

## Creating a Business Plan

### How to Prepare a Proper Business Plan

**Reading the entire text of this document is the first step in preparing your business plan.** There are two basic reasons for preparing an extensive business plan. First, it requires the entrepreneur to thoroughly investigate the factors that will have a bearing on the success of the business. Second, it will enhance the ability of the entrepreneur to secure financing by providing an organized overview of the venture for lenders and investors. It also provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

The following outline has been prepared to help the entrepreneur assemble the facts that are essential to good business planning. Complete your business plan using the accompanying outline to ensure that the necessary details are included. Keep in mind that thoroughness, clarity, and rationality of the plan are all factors that will play key roles in successfully financing, starting, and operating your business.

Because these guidelines were written to cover a variety of possible businesses, rigid adherence to them is not possible or even desirable for all businesses. Not all parts of all sections will be necessary for each individual's business plan. *Table of Contents*

- I. **THE INDUSTRY, THE COMPANY, AND ITS PRODUCTS**
  - A. The Industry
  - B. The Company
  - C. The Product or Service
- II. **MARKET RESEARCH AND ANALYSIS**
  - A. Customers
  - B. Market Size and Trends
  - C. Competition
  - D. Market Share and Sales
- III. **MARKETING PLAN**
  - A. Overall Market Strategy
  - B. Pricing
  - C. Sales Tactics
  - D. Advertising and Promotion
- IV. **OPERATING PLAN**
  - A. Location
  - B. Facilities and Improvements
  - C. Strategy and Plans
  - D. Labor Force
- V. **MANAGEMENT TEAM**
  - A. Organization
  - B. Key Personnel
  - C. Management Compensation and Ownership
  - D. Board of Directors
- VI. **THE FINANCIAL PLAN**
  - A. Sources and Uses of Funds
  - B. Pro Forma Cash Flow Analysis
  - C. Profit and Loss Forecasts
  - D. Pro Forma Balance Sheets

#### *I. The Industry the Company, and its Products*

The purpose of this section is to assist you in describing your business venture in a detailed but succinct manner. You must clearly present the business you are in, the product you will offer, and the nature of your industry.

**A. THE INDUSTRY** Present the current status and prospects for the industry in which the business will operate. Discuss new products and developments, new markets and customers, and any other trends that could affect the business. Identify all sources of information used to describe these trends.

**B. THE COMPANY** Briefly describe what business area your company is in, or intends to enter, what products or services it will offer, and who are or will be its principal customers. Also discuss the ownership and legal form of the company. Consult your attorney for which form of corporation, partnership, or sole proprietorship is best for you.

**C. THE PRODUCTS OR SERVICES** Description: Describe in detail the products or services to be sold, as well as the application of your product or service. Emphasize any unique features of your product or service and highlight differences between what is currently on the market and what you will offer. Define the current state of development of the product or service; include a photograph, if applicable.

Proprietary Position: Describe patents, trade secrets, or other proprietary features. Discuss any head start that you might have that would enable you to achieve a favorable position in your industry.

## ***II. Market Research and Analysis***

The purpose of this section is to present enough facts to determine if your product or service has a substantial market in a growing industry and can achieve sales despite a competitive market. *This section is one of the most difficult to prepare and also one of the most important.* Almost all subsequent sections of the business plan depend on sales estimates that are developed in this section. The sales levels you project, based on the market research and analysis, directly influence the size of the operation, the marketing plan, and the amount of debt and equity capital required.

Because of the importance of market analysis and the dependence of other parts of the plan on the sales projections, you may want to prepare this section of the business plan before you do any other. Allow enough time to do this section thoroughly and check alternate sources of market data.

### **A. CUSTOMERS**

Discuss who your customers are for the product or service. Who and where are the major purchasers? What is the basis for their purchase decision: price, quality, service, personal contact, or some combination of these factors?

### **B. MARKET SIZE AND TRENDS**

Describe the primary market for your product, both geographically and in terms of total sales volume. Also, describe the seasonal fluctuations and the potential annual growth of the total market for your product or service, and discuss the major factors affecting that growth (industry trends, economic trends, government policy, population shifts).

### **C. COMPETITION**

Make a realistic assessment of the strengths and weaknesses of competitive products and services and name the companies that supply them. Compare these competing products or services on the basis of price, performance, service, warranties, and other pertinent features. Present a short discussion of the current advantages and disadvantages of competing products and services and state why they are not meeting customer needs.

### **D. MARKET SHARE AND SALES**

Summarize what it is about your product or service that will make it saleable in the face of current and potential competition. Identify major customers who are willing to make purchase commitments and if possible attach their commitment letters to your plan. Discuss which customers would be major purchasers in the future and why. Based upon your assessment of the advantages of your product or service, market size and trends, customers, the competition and their product, and the sales trend in prior years, estimate your share of the market and your sales in units and dollars for the next two years. Be sure to state any assumptions upon which your projections are based.

## ***III. Marketing Plan***

### **A. OVERALL MARKET STRATEGY**

Describe the general marketing philosophy and strategy of the company. This should be derived from marketing research and evaluation. It should include a discussion of what kinds of customer groups will be targeted for initial intensive sales promotions as well as which groups will be targeted for later sales efforts.

#### **B. PRICING**

The pricing policy is one of the most important decisions you will have to make. The price must be right to penetrate the market, maintain a market position, and produce profits. Discuss prices to be charged for your product or service, and compare your pricing policy with that of your major competitors.

#### **C. SALES TACTICS**

Describe the methods that will be used to make sales and distribute the product or service. Will the company use its own sales force, independent sales representatives, or distributors? Discuss the margins to be given to retailers, wholesalers, and salesmen and compare them to those of your competition.

#### **D. ADVERTISING AND PROMOTION**

Describe approaches the company will use to bring its product to the attention of prospective purchasers. The schedule and cost for advertising and promotion should be presented. If advertising and promotion will be a significant expense item, an exhibit of how and when these costs will be incurred should be included.

### ***IV. Operating Plan***

The operating plan should describe facilities, location, space requirements, capital equipment, and labor force that are required to provide the company's product or service. The discussion guidelines given below are general enough to cover different businesses. Only those that are relevant to your particular business should be addressed in your business plan.

#### **A. LOCATION**

Describe the planned location of the business and discuss the advantages and disadvantages of the site in terms of wage rates; labor availability; proximity to customers and suppliers; access to wholesalers, distributors, and transportation; state and local taxes and laws; utilities; and zoning.

#### **B. FACILITIES AND IMPROVEMENTS**

If yours is an existing business, describe the facilities currently used. If your firm is new, describe how and when the facilities to start business will be acquired. Discuss how and when space and equipment will be expanded to the capacity required for future sales projections. Discuss any plans to add to or improve existing space. Explain future equipment needs and indicate the cost and timing of such acquisitions.

#### **C. STRATEGY AND PLANS**

Describe the process involved in production of your product or service. Also present a plan that shows cost-volume information at various sales levels of operation with a breakdown of material, labor, purchased components, and overhead. Manufacturers should briefly describe their approach to quality control, production control, and inventory control. Explain the quality control and inspection procedures the company will use to minimize service problems and ensure customer satisfaction.

#### **D. LABOR FORCE**

Exclusive of management functions, does the local labor force have the necessary skills, in sufficient quantity and quality, to produce the product? If their skills are inadequate, describe the training that you would use to upgrade them.

### ***V. Management Team***

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management team with a balance of technical, managerial, and business skills. The proposal should include a description of the organizational structure, key management personnel and their primary duties, and the board of directors, if applicable.

#### **A. ORGANIZATION**

In a table, present the key management roles in the company and the individual who will fill each position. Discuss any current or past situations where the management personnel have worked together, and indicate how their skills complement each other and result in an effective management team.

#### **B. KEY PERSONNEL**

Describe the exact duties and responsibilities of each key member of the management team. For each individual, include a brief statement of career highlights that focuses on his or her ability to perform the assigned role. A complete resume for each member should be included as an exhibit to the business plan.

#### **C. MANAGEMENT COMPENSATION AND OWNERSHIP**

State the salary that is to be paid to each member. Set forth stock ownership planned for key personnel, the amount of their equity investment, and any performance-dependent stock options or bonus plans that are contemplated.

#### **D. BOARD OF DIRECTORS**

Discuss the company's philosophy as to the size and composition of a board of directors. Identify proposed board members and include a short statement about each member's background.

### ***VI. The Financial Plan***

The financial plan is basic to the evaluation of a business opportunity and should represent your best estimate of future operations. It can also serve as an operating plan for your management team.

In developing a financial plan, several basic forecasts must be prepared. Many decisions will be based on what you present here. At the appropriate time, your advisors may recommend some changes, but it is vitally important that you apply your best efforts in formulating these forecasts.

#### **A. SOURCES AND USES OF FUNDS**

Please refer to [Exhibit VI-A](#).

#### **B. PRO FORMA CASH FLOW ANALYSIS**

Please refer to [Exhibit VI-B](#).

#### **C. PROFIT AND LOSS FORECASTS**

Please refer to [Exhibit VI-C](#).

#### **D. PRO FORMA BALANCE SHEETS**

Please refer to [Exhibit VI-D](#).

For an existing business, balance sheets and income statements for the current and previous three years should be provided. After you have completed preparation of the financial exhibits, briefly highlight the important conclusions that can be drawn. Finally, explain all of your assumptions and the sources of your data.

# Sources and Uses of Funds

EXHIBIT VI-A

**Funds available:**

Owners' funds		
Other equity		
Loan No. 1		
Loan No. 2		
Total		

**Uses of funds:**

Land		
Building		
Equipment		
Machinery		
Renovations		
Prepaid insurance		
Promotions		
Inventory		
Furniture and fixtures		
Deposits		
Other		
Total		

**CASH BALANCE:**

(or working capital)	
----------------------	--

# Pro Forma Cash Flow Analysis

EXHIBIT VI-B

<b>Month:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>Sales:</b>												
Sales No. 1	—	—	—	—	—	—	—	—	—	—	—	—
Sales No. 2	—	—	—	—	—	—	—	—	—	—	—	—
Less returns	—	—	—	—	—	—	—	—	—	—	—	—
<b>TOTAL SALES</b>	—	—	—	—	—	—	—	—	—	—	—	—
<b>Cash Receipts</b>												
0-30 days	—	—	—	—	—	—	—	—	—	—	—	—
31-60 days	—	—	—	—	—	—	—	—	—	—	—	—
Over 60 days	—	—	—	—	—	—	—	—	—	—	—	—
<i>Total</i>	—	—	—	—	—	—	—	—	—	—	—	—
<b>Disbursements</b>												
Material Cost	—	—	—	—	—	—	—	—	—	—	—	—
Labor	—	—	—	—	—	—	—	—	—	—	—	—
Management	—	—	—	—	—	—	—	—	—	—	—	—
Payroll Tax	—	—	—	—	—	—	—	—	—	—	—	—
Benefits	—	—	—	—	—	—	—	—	—	—	—	—
Advertising	—	—	—	—	—	—	—	—	—	—	—	—
Auto Expense	—	—	—	—	—	—	—	—	—	—	—	—
Contributions	—	—	—	—	—	—	—	—	—	—	—	—
Charge Cards	—	—	—	—	—	—	—	—	—	—	—	—
Dues	—	—	—	—	—	—	—	—	—	—	—	—
Freight	—	—	—	—	—	—	—	—	—	—	—	—
Insurance	—	—	—	—	—	—	—	—	—	—	—	—
Legal/acct.	—	—	—	—	—	—	—	—	—	—	—	—
Office supplies	—	—	—	—	—	—	—	—	—	—	—	—
Shop supplies	—	—	—	—	—	—	—	—	—	—	—	—
Travel	—	—	—	—	—	—	—	—	—	—	—	—
Telephone	—	—	—	—	—	—	—	—	—	—	—	—
Utilities	—	—	—	—	—	—	—	—	—	—	—	—
Repairs	—	—	—	—	—	—	—	—	—	—	—	—
Tax/license	—	—	—	—	—	—	—	—	—	—	—	—
Rent/lease	—	—	—	—	—	—	—	—	—	—	—	—
Other expense	—	—	—	—	—	—	—	—	—	—	—	—
Principal pmt.	—	—	—	—	—	—	—	—	—	—	—	—
Interest pmt.	—	—	—	—	—	—	—	—	—	—	—	—
Add. inventory	—	—	—	—	—	—	—	—	—	—	—	—
Equipment	—	—	—	—	—	—	—	—	—	—	—	—
Fixtures	—	—	—	—	—	—	—	—	—	—	—	—
Other assets	—	—	—	—	—	—	—	—	—	—	—	—

Income taxes	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>	—	—	—	—	—	—	—	—	—	—	—	—
NET CASH FLOW	—	—	—	—	—	—	—	—	—	—	—	—
CUMULATIVE	—	—	—	—	—	—	—	—	—	—	—	—

**Pro Forma Cash Flow Analysis Cont.**

<b>Month:</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>
<b>Sales:</b>												
Sales No. 1	—	—	—	—	—	—	—	—	—	—	—	—
Sales No. 2	—	—	—	—	—	—	—	—	—	—	—	—
Less returns	—	—	—	—	—	—	—	—	—	—	—	—
<b>TOTAL SALES</b>	—	—	—	—	—	—	—	—	—	—	—	—
<b>Cash Receipts</b>												
0-30 days	—	—	—	—	—	—	—	—	—	—	—	—
31-60 days	—	—	—	—	—	—	—	—	—	—	—	—
Over 60 days	—	—	—	—	—	—	—	—	—	—	—	—
<i>Total</i>	—	—	—	—	—	—	—	—	—	—	—	—
<b>Disbursements</b>												
Material Cost	—	—	—	—	—	—	—	—	—	—	—	—
Labor	—	—	—	—	—	—	—	—	—	—	—	—
Management	—	—	—	—	—	—	—	—	—	—	—	—
Payroll Tax	—	—	—	—	—	—	—	—	—	—	—	—
Benefits	—	—	—	—	—	—	—	—	—	—	—	—
Advertising	—	—	—	—	—	—	—	—	—	—	—	—
Auto Expense	—	—	—	—	—	—	—	—	—	—	—	—
Contributions	—	—	—	—	—	—	—	—	—	—	—	—
Charge Cards	—	—	—	—	—	—	—	—	—	—	—	—
Dues	—	—	—	—	—	—	—	—	—	—	—	—
Freight	—	—	—	—	—	—	—	—	—	—	—	—
Insurance	—	—	—	—	—	—	—	—	—	—	—	—
Legal/acct.	—	—	—	—	—	—	—	—	—	—	—	—
Office supplies	—	—	—	—	—	—	—	—	—	—	—	—
Shop supplies	—	—	—	—	—	—	—	—	—	—	—	—
Travel	—	—	—	—	—	—	—	—	—	—	—	—
Telephone	—	—	—	—	—	—	—	—	—	—	—	—
Utilities	—	—	—	—	—	—	—	—	—	—	—	—
Repairs	—	—	—	—	—	—	—	—	—	—	—	—
Tax/license	—	—	—	—	—	—	—	—	—	—	—	—
Rent/lease	—	—	—	—	—	—	—	—	—	—	—	—
Other expense	—	—	—	—	—	—	—	—	—	—	—	—
Principal pmt.	—	—	—	—	—	—	—	—	—	—	—	—
Interest pmt.	—	—	—	—	—	—	—	—	—	—	—	—

