any business to run smoothly. Describe your management needs, and how your choices for management meet those needs.

Support Personnel

After you cover management personnel, discuss support personnel or employees. What are your needs? Are the personnel available? Do you need seasonal, temporary, full-time or part-time help?

As you did with your management team, state what the duties and responsibilities of support personnel will be. What qualifications will a person need to work for you?

How money will be applied and effect on business (if applicable)

This section concerns the expected effect of the loan or investment you receive on the strength of the business plan. When you determine what is required to initiate and operate your business, you may place higher costs on the items that you think are critical to the business. If your costs are generally out of line with what you can realistically afford, it may be helpful to generate a three column list. In the first column, list items that will barely do the job, at the lowest price, if you start your project on a shoestring. In the second column, list the prices of the equipment you will most likely need to do a good job. In the third column, list all optimum features—what you would like if money were no object. Here you may, more or less, ignore the need for start-up capital or making a profit in the shortest period of time. Put down prices for each item. If you get bids from different sources, you will have a range to work with. As you go through your profit and loss statement and realize your start-up estimates are a little high, you can refer to this list and select an alternative to bring initial equipment or other cost, in line with the overall business plan. Similarly, you can increase your start-up capital estimate. The key point is to make every item in the plan consistent with every other item.

You may want to work through your financial estimates four or five times before you can realistically project expected sales, expenses, profit, and positive cash flow through the first year of operation. This is not unusual. The purpose of doing all this homework is to determine your financial needs, as well as the application a loan will have on the business.

You have to say that the money you are looking for is going to be used in a specific way, and such use of the money is going to affect your business in a specific way.

Summary

You need to summarize your business again. The business summary is the most important and perhaps most difficult part of the plan. The objective here is to make a clear, concise statement of what the business is—or will be, if it's a start-up situation. What you are doing here is showing the reader what he/she should conclude from the material. You are drawing the conclusion for the reader.

This is where you can bring together the ideas developed in the preceding sections. Bring together the different parts of the analysis logically and succinctly. If the points make sense and leave the reader with a solid feeling of a profitable, low-risk business that he wants to fund or become a part of, then this section has done its job.

Your tone should be upbeat. The reader should have a feeling of confidence by the time he is finished looking over the plan. In the same connection, the writing of the business plan should be clear, direct, brief, and to the point. A concise one page summary should prepare the reader to move with confidence toward your financial data.

V FINANCIAL INFORMATION

Personal Capital Being Invested in the Business

Begin with a description of any personal capital you are bringing into the business. Put the source and how you are going to apply the money, e.g.: first and last month's rent, renovations, 20% of your inventory. Don't get too wordy; just go ahead and say how you're going to use it.

Equipment List

This is your capital equipment list. Identify each item by make and model. Tell whether it is new or used and whether you are going to lease or buy, and where in your forecast you need the equipment. Not every piece of capital equipment may be needed on day one. Your equipment list should be specific and comprehensive. If you only need a van, a phone, and a computer, then that's what you put down. Inflating your capital equipment needs will show an experienced loan officer that you don't really understand your business. Also you will not be able to talk intelligently about the list you create.

Break-even Analysis

The control documents you will use in your business are the balance sheet, income statement and projections, and cash flow projections. For most businesses, it is useful to include a break-even analysis. These documents are complicated, and they can be used to monitor your performance, give you good financial information, increase profits, and avoid money-wasting pitfalls. The break-even analysis tells you how much money you need to make, whether every day, every week, or every month that you plan to stay in business. A break-even analysis lets

you know whether you have to do some advertising, cut back on personnel, hire more salespeople, reduce administrative costs, etc. It tells you where you are, virtually on a daily basis. It is a tool for monitoring your business goals.

Balance Sheet

If your business is new, your balance sheet is likely to be your personal financial statement. A balance sheet tells what your assets, liabilities, and net worth are. These are the fundamentals lenders will use to determine how much collateral you have to offer.

Pro Forma Cash-Flow Analysis

The pro forma cash flow is one of the most critical information tools for a new or growing business. This statement shows how much cash is going to be needed, when, and where it's going to come from. It shows a schedule of the money coming into the business, whether that business is new or existing. A cash flow projection will tell you when you need extra money to protect yourself so that the outflow doesn't get larger than the money coming in. By identifying your needs early, you can arrange for additional money from your banker at the best possible time—before you need it.

Based on the past history of your business or data gathered from the performance of other similar businesses, make a complete list of all expenses that you expect to have. Subtract the cost of goods sold or cost of sales from your gross sales figure to get your gross profit. Then, subtract expenses from your gross profit to arrive at net profit before taxes.

The financial data supporting your plan should cover three years. The first year should be covered by month, and the following two, by quarter.

Attach notes that explain how you arrived at your figures. This explanation should include your assumptions and detailed footnotes that will help the reader understand the reasoning behind your calculations. Base your reasoning on two factors: what is customary in the business as a whole, and what is unique about your business in relation to custom that makes your numbers valid.

VI SUPPORTING INFORMATION

This is the section that allows you to dress up your business; use your charm, personality, and creativity. There are two important factors: the documents must be relevant, and for the best results, they should be thought of as marketing tools.

Resume (no more than one page)

A resume or biography is important. Cite experience and capabilities that contribute directly to your understanding and operation of the business. Include your education, volunteer activities, or outside activities that will help focus on your abilities. Mention some particularly significant result of your participation in major functional areas. Make it clear and easy to read.

Letters of Intent

If you are going to be (for example) catering parties, manufacturing, importing or exporting goods and have commitments from prospective clients, include their letters of intent to do business with you. Related to letters of intent are in-hand purchase orders. These can come from any prospective customer. However, more compelling than orders or letters from individual customer are commitments from other businesses.

Letters of Recommendation

Include two or three letters of reference from people who know you. These can be business or community leaders, friends, or business associates. A reference letter should be short, saying how long the person has known you, and something about your good character.

Special Awards, Achievements, Newspaper and Magazine Clippings

If you or your business has received favorable publicity for business, public-service, or civic award reasons, include copies of news clippings as part of your supporting documents. Also, include news items that relate to your business.

Additional Relevant Information Supporting Your Business

This section may include: a building lease; a franchise agreement; a purchase agreement; copies of licenses and permits; plans, specifications and cost breakdowns; a partnership agreement; and articles of incorporation.