



THE BASICS ON HOW TO DEVELOP A BUSINESS PLAN

OVERVIEW

Whether your company is organized as a sole proprietorship small business, corporation or nonprofit, a well-written business plan is considered your most important roadmap to success. The document may vary in length, but should be comprehensive and include a specific timeline: at least six months of detailed strategy, a year or two of general planning, and a vision about where the business is headed for the next five years.

A business plan has to answer some critical questions about the new business venture.

- Is this a viable business idea?
- Is there a market for this product or service?
- What will it take to produce and deliver the product or service (materials, resources, personnel)
- Who will buy it, how much, how often and how will your potential customers find out about you?
- Who and where is your competition?
- Your cash flow projections should cover both the start-up phase of your business and on-going operations. How much will it take to open the doors?
- And, what will it take to cover direct costs, overhead and expenses, and still clear a ‘profit?’

A start-up business or organization begins to incur costs (licenses, fees, permits, leases, telephones, computers, etc) long before it starts to generate any income. Most likely, money will be going out faster than it is coming in. This negative cash flow will continue until your business or organization is generating enough revenue to *equal* the amount of money going out the door. This is the business’ cash break-even point. You, the business owner, must have some way of financing the negative cash flow of your business until you reach that cash breakeven point. If you project that your business will have an accumulated negative cash flow of \$50,000 before you reach your cash breakeven point, then you need to determine how you will get the \$50,000 you’ll need *before* you start the business.

Most banks and traditional lenders do not usually lend to start-up businesses. However, if you’re starting a business in a growth industry and *you’ve got a solid business plan that clearly shows how your business will make money*, a bank loan might be possible. The lender is looking for a solid plan for the money – how much you’ll need, how you’ll use it, and how you’ll pay it back! Your personal credit history matters, and you’ll need some collateral to guarantee the loan. The loan is not a substitute for your own capital, though. You’ll need more at every stage of your business development.

The same holds true for nonprofit corporations. Your nonprofit may be seeking loans as well as grant monies to fund your operations, programs and services. For government agencies and foundations, your business plan must explain how your organization's mission fits their program and funding goals, provide a clear plan for your organization's operations and service delivery systems, and a sound financial structure that will leverage any loans or grant dollars you might receive and ensure the sustainability of the organization.

A comprehensive business plan should help separate your business or organization from the thousands of others seeking financing and trying to enter the marketplace. There are online templates and products that can be useful in producing a professional looking business plan in the standardized format that serious financiers expect. The following are some critical elements for consideration as you develop a business plan.

OUTLINE OF SAMPLE BUSINESS PLAN

I. Executive Summary

[This is a short summary of the contents of the Business Plan, so it might be easier to write Section I after completing all the other sections.]

- A. Business Concept – what you are planning to do, the *what* of your business
- B. Current Profile
- C. Key Success factors
- D. Financial Needs, Sources and Projections

II. Company Description

- A. Vision Statement, Mission and Values
- B. Primary, Secondary Objectives
- C. Location, Physical Facilities
- D. Organizational Structure

III. Market Analysis

- A. Overview of Business Landscape (Local, National, International)
- B. Changes in Your Industry
- C. Market Segments
- D. Target Market, Target Customers
- E. Customer Characteristics
 - 1. Demographics (Age, Gender, Education, Familial Structure, etc.)
 - 2. Income and Spending Habits
 - 3. Geographical Location
 - 4. Current Behavior and Trends that Will Drive Future Behavior
 - 5. Other Unique Attributes

IV. Competitive Analysis

- A. Primary Competitors and Nature of Competition
- B. Competitive Products/Services
- C. Key Competitive Strengths and Weaknesses
- D. Key Industry Threats [to Your Company]

V. Products and Services

- A. Product/Service Description
- B. Pricing and Positioning
- C. Growth Possibilities

VI. Strategy

- A. Key Competitive Capabilities
 - 1. Company strengths or market niches?
 - 2. What is unique about your product or services?
 - 3. Investors/Supporters/Members/Employees
 - 4. Technological Efficiencies
- B. Key Competitive Opportunities
 - 1. Products or services not currently available
 - 2. New or unmet needs of target customers
 - 3. New or emerging issues, trends or innovations
 - 4. Prospective B2B Networks, Public-Private Collaborations, etc.
 - 5. Technological Efficiencies
- C. Implementation Strategies
 - 1. Seasonal and/or Cyclical Considerations
 - 2. Program, Policy and/or Regulatory Considerations

VII. Marketing and Projected Growth

- A. Company/Product/Service Branding
- B. Marketing and Sales Strategies
- C. Advertising
- D. Customer Promotions/Incentives
- E. OTHER Considerations

VIII. Operations

- A. Organizational Structure
- B. Key Personnel
- C. Product/Service Delivery/Cycle
- D. Customer Service Plan/Membership Services
- E. Quality Assurance/Emergency Preparedness
- F. Facilities

IX. Financials

- A. Assumptions and Comments
- B. Starting Balance Sheet
- C. Profit and Loss Projections
- D. Cash Flow Projections

X. Appendix/Supporting Documentation

- A. Market Studies
- B. Resumes of Partners
- C. Signed Contracts
- D. Articles
- E. OTHER

EXECUTIVE SUMMARY

This is the first impression of your business for an investor or financier. This section is usually written after you've completed the main body of the business plan and is a recap of the most salient points of the business proposal. Explain who you are, your advisors, supporters, investors and other stakeholders, and the company management team. Shape the big picture, include some historical perspective of the business concept, description of products and services, financing plan, and how you'll ensure the survivability of the business or organization. This is an opportunity to build credibility for the business and its management team.

MARKET ANALYSIS

The market analysis is an important first step in determining if you have a viable business idea, and how best to proceed. The market analysis will explore the practical aspects of producing your product or service:

- Is there a need -- current, emerging, unmet – for this product or service?
- What raw materials or resources would be needed?
- Where and how would you obtain them? At what cost?
- Will you need special equipment or manpower to produce this product, or special training or credentials to provide this service?
- Who and how many others are doing something similar to what you're planning?
- Who would be likely to buy, benefit and/or invest in such a product or service offering?
- Whose likely to buy how much of what you're selling, how often?
- Would this product or service appeal to a wide audience, or would it meet the specific needs of a select few?
- Conversely, is this product or service controversial, closely regulated, or subject to public approval?
- Is location a critical factor?
- Are there cultural or community factors influencing the market?
- How are you uniquely equipped to fill the gap between supply and demand?
- How would you reach your target customer?
- How much money would be needed to start this business?

Fundamental market research always starts with some basic information on historical economic performance, business and market trends, and consumer spending habits. An Internet search can help supply much of this data. More industry-specific data may require additional legwork. Periodicals, annual reports, special studies and other widely distributed publications may be the most accessible and cost-effective method of gathering information for the average prospective business owner. The public library, university libraries and the local bureau of public records are often overlooked venues.

Many national trade associations and think-tanks track and compile industry-specific and related information, but may reserve access to that data for members only. One way around that hurdle is to check their websites for press releases, reports issued, testimony and public appearances made by industry leaders, and media (print and electronic) coverage of particular topics. Most local, state and federal government agencies include vital statistics on their websites and important linkages to other information sources. These websites are great for an overview of local economic competitiveness, trade-sector health, productivity and public finance records.

Depending on your business idea, other issues worth researching could include patents, trademarks and copyrights, and government spending and regulatory proposals. You could also test the assumptions behind your business idea by contacting/interviewing business colleagues, vendors, distributors and potential clients.

Based on your research, your business plan narrative will describe your market niche within the industry in terms of size, region, potential, growth rate and customer buying power. Identify any existing products and services by name/manufacturer that satisfy the same needs your business or organization will target. This is a chance to describe what will distinguish your business from the competition, and how this distinction will attract customers. Assess the future for your company's performance, including projections on market share and revenue targets.

BUSINESS STRUCTURE AND OPERATIONS

Choosing a structure for the business or organization sets the tone for how your business will operate, tax and insurance considerations, and disbursements of any profits. Consult an attorney for legal guidance on business structure, leases, contracts and other elements designed to protect your business relationships and help your business prosper. The most common business structures include:

- Sole Proprietorship – An individual operates the business, and there are no outside investors. This is the simplest way of doing business and the most common form of business structure. However, the individual can be exposed to personal liability for every act and debt of the business, and there is no room for expanding through new owners or their capital. Also some of the tax deductions available to other forms of business are not available to the sole proprietor.
- General Partnership – When two or more people create a business, a general partnership is formed. Their partnership is based upon an agreement to operate the business together, and the partners are jointly and severally liable for all obligations of the partnership. The partnership files an “informational” tax return, and the partners must report their portion of the partnership's earnings or loss on their individual income tax returns.
- Limited Partnership – This is a special form of partnership where some of the partners are in charge of managing the day-to-day activities of the business (general partners), and the others (limited partners) are silent investors and do not participate in the day-to-day activities. The general partners are jointly and severally liable for the partnership, and the limited partners are only liable for partnership debts to the extent of their investment.
- Co-Op & LLC – Cooperatives are employee-owned companies. All profits earned by the company are passed to the owners. A Limited Liability Company (LLC) is established by an operating agreement, similar to the bylaws of a corporation. The LLC is taxed like a partnership, but liability is limited like a corporation.
- Corporation – The Corporation is a separate legal entity, wholly apart from the individual shareholders who own it. A “C” corporation may have more than one form of stock (such as common and preferred), it may have a limited number of shareholders, and taxes on its profits are paid by the corporation as a separate tax-paying entity (this can result in “double taxation” where the company's profits are taxed and any income the company's owners receive as

dividends is also taxed). An “S” corporation is limited to one kind of stock, and the company’s profits and losses are reported on the owner’s personal tax returns. All states have laws that describe how corporations may operate within that state.

- 501 (c)(3) Designation by the Internal Revenue Service - The organization must complete the forms required to become a non-profit corporation in the state in which the organization intends to incorporate. If the organization plans to raise funds in several states, it must register in those states as well. Once Articles of Incorporation are filed in the state in which the organization will operate, the organization must then file for tax-exempt status with the IRS. To be designated 501(c)(3), the organization must be organized and operated exclusively for charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, or the prevention of cruelty to children or animals. Private shareholders or individuals of the corporation cannot benefit from the earnings of the nonprofit, and 501(c)(3) organizations are restricted in the amount of political and legislative (lobbying) activities they may conduct.

VISION AND MISSION

The vision and mission statements for your business are usually broad statements that describe the guiding principles for your business or organization, and objectives spell out the primary reasoning about what the company hopes to accomplish. These guiding principles can be used as a tool to evaluate new prospects and to help keep the business on track.

ORGANIZATIONAL STRUCTURE

The organizational structure details the key job positions and titles, both present and future, responsibilities, skills and qualifications, as well as the reporting structure. Any personnel already on board, particularly those with industry experience or specialized training should be included. The total number of employees, training and development plan, salaries and benefits are important information. This demonstrates your expertise, competitive advantages, performance potential and growth direction.

The business plan narrative should describe the business location, facility size and capacity, whether the space will be leased or owned, and how the site addresses current as well as future needs of the business. The description should include equipment, furniture and fixtures. Special equipment or plans for equipment acquisition may have an impact on product or service delivery, and ultimately the business’ bottom line.

EMERGENCY PREPAREDNESS AND BUSINESS INSURANCE

Any emergency preparedness plan is meant to minimize risk and protect the business and its assets. Universal insurance coverage could be critical part of your emergency plan. The extent of your insurance coverage will vary depending upon the industry, the size of your business, equipment, logistics and operations. This list isn’t meant to be exhaustive, just summarize some of the most common types of business insurance:

- Equipment and Machinery insurance to cover damages and provide payments for any injuries caused by them;
- Business Interruption insurance to pay for the company's ongoing business expenses in the event of a shutdown period (natural disaster, strike, etc.);
- Property insurance covers damages to the building that houses your business as well as the items inside (vandalism, fire, water damage, damage caused by falling objects, etc.);
- Comprehensive Crime insurance covers losses due to burglary or employee theft;
- Comprehensive Auto Liability insurance should cover all company vehicles any employees driving their own vehicles while on company business;
- Errors and Omissions insurance protects the company if you make a mistake or forget to do something that causes harm to your customer;
- General Liability insurance will protect the company in the event of an incident that would require the company to pay out a large settlement (accidents at a company facility or accidents caused by its products, services or agents).

FINANCIALS

This section of the business plan details the company's financial performance, both historical and projected. Your assumptions might include comments about financial requirements, performance indicators, and personal status of the principles. You'll generate your financial statements by forecasting: your costs to produce and deliver products or services; the cost of marketing the products or services; the length of the business cycle between production, sales and collecting the money from the sale; salaries, and the costs of maintaining the business operations (rent, utilities, telephones, office supplies, insurance, etc.).

There are three basic financial statements – Cash Flow Statement, the Balance Sheet and the Profit and Loss Statement.

- **The Cash Flow Statement** – Shows the inflow and outgo of cash on a monthly basis, and is typically used to determine a company's ability to pay its bills on time.
 - ✓ Separately shows cash *provided by or used for* operations, investing and financing.
 - ✓ Companies can be profitable, *but have no cash*. This statement shows where the cash is going.
 - ✓ Cash Flow 'forecasting' identifies a company's need for additional sources of funds to cover potential cash flow shortfalls. This is a critical financial tool for start-up or emerging companies or organizations.
- **The Balance Sheet** – This is a snapshot of the company at any one moment in time.
 - ✓ Separately shows cash *provided by or used for* operations, investing and financing Tells where a company gets its funds how the company uses its funds.
 - ✓ Shows what a company owns, what it owes and how much the owners have invested in the business over the years.
 - ✓ Measures how well a company manages its assets, liabilities and financial reserves.
- **Profit & Loss Statement** – Revenues and expenses of a company over time.
 - ✓ Shows the ability of a company to manage and use its resources to make a profit.
 - ✓ Shows what cash flow a company has available to repay debt service, and how well a company manages its tax liability.

Effective cash management is a key factor in running a successful business or organization. Your financial statements will help you plan and track how much and where the money is coming from and who much and where the money is going.

The Importance of A Business Plan ...

1. It forces you to analyze all facets of your business – good and bad.
2. It sets financial goals and guidelines.
3. It establishes operating goals, sets priorities, and helps you develop strategies (i.e., ‘How will I find a steady stream of customers?’ ‘How can I be sure the business will be profitable?’).
4. It is absolutely necessary if you are going to persuade investors and lenders to back your business.