Add. inventory	---	---	---	---	---	---	---	---	---	---	---	---
Equipment	---	---	---	---	---	---	---	---	---	---	---	---
Fixtures	---	---	---	---	---	---	---	---	---	---	---	---
Other assets	---	---	---	---	---	---	---	---	---	---	---	---
Income taxes	---	---	---	---	---	---	---	---	---	---	---	---
<b>Total</b>	---	---	---	---	---	---	---	---	---	---	---	---
NET CASH FLOW	---	---	---	---	---	---	---	---	---	---	---	---
CUMULATIVE	---	---	---	---	---	---	---	---	---	---	---	---



# Profit and Loss Forecast

EXHIBIT VI-C

	Year 1		Year 2	
	Amount	% of Net	Amount	% of Net
<b>Sales:</b>				
Sales No. 1	_____	_____	_____	_____
Sales No. 2	_____	_____	_____	_____
Gross Sales	_____	_____	_____	_____
Less returns	_____	_____	_____	_____
<b>Net Sales:</b>	_____	<u>100%</u>	_____	<u>100%</u>
Cost of goods sold:				
Beginning inventory	_____	_____	_____	_____
Purchases	_____	_____	_____	_____
Additional inventory	_____	_____	_____	_____
Goods available	_____	_____	_____	_____
Less ending inventory	_____	_____	_____	_____
<b>Total material cost</b>	_____	_____	_____	_____
<b>G&amp;A Expenses:</b>				
Labor	_____	_____	_____	_____
Management	_____	_____	_____	_____
Payroll tax	_____	_____	_____	_____
Benefits	_____	_____	_____	_____
Advertising	_____	_____	_____	_____
Truck/Auto expense	_____	_____	_____	_____
Contributions	_____	_____	_____	_____
Charge cards	_____	_____	_____	_____
Dues & subscriptions	_____	_____	_____	_____
Freight	_____	_____	_____	_____
Insurance	_____	_____	_____	_____
Legal & accounting	_____	_____	_____	_____
Office supplies	_____	_____	_____	_____
Shop supplies	_____	_____	_____	_____
Travel	_____	_____	_____	_____
Telephone expense	_____	_____	_____	_____
Utilities	_____	_____	_____	_____
Repairs	_____	_____	_____	_____
Taxes/licenses	_____	_____	_____	_____
Rent/lease	_____	_____	_____	_____
Other expenses	_____	_____	_____	_____
Interest payments	_____	_____	_____	_____
Depreciation	_____	_____	_____	_____

<i>Total G&amp;A Expense</i>	_____	_____	_____	_____
<i>Net income (pretax)</i>	_____	_____	_____	_____
Income tax:				
Federal	_____	_____	_____	_____
State	_____	_____	_____	_____
Total taxes	_____	_____	_____	_____
<b>NET INCOME</b>	_____	_____	_____	_____

# Pro Forma Balance Sheet

EXHIBIT VI-D

	Year 1	Year 2
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	_____	_____
Ending inventory	_____	_____
Accounts receivable	_____	_____
Other	_____	_____
Total current assets	_____	_____
<b>Fixed Assets:</b>		
Land	_____	_____
Building	_____	_____
Equipment	_____	_____
Machinery	_____	_____
Renovations	_____	_____
Furniture & fixtures	_____	_____
Other	_____	_____
Total fixed assets	_____	_____
Less accum. depreciation	_____	_____
Net fixed assets	_____	_____
<b>Other Assets:</b>		
Deposits	_____	_____
Other	_____	_____
Total other assets	_____	_____
<b>Total Assets</b>	_____	_____
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Notes payable	_____	_____
Current portion	_____	_____
long-term debt	_____	_____
Other	_____	_____
Total current liabilities	_____	_____
<b>Long-term Liabilities:</b>		
Loans payable	_____	_____
Less current portion	_____	_____
Total long-term debt	_____	_____

**Total Liabilities**

\_\_\_\_\_

\_\_\_\_\_

**EQUITY**

Owners' funds

\_\_\_\_\_

\_\_\_\_\_

Retained earnings

\_\_\_\_\_

\_\_\_\_\_

**Total Equity**

\_\_\_\_\_

\_\_\_\_\_

**Total Liabilities and Equity**

\_\_\_\_\_

\_\_\_\_\_