

How to Write a Business Plan

Like all entrepreneurs, you must do a great deal of research before opening your business. Writing a business plan, a document that clearly describes your vision of all the details of business operation, is recommended. The plan allows you to apply your research to your decision-making. Although a business plan is time-consuming, it is important to business success. Completing the plan forces you to examine all management, marketing, personnel, and finance decisions objectively and in an organized way. Another important benefit of the planning process is that you will project the financing needed for start-up and the early stages of your business. The plan will, therefore, become a useful tool in securing capital before start-up. Then, the plan becomes your owner's manual guiding your daily operations and activities.

Among other things, the business plan describes the products and services you will sell, the customers to whom you will sell them, the production, management and marketing activities needed to produce your offerings, and the projected profit or loss that will result from your efforts. A complete outline of the content of the plan is supplied below. When you adequately cover all the outline elements, your business plan will provide answers to these questions:

Who are you? A personal resume outlining the education and experience that will allow you to start and manage your business successfully.

What are you going to do? A description of your business concept, the products and services you will be providing, the market you will serve, where you will be located, how much money you will invest and how much additional money you will need (if any).

Where are you going? The short- and long-term goals you have set for your business.

How are you going to get there? The strategies that will allow you to meet your financial responsibilities, compete with others in the marketplace, learn new management skills, communicate with your customers, etc.

Business planning is an ongoing activity. Existing businesses and start-up firms benefit from writing and updating their goals, plans and activities. Although plans differ in some content elements depending on whether the firm is a retail, manufacturing, distribution or service

enterprise, the following outline should provide a solid framework for preparing your business plan.

Each section provides brief explanations, but if you have questions about how the outline applies to your particular business, contact the Small Business Development Center (SBDC) or a SCORE Chapter in your area.

The Business Plan

Title Page—The title page includes all contact and ownership information. Some entrepreneurs like to add a very brief business description, slogan or mission statement.

- Business name, address, telephone, e-mail and website
- Name of owner(s)

Table of Contents - Include a list of all sections of the business plan and the appropriate page numbers. Graphs, diagrams and other visual representations should also be identified. Items included as exhibits at the end of the plan (for example, the owner's resume) should be identified so the reader can reference them while reviewing the plan.

Mission Statement - The mission statement should describe why your company exists in the marketplace. Some companies use this statement as a foundation for management decision-making and publicly display it in promotional literature and in the place of business. Many entrepreneurs find it useful to make the mission statement brief and general enough to allow potential growth of product lines and services. Consider the difference between describing yourself as a company in the “automobile business” and a company in the “transportation business.” The mission statement is not usually changed for five years or more, so it is important for it to adequately portray your firm’s identity and philosophy.

- Description of company purpose
- Identification of those served

Executive Summary - An overview of the content of your business plan allows managers, strategic partners, investors or lending agencies to quickly grasp your concept and business direction so that as they read the pages that follow, they have a clear idea of your intentions. Because the plan encompasses many activities, the reader could fail to extract the owner’s view of the most important information. You will find many uses for this summary as you move

forward to promote your company, network in the business community and work with vendors of business products and services.

- Brief description of the company's history
- Purpose of the plan
- Goals of the business
- Description of the products and services
- Customers
- Management team experience
- Amount required from lender*
- Other sources of funds/collateral*
- Method of repayment*

(*)Items marked with an asterisk are added to the business plans being used to secure financing.

Industry Status - This is the part of your plan that discusses the business environment in which you will be operating. Entrepreneurs often wish to gloss over this section because the factors are considered external to the company and uncontrollable. Gathering this information is important, however, because it can help you determine limitations or opportunities impacting your profit. You may even discover information that changes the type of business you are starting or how you expand operations. Be sure to study both positive and negative factors.

