

WHY WRITE A BUSINESS PLAN

“On a river you can’t just ‘do nothing’ because that river will take you somewhere and it may not be where you want to go. And so it is with life-if you don’t have a plan, you may find yourself somewhere you don’t want to be.”

You are writing a business plan in order to provide a strategic planning tool to ensure the success of your business. There are a variety of specific purposes for a business plan. One or possibly all will apply to your situation. Among them are:

- To assist in financing. Most likely you will need to borrow money from a lending institution in order to get your business started. That lending institution(s) will want to know where you are, where you are going, and how you are going to get there.
- The plan will tell you how much money you need, when you need it, and how you are going to get it
- Helps you to clearly think through and write down what type of business you are starting or restructuring, and allows you to consider every aspect of that business.
- Raises the questions that you need to have answered in order to succeed.
- Sets up benchmarks to keep your business under control.
- Helps you develop the competitive spirit to make you keenly prepared and ready to operate.
- Makes you think through the entire business process so that you do not go into business blindly or lack vital information in opening and maintaining your business.
- Forces you to analyze the competition and determine how you will carve out your share of the market
- Provides you with thorough information enabling you to decide whether you want to “take the plunge” or not.

FEASIBILITY CONSIDERATIONS

CASH FLOW-Your business should begin to cash flow (monthly sales revenues become greater than monthly expenses) sometime in the first year or early in the second. If a business takes longer to generate positive cash flows (businesses in competitive industries), then it obviously will have a need for more financing up front

CHARACTER- Experience you bring to the table, such as small business management and education. The fact that you can produce something that people in the market want to buy does not guarantee the success of your business. You also have to manage marketing, hiring employees, record keeping, problem solving, and planning.

CREDIT-Your credit background is important. If you feel you have credit problems, obtain a copy of your credit report in advance, and be prepared to explain any problems or discrepancies.

CASH / COLLATERAL-You will be expected to put some cash in your business if you want someone else to provide funds. Be prepared to provide a minimum of 25% of all start up costs in cash and/or equipment. Circumstances may vary on the amount requested based upon the business, but this represents a general guideline.

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“A good Executive Summary gives me a sense of why this is an interesting venture. I look for a very clear statement of their long-term mission, an overview of the people, the technology, and the fit to market.”

THE EXECUTIVE SUMMARY IS CRUCIAL

Without a doubt, the single most important portion of your business plan is the Executive Summary. If you can't prepare a clear, concise, and compelling condensation of your business plan right up front, no one will spend time wading through the rest of your plan. No matter how beneficial your product, how lucrative your market, or how innovative your manufacturing techniques, it is your Executive Summary alone that persuades a reader to spend the time to find out about your product, market and techniques.

WRITE YOUR SUMMARY LAST

Because of this, it is imperative that you prepare the Executive Summary last. Although it appears first in your completed document, the Summary reflects the results of all your planning and should be crafted only after careful consideration of all other aspects of your business.

The Executive Summary is so important, in fact, that some venture capitalists prefer to receive just a Summary and Financials before reviewing an entire plan. If you want to send out only a “concept paper” to gauge investor interest before submitting a complete business plan, the Executive Summary should serve as that document. As important as the financial considerations are to investors and bankers, it is the Executive Summary that first convinces them that yours is a well conceived and potentially successful business strategy. It is essentially where you pull together the disparate parts of your business and where you “sum up” all that you propose.

Use the key word approach (what, when, where, why, how). Include a one-line statement about financial needs, including the total amount needed, categories of how the money will be spent and anticipated payback time. Be concise and clear. The Executive Summary should not be more than a half to one-page in length.

Remember, this is just a summary, so pick up your key points and remember your purpose. Your goal is to motivate and entice the reader. You must convey your own sense of optimism about your business. This does not mean using “hype”; it simply means using a positive, confident tone and demonstrating that you are well positioned to exploit a compelling market opportunity.

Examples of Executive Summaries are located in the BIC

PART III. BUSINESS OVERVIEW

SUMMARY DESCRIPTION OF THE BUSINESS (MARKET RELATED)

The purpose of this section is to give a clear and concise description of your business-in terms of its products and services. An outside reader should be able to understand what business you are in, what products or services you offer **and how the products or services benefit your target market.**

Give a broad overview of the nature of your business. Using the key word approach, tell what market opportunities led to the forming of the business and describe the nature and uniqueness of the products and/or services provided. **For example**, some questions you should address are:

1. What is your business (or what will it be)? Describe the concept and goal. Identify the market opportunities driving your business
2. If you are purchasing an existing business, how long has it been in business? What is its growth history (sales volume, and customers)? What is the value of tangible assets you are buying?
3. Describe your primary products and services; what are they? How are they produced? How are they sold? How do they benefit your target market?
4. Describe your place of business, where is it? Is location important? (or not important)

PRODUCTS OR SERVICES

Always attempt to define your products or services as they relate to the market need or your market opportunity. A simple but effective tool to use to do this is as follows.

Product or product attribute	Feature of Product	Benefit to customer

If you have photos or schematic drawings, it is always a good idea to incorporate them into your business plan. A picture is often times worth a thousand words. Identify product fulfillment capabilities and briefly touch on the marketing channels you plan to use. More detail on this will be provided in the marketing plan.

If You Are Providing a Service:

Tell what your service is, why you are able to provide it, how it is provided, who will be doing the work, and where the service will be performed. Will you be providing service at the customer's location or will you work at your place of business? Remember that time involved and billable hours are a key to success in a service business.

Tell why your business is unique and what you have that is special to offer your customers.

PART IV: THE ORGANIZATIONAL PLAN

COVER THESE AREAS IN YOUR ORGANIZATIONAL PLAN

Legal Structure
Methods of Record Keeping
Insurance
Management
Personnel

WHAT IS AN ORGANIZATIONAL PLAN?

The organizational plan is the section of your business plan that covers all of the logistics of your business – the details of how your business is put together in order to function in an efficient and cost-effective manner.

Keep in mind, as you write about each of the following areas, that you will need to approach them in terms of the costs related to each of your decisions. That way, when you are working on the Financial Plan, you will have the figures to carry over into your financial statements.

Examples:

If you plan to have employees, project how many hours they will work and at what rate.

If you have decided to incorporate, address associated costs (attorney, incorporation fee, etc).

If you are leasing a 3,000 sq. ft. building, find out about associated costs, such as utilities, insurance, improvements, etc.

LEGAL STRUCTURE

State the reasons for your choice of legal structure. If you have formed a partnership, include a copy of your partnership agreement in the Supporting Documents section. Your agreement should include provisions for partners to exit and for the dissolution of the company. It must spell out distribution of profits and financial responsibility for losses. Explain reasoning behind terms of the agreement. If you have formed a corporation, explain why this legal form was chosen and how the company will operate within the corporate structure.

If you anticipate changing your legal structure in the future, make projections regarding why you would change, when the change would take place, which would be involved, and how the change would benefit the company.

The basic forms of business are sole proprietorship, partnership, Corporation “C”, and Corporation “S”, and LLCs. Most small businesses start out as sole proprietorships. As a business evolves, financial, legal or tax considerations may require a change in business form. Each type of ownership has its own advantages and disadvantages.

1. **Sole Proprietorship**-This is the simplest form of business, with few legal restrictions or needs. The owner is in direct control and receives all profits. However, the owner is liable for all business debts, and often has difficulty raising capital. Owners must be closely related.

2. **Partnership**- Similar to a sole proprietorship with few legal restrictions and liability of owners for business debts. Offers more financial and management potential to the business. Also offers possibility for conflicts over it. Advisable to draw up legal agreements for both managing and dissolving the business, before starting business. Use for non-related owners.
3. **“C” Corporation**- Most complex business form. Law recognizes the business as an entity separate from the owners, and owners are not necessarily liable for business debts. Highly regulated. Provides ease of raising capital, but also results in double taxation. Use an accountant and lawyer to plan and set up.
4. **“S” Corporation**- The “S” Corporation is an attractive alternative to the sole proprietorship or partnership. It gives you all the benefits of a corporation from the perspective of protecting your personal assets from company liability exposure, yet treats the income generated from operations the same as a proprietorship or partnership in that it is only taxed once.
5. **Limited Liability Company (LLC)**- Gives business owners and managers personal and legal protection from the debts and legal liabilities of the business. They also allow businesses to operate under flexible partnership-type tax rules. These are new in Montana and have not been tested on court cases. Membership is not freely transferable.

REASONS FOR FORMING AN LLC OR CORPORATION:

1. Unrelated people involved in ownership
2. High exposure to liability
3. Want or need to attract equity capital

METHODS OF RECORD KEEPING

Tell what accounting system will be used and why the system was chosen. Have you selected a cash or accrual basis for accounting? What portion of your record keeping will be done internally? Who will be responsible for keeping those records? Will you be using an outside accountant to finalize your monthly/year end statements? If so, who within your company will be skilled at reading and analyzing the financial statements provided by the accountant? Annual budgets?

It is important to show not only that your accounting will be taken care of, but also that you will have some means of using your financial statements to implement changes to make your company more profitable. After reading this section. The lender should have confidence in your company’s ability to keep and interpret a complete set of financial records. Oftentimes, this is one of the conditions of the loan.

INSURANCE

Insurance is an important consideration for every business. Product liability is a major consideration, especially in certain industries. Service businesses are concerned with personal liability, insuring customers’ goods while on the premises or during the transporting of those goods. If a vehicle is used for business purposes, your insurance must reflect that use. If you own your business location, you will need property insurance. Some types of business require bonding. Partners may want life insurance naming each other as the beneficiary. Consider the types of coverage appropriate to your business and list your choices along with time period it covered and name of carriers.

MANAGEMENT

This section describes who is behind the business. First and foremost, list all owners and their percentage ownership in the business. If you are a sole proprietor, tell about your abilities and include your resume. Also be honest about areas in which you will need help and state how you will get that help. Will you take a marketing seminar, work with an accountant, or seek the advice of someone in advertising?

If you have formed a partnership, explain in terms of management why the partners were chosen, what they bring to the company, and how their abilities complement each other. Experience, background and qualifications will be covered in their resumes, which will be included in the Supporting Documents section.

If you have incorporated, outline the corporate structure and give detailed information on the corporate officers and management. Who are they, what are their skills, why were they chosen and what will they bring to the organization? Again, include resumes for each.

What plans have you put in place to manage your human resource needs and meet all federal and state requirements relative to personnel?

PERSONNEL

Tell about the personnel you have hired or plan to hire. Who will be doing the work, why they are qualified, how will they be hired, how many hours will they work, what is their wage, and what will they be doing? Outline their duties and include job descriptions. Include copies of any employee contracts in the *Supporting Documents* section.

PART V: THE MARKETING PLAN

This section of your business plan covers the details of your marketing plan. In this section you will include information about the total market with an emphasis on your own target market.

Again using the key word approach, address all of the areas covered in the following paragraphs. The topics in this section are most logically covered in the order in which they are presented.

COVER THESE AREAS IN YOUR MARKETING PLAN

Vision
Tangible Objectives
Target Market
Market Research & Competition Analysis
Strategies

What Is a Marketing Plan?

Marketing *is not* just selling and it is not just advertising. It is a systematic process driven by your perception of your target customer's needs and meeting them at a profit. Your marketing plan is the section of your business plan that substantiates a perceived market need or niche and provides your solution to this need - getting your product or service to your customer or "target market".

A good marketing plan is critical to your business success. It will be necessary for you to include information about the total market with emphasis on your own target market. Remember, you need a clear understanding of who will purchase your product or who will make use of your service, why they will choose your company over competitors, and how they will find out about it.

It will take a lot of time and effort to research and develop a good marketing plan. Like Rome, it will not be built in a day, but it will prove to be one of the most crucial aspects of your business plan.

VISION

The vision statement will be a fairly subjective statement, but it will identify your vision of a market need or a portion of a larger market (segment), which is currently not being serviced. The vision statement will identify this market and how your products or services will fulfill this market need

TANGIBLE OBJECTIVES

Tangible objectives become an accountability factor for your business as you move forward. They identify specific goals or milestones that your business hopes to achieve during its first year of operations.

Tangible objectives could include quarterly sales in dollars, units or billable time, product margins, retail customer base or business customer base, customer satisfaction, etc. It represents objective that are significant to the success of your business.

TARGET MARKET

Without doubt, specific definition of your target market is one of the most important aspects of your business plan, in that it will identify the target density of your primary and secondary geographic markets, and subsequently will directly relate to market penetration that you develop as part of your cash flow models.

The target market has been defined as “that group of customers with a set of common characteristics that distinguish them from other customers.” You will want to identify that “set of common characteristics” that will make those customers yours.

Use the **four Ws (who, what, when, where):** **Who** specifically wants to buy your product? **What** will they buy? (How is it packaged?) **When** do they buy? (How frequently?) **Where** do they buy it?

Who: Classify the customers that will need your product or service and rank them from easiest to hardest to reach. Plan to begin your marketing with the easiest first.

What: Identify the specific characteristics of your customers and determine what the value of that customer is to you in potential revenue. What pricing/promotions and package is attractive to the customers’ needs. This will help you to determine the most cost-effective marketing to use and if you will need additional promotions/premiums, or offers, to generate demand.

When: Identify any unique qualities that your customers have in common (such as buying patterns). That will assist you in determining the frequency of your type of purchase.

Where: Identify popular hobbies, magazines/papers read by your customers. This will guide you as to where you will want to market your products and services. (i.e., stores, specialty shops, magazines, seminars, trade shows, and locations frequented by your customers)

The 80/20 Rule:

Once you are in business, it is likely that 80% of your sales will come from just 20% of your customers. The 20% of your customers that generate 80% of sales are your profitable customers. Your goal should be to identify the 20%

Describe your target market based on the following characteristics. Try to use specific ranges.

What are their ages and genders?
How much do they earn?

Where do they live?
What is their occupation/education?
What is their special interests, hobbies?
What do they read?
What do they watch?
What do they listen to?
Where do they travel or drive?
Where else do they shop?
What are your target market's lifestyles?
What are their attitudes?
When marketing to businesses, describe your target business customers based on the following characteristics:
What industries will you market to?
What are their purchasing policies?
What is their geographic location?
What is the size of the business you will target?
What are their sources of information?

MARKET RESEARCH

Once we have defined the profile of our target market, we will be able to apply that profile to secondary market research information to determine how dense (in absolute numbers) our primary and secondary market is.

There are many sources to accumulate secondary market research information. Attached to this business plan is an addendum that identifies a significant number of secondary research resources for you. This is a start, but there are many, many good sources out there.

Primary market research is research, which you conduct yourself. This could be in the form of surveys, interviews or even just through observation of an existing business that may be similar to yours. Don't underestimate the value of primary research.

Not only can primary research provide first hand information on your target customers, it will also provide you with a more thorough understanding of your market

COMPETITION

Direct competition is a business offering the same product or service to the same market.

Indirect competition is a company with the same product or service but with a different target market.

For example: A gift shop is in direct competition with another gift shop and in indirect competition with a catalog company that offers the same products. If you are a CPA who goes to the client, your indirect competition will be CPAs working in an office. The difference between direct and indirect competition is most often determined by the method of delivering your product or service.

Evaluate both types of competitors. You want to determine the competitors' images. To what part of the market are they trying to appeal? Can you appeal to the same market in a better way? Or can you find an untapped market?

Know the four Ws of your competition: Who they sell to, what they offer as packaging and promotions, when they sell, and where they sell.

Be sure to distinguish why you are different from your competition and why this customer will buy your product instead. If you don't have competition, it will be important to uniquely position your product for the market. When the competition does show up you will have established name recognition and this will be a powerful tool for the future.

Develop competition comparisons: Compare their products, pricing, distribution, and promotional strategies. Below is another tool to help make comparisons.

Direct Competitors

Product attribute	Business A	Business B	Our Business	+/-
Product price				
Product availability				
Product quality				
Customer service				
Warranty				
After sale service				
Location/convenience				
Customer satisfaction				

Score 5 for best 1 for worst

Using the above matrix to score your product/service attributes in relation to your competitor's products/services will essentially **position** you in the marketplace. This positioning can then lead to an "advertising message" which illustrates the advantages of your products/services relative to your competition.

These observations may show opportunities to attract your target market or to redefine products or features offered. You also must consider what the competition's reaction may be. It is especially important that you compare the features of your product or service with the competition. (**Market Niche**)

PRICING

Your pricing structure is critical to the success of your business and is determined through market research and analysis of financial considerations. Basic marketing strategy is to price within the range between the "price ceiling and the "price floor." The market determines the price ceiling and generally speaking, the **low price provider oftentimes has a competitive advantage.**

What is the competition charging? What is the quality of the product or service you are offering? What is the nature of the demand and what is the image you are projecting? If you are a higher priced provider, how will you **differentiate** your product?

Be specific as to how you arrived at your pricing structure and leave room for some flexibility.

DISTRIBUTION

Distribution is the manner in which products are physically transported to the consumer and the way services are made available to the customer. Distribution is closely related to your target market. Establish the purchasing patterns of your customers.

Evaluate the possible ways to distribute your product and determine the most cost-effective way to enter the marketplace. Explore different ways of distribution that might expand and grow your business in the future. (Keep in mind the “worst case scenarios” mentioned in the organizational section)

Some additional questions to ask:

Will you be selling directly to the user of your product or will you be a wholesaler?

Are you the manufacturer of your product or is the product purchased by you as finished goods?

PROMOTION

Promotion of your business involves using all means available to get the message to your customers educating them about the product or identifying uniqueness and benefits of your products or services as opposed to other competitor’s products.

The promotion you choose should provide a powerful message or unique selling proposition (USP), must be transmitted in a medium that reaches your target market, and usually requires repetition to be effective.

Note: *Be sure to develop your promotion plan in terms of projected costs and expected response (i.e. return on investment). A promotion plan is only effective if it generates revenues to justify the expense*

TIMING OF MARKET ENTRY

The timing of your entry into the marketplace is critical and takes careful planning and research. Having your products and services available at the right time and the right place is more a matter of understanding “consumer readiness” that your organizational schedule.

The level of enthusiasm with which a consumer embraces a new product can be affected by the seasons, the weather, and the holidays. However, the organizational logistics may also have a significant bearing on your timing. For instance, a new business whose advertising will be primarily through telephone yellow pages will need to coordinate its introduction in the marketplace with the release of the new telephone book. Or a business whose product is related to seasonal markets should attempt to open going into the busy season.

LOCATION

If your choice of location is related to your target market, you will cover it in this section. For example, the location of a retail store is a marketing decision. It must be located near its target market or customers, provide adequate parking and satisfy zoning regulations.

When you are planning the location of your business, you will look at all of the financial implications of your choice in order to have the information for your projections. If you will be leasing space, get a copy of the proposed lease agreement and include it in your supporting documents. You can also get estimates on other expenses related to your location (i.e., utilities, insurance, maintenance, etc.) and include them in projected expenses.

PART VI. THE FINANCIAL PLAN

The purpose of this section is to develop the essential financial schedules that the lender will want to see as part of the business plan. **SBA suggests that the cash flow statements developed in this section are the most important part of the business plan**, and at the very least, they provide some indication of project feasibility.

1. **Source and Use Statement** – Provides a detailed account of how much money you will need to start your business by line item, and what the source(s) of funding for these items will be.
2. **Revenue Assumptions and Cash Flow Projections** – Provides a detailed projection of month-to-month sales and expenses for year one and projections of year-to-year income and expenses for years 2 and 3. (See attached example and worksheet) A significant part of this will be detailed projections of sales in units/billable time in hours each month, and will need to integrate with the marketing plan in terms of ‘tangible objectives’.
3. **Personal Financial Statement** – provide prospective lenders an idea of your personal net worth and borrowing capacity.
4. **Tax Returns**- borrowers tax returns for the previous two years are generally required.
5. **Business Buyouts** require three years of accountant prepared, year end financial statements of the business being acquired and tax filings.
6. Additional supporting schedules as identified in the addendum to this section.

CASH FLOW PROJECTIONS

Cash flow projections address business solvency. Cash flow projections describe the cash you expect to take in and through the sale of products & services and the cash you expect to pay out for materials, operating expenses and capital purchases each month. It is a tool that can help you plan the cycles of your business and the cash needed at various periods. Cash management is a critical aspect of managing a business and cash flow statements are an important tool for this purpose.

A cash flow statement does not tell you if the business is profitable or the net worth of the business. An income statement and balance sheet are also needed to tell the full financial condition of the business.

If you have an existing business, you should prepare a cash flow statement that illustrates the previous year’s actual cash flow. Based on that information and your plans for the coming

year, you should also prepare one year of projected on year of projected cash flow. If your business is new, you will need a minimum of one year of projected cash flow.

GUIDELINES FOR CASH FLOW PROJECTIONS

- Do not use straight-line projections if they do not reflect the reality of your business. If you have seasonal fluctuations in your income and expenses, reflect them in your cash flow. It may materially affect the size of the loan you need.
- For expansions, if you reflect more than a 10% growth in sales per year, be prepared to justify why the amount stated is valid.
- Be sure that the sales and inventory change in appropriate relation to each other. For example, if you project increased sales volume make sure to show increased inventory purchases.
- To be safe, it is best to overestimate your expenses and underestimate you income.
- Include an “other” or “miscellaneous” category. However, if either becomes a substantial amount, break them down into specific categories.
- Include a narrative or footnote of your income and expenses and explain how you calculated these numbers.
- In your narrative, be sure to include pricing information. Specifically identify monthly unit sales (or billable time) by profit center and be prepared to justify it in terms of target market penetration.
- Emphasize real world search. Call the phone company to get installation costs, monthly charges, and phonebook advertising costs. Talk to suppliers. Talk to businesses in other communities similar to yours to determine what start-up sales volume you might expect. Ask what percent of bad debts can be expected. Look at industry statistics and find out what percentage of gross sales you will need to spend on advertising. (See attached cash flow worksheet)

SOURCE AND USE STATEMENT

SOURCES

Owner's Paid in Capital	\$ _____	
Bank Financing	\$ _____	
Other Financing	\$ _____	
Total Sources		\$ _____

USES

Land & Building	\$ _____	
Leasehold Improvements	\$ _____	
Equipment	\$ _____	
Inventory	\$ _____	
*Permanent Working Capital	\$ _____	
Total Uses		\$ _____

*PWC includes all one time start-up costs involved with getting your business launched (insurance deposits, rent deposits, telephone hook-ups/install, etc) plus enough working capital to help underwrite business operations until the business cash flows.