

BUSINESS PLAN BASICS

A Simple Guide To Writing
Your Business Plan



Creating Your Business Plan

The business plan consists of a narrative and several financial worksheets. Work through the sections in any order that you like, except for the *Executive Summary*, which should be done last. Skip any questions that do not apply to your type of business.

Depending on the level of funding requested, the narrative portion of these plans usually run 8-12 pages, plus printouts of the Excel financial sheets and Appendix items. Aim to write clear and concise. Avoid jargon or fluff. Follow the rule, "Don't tell me, show me" using facts and realistic examples to explain and justify.

The real value of creating a business plan is not in having the finished product in hand; rather, the value lies in the process of researching and thinking about your business. The act of planning helps you to think things through. It takes time now, but avoids costly, perhaps disastrous, mistakes later. Many businesses fail for lack of proper planning. We do not want that to happen to you!

This business plan is a generic model suitable for all types of businesses. However, you should modify it to suit your particular circumstances.

Table of Contents

Executive Summary	
Business Description	
Product/Service	
Marketing	
Industry Overview	
Target Market	
Competition	
Promotion/Advertising	
Pricing	
Placement	
Management and Operations	
Financials	
Financial Assumptions	
Start-Up Expenses and Sources of Capital	
Use of Funds and Collateral	
Cash Flow, Income Statement and Balance Sheets	
Your Personal Financial Picture (Optional)	
Appendix Items	

Executive Summary *(1-2pages)*

Write this section last. Include everything that you would cover in a five-minute interview. Make it enthusiastic, professional, complete, and concise.

Explain the basics of your business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?

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

Business Description

What business will you be in? What will you do? Briefly, who are your target customers? State your business hours and location.

What is the legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?

Who are the major owners of the firm? Briefly summarize their qualifications.

Company Goals: Where do you see your business in the first year, in 3-5 years?

Business Philosophy: What is important to you in business? What factors will make the company succeed?

What do you think are your major competitive strengths? What “niche” are you taking that will help you to establish a place in the market?

Product/Service

Describe in depth your major services and/or products. (Technical specifications, drawings, photos, sales brochures and other bulky items belong in the Appendix.) Do you need to categorize your products? The work you do may involve a wide variation of price and time (like plumbing or auto repair), or you may create products that vary a lot (such as craft or artwork). If so, see if you can subtitle your categories and give examples of each.

Include the most important features and benefits.

What special services will you provide? Some examples are delivery, support, follow-up, and refund policy.

How will you get your products to your customer? Are you selling directly to them? Selling wholesale? If so, describe the type of wholesaler. Will you sell on the web?

Marketing

Industry Overview

What do you know about the industry you're in? Is it growing? How is it changing? What is the industry/market like where you plan to operate your business?

Target Market

Describe the "primary target market" for your business. This is your most important type of customer. What are their characteristics (age, gender, income, etc), where are they located? What other "secondary market groups" will you target?

If you are selling wholesale, describe your wholesale customer as well as the consumer who will purchase your product.

Competition

List three major direct competitors (those that do exactly what you do).

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

What are their advantages over you? How will you deal with these?

What are their weaknesses? How will you take advantage of these?

What niche are you filling the market? (Don't try to be all things to all customers!)

Promotion/Advertising

How will you get the word out to customers? (Include any print advertising: trade shows, a website, brochures, business cards, direct mail, other media, etc.) Itemize all costs and include relevant dates, ad sizes, etc.

What low/no-cost ideas do you have for promoting your business? Examples include: word of mouth (how will you stimulate it?), friends, professionals, guest speaking, workshops, volunteering among your target market, etc.

How will you stay in touch with those who buy from you? E-mail list, direct mail, etc.

You will need to include a promotion/advertising budget for your financials.

Pricing

How did you decide on your prices? Does your pricing fit your market? How do your prices compare to your competitors?

List your products and prices. For products, include what it actually costs you to make that product (cost of goods). Don't include your labor. Use a table format if it helps.

For services, list your hourly rate. If you have parts, what is your cost and/or what is

your average % mark-up?

If your pricing varies, create an “average price” for each category, or type of service/product. For example: Children’s dresses average \$25, average Gold Level auto paint job: \$400., average Re-plumbing of basement: \$1,000. You will need these averages for your financials.

Placement

Where are you running your business? From home? An office, or store? If you do not have a location picked out yet, describe what you are looking for.

If you are working from home, describe briefly how you plan to organize your space to separate out work and home spaces.

If you have a retail location, discuss the value to your customers: Parking, Interior spaces, convenient access, etc. Is this location consistent with your target customer?

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)?

What regulations, zoning, food handling or other requirements exist?

Management and Operations

State your company's name, legal form and ownership: "ABC Company will be a sole proprietorship owned solely by Jane Success."

Provide a brief overview of the owner(s) qualifications for this business. Attach a resume for each owner to the Appendix.

Who will do what functions? If it's just you, state that you will perform all needed functions: buying, marketing, bookkeeping, customers, inventory, maintenance, etc.

Will you have employees? What will their role be? What qualifications do they need? What will you pay them? Training requirements?

Will you use outside professionals or family members to help? Indicate any Accountants, bookkeepers, attorneys, etc. State family member's role in your business.

Does your business require any special licensing, bonding or regulations? Is your retail or production location zoned properly? What insurance do you have?

Identify any key suppliers. Do you have back-up suppliers?

Will you sell on credit? What will your policies and terms be? How will you determine creditworthiness for new clients?

Financials

All businesses, whether start-up or growing, will be required to supply financial data. If you are an established business, you will be required to supply historical data related to your company's performance. Most creditors require financial data for the past three years, including tax returns.

Financial Assumptions

In putting together your financial projections, you will need to make some assumptions about your sales, expenses, operations, etc. Be conservative. You can always do better, but you want to show a realistic business scenario. Make sure your projections match your funding requests.

New businesses will be required to provide monthly projected income statements, balance sheets, and cash flow statements for at least two years.

Be consistent throughout your business plan. If you have made assumptions in your projections, be sure to summarize what you have assumed. Do not leave the reader of your business plan guessing about what you are trying to tell them.

List your average sale and cost of goods for each product or category as covered in the pricing section.

Assume when you will start the business.

State other assumptions (e.g. % of sales will be parts, product mark-ups, employees, free services, etc.)

Use the following example to state monthly sales assumptions:

Month 1-6

I will average ___ number of sales of Product Y

Month 7-12

Product Y sales will increase by ___ per month.

Year Two

Product Y sales will increase by ___ per month, with an additional ___ over the (season).

Startup Expenses

Estimate your start-up expenses as best you can. New businesses have a way of costing more than anticipated; include a separate "Contingencies" category equal to 20% of all other total start-up expenses.

Sources and Uses of Funds and Collateral

List all those items from your business plan that you will need funding for. Be specific as to the source, cost and quantity. Use a table format. Include any extensive inventory lists in the Appendix, if necessary.

List sources of savings and cash you will have to help finance your business. List any collateral you will use to secure a loan. (e.g. Car, house, equipment, etc.)

Cash Flow, Income Statement and Balance Sheet

The financial plan consists of at least one to two years of a month to month profit and loss, a three to five year summary profit and loss projection (optional), a one to two years month to month cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

Sales Forecast

Use a sales forecast spreadsheet to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.

You may want to do two forecasts: 1) a "best guess", which is what you really expect, and 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

12- 24 Month Profit and Loss Projection

Many business owners think of the profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your revenue projections will come from the sales forecast, in which you forecast sales, cost of goods sold, expenses, and profit month-by-month for one to two years.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when

it's time to revise your plan.

Three to Five Year Profit and Loss Projection (Optional)

The 12 to 24 month projection is the heart of your financial plan. This section is for those who want to carry their forecasts beyond the first two years.

Of course, keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.

Projected Cash Flow

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash. The cash-flow projection is just a forward look at your checking account.

The point of this 12 to 24 month worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn't be taken by surprise.

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, assets and inventory, loan payments).

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, 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? When?

Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal inventory buildup, that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on

profit and loss statements but definitely do take cash out. Be sure to include them.

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

Balance Sheet

A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal to investors.

Break-Even Analysis

A break-even analysis predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break-even is:

$$\text{Break-Even Units} = \frac{\text{Fixed Costs}}{(\text{Price minus Variable Costs})}$$

Include all assumptions upon which your break-even calculation is based.

Your Personal Financial Picture (Optional)

If you are applying for a loan or seeing outside capital, this section would not be optional.

Like children, businesses take time, money and lots of attention to grow. There are often few returns the first year or two.

Is your current income meeting your personal financial expenses? How do you plan to

pay for your business expenses before the business earns a profit? What do you want to draw from the business each month?

What is your personal debt situation? Are you paying back any debt under your current personal income? Attach a credit report to the Appendix. Describe the story behind any significant financial problems that may show up on your report.

What are the greatest risks you are taking in starting/running your own business? What would happen if you could no longer do so?

Business Plan Appendix

These are some frequently requested items you may include with your business plan:

- Personal list of liabilities and assets
- Credit report
- Business license (Washington State, City)
- Quote from insurance company, or current insurance coverage
- Resume(s)
- Any detailed inventory list as part of loan request
- Letter from seller of loan items: car, equipment, etc. stating price, VIN, etc
- Written bids or estimates on any major loan item, such as equipment.
- Copies of leases or contracts
- List of assets available as collateral for a loan
- Letters of support from future customers, strategic partners, etc
- Marketing materials
- Maps and photos of location
- Product photos
- Other support materials needed