- National/Regional economic growth or decline
- Industry outlook
- Projected opportunities
- Regulatory environment
- Technological influences

Target Market/Customer Base - An error in determining your target market(s) will not only adversely affect all other sections of your business plan, it will increase your advertising and promotion expenses. For some businesses, it is the difference between success and failure. In this section, describe the customers most likely to buy your product or service. Who are they? Where are they? When and why will they buy from you? To be thorough, you must also describe the target market between you and the end user of your offerings. For example, if you are a manufacturer, you may need a retailer or distributor. Without the retailer or distributor purchasing your product, the end user will never have the opportunity to purchase. You may

need promotional literature such as product and price sheets for this “middle” market, and even sales assistance. Overlooking this market could result in underestimated expenses. Often, your entire purchaser market can be divided into segments or groups of purchasers with common needs. Segmenting your market lets you define and describe buyers’ needs and habits completely. Accurate information about the size of your market and expected market share helps you predict potential income.

- Characteristics of the target market: Demographic profile (age, income, sex, education), Business customer (industry, size, purchaser) and Geographic parameters
- Size of the market/expected market share
- Market segmentation
- Customer buying habits (seasonality, quantity, average expenditure)

Marketing Plan - The marketing plan describes all activities involved in selling. It sets annual sales goals and examines the competitors’ products and services and how your offerings are unique. Marketing is not simply advertising and promotion activities. Although these communication elements are extremely important, they are ineffective if you have not chosen products and services wanted and needed by your potential customers. The marketing plan should include a complete description of all offerings. Names, colors, assortments and other details are important to customer choice. If you have multiple products for multiple target markets, this is the section where those distinctions must be made. If you are tempted to dismiss competition, ask yourself how your potential customer currently solves the same problem your offerings are intended to solve. What are the customers’ choices when spending their financial resources? It can be helpful to develop a matrix that lists all your major competitors, their products and services, prices, methods of promotion and location.

By incorporating your own marketing information on the matrix, you can identify your firm’s strengths and weaknesses. Your marketing section includes customer service policies. Small businesses often have an opportunity to compete with larger firms by offering flexible, courteous, customer-centered services.

The pricing of your product must consider competition and customer expectations, but it must also consider all expenses. It is not uncommon for early-stage businesses to (1) believe they can sell at the lowest price, (2) misunderstand the importance of establishing price policies at levels other than the end-user level and (3) overlook the relationship between pricing and other elements of marketing. Few businesses exist without advertising expenses. There are many

choices of strategy and media, but eliminating advertising indicates the entrepreneur can not afford to communicate with customers. A lack of communication is directly related to a lack of customer spending, and a lack of customer spending critically impairs the business's survival. Since advertising and other elements of promotion are legitimate business expenses, they must be incorporated into the price of the products and services.

- Sales goals
- Description of all products and services
- Direct and indirect competition
- Pricing objectives/methods
 - Wholesale and retail
 - Discounts and special allowances
 - Seasonality in pricing
 - Credit terms
- Location
 - Where products/services will be sold
 - Analysis of advantages/disadvantages
 - Plant/store atmosphere
 - Transportation
- Promotion activities
 - Advertising
 - Public relations
 - Publicity Trade or business shows
 - Website
- Packaging
- Customer service policies
- Sales training, management and methods
- Growth strategies

Production and Operations Plan - A lack of production and operations planning causes entrepreneurs to underestimate start-up, maintenance and growth expenses. The decisions in this section of the plan consider the “physical” health of the business. If the business is started at home, the entrepreneur should set criteria such as income, number of employees or product expansion that will necessitate moving to a business site. Decisions made in this section affect the extent of company indebtedness, as well as the collateral of the business when it seeks out loans or investments.

- Facility lease or purchase size and floor plan, zoning, local regulations, taxes, renovation/expansion plans
- Equipment machines/tools owned/needed lease or purchase, maintenance procedures and costs, vehicles, telecommunications and data
- Production process and costs
- Suppliers/credit terms
- Transportation and shipping access and equipment
- Scheduling for completion of research and development

Insurance - By definition, entrepreneurs are risk-takers. They launch a new enterprise in a competitive environment with less than adequate capital and work more daily hours than their corporate employee counterparts. Once the decision has been made to become an entrepreneur, risk management becomes a part of the job description. As a firm grows, the wise entrepreneur develops a risk management program with advice from an attorney, accountant and insurance agent. Young firms are vulnerable, and protection comes from evaluating and prioritizing risks and insuring against them.

You can start by making a list of the perils your business faces. Identify which are most catastrophic, such as loss of life, damage to property, or employee or customer injury resulting from a faulty piece of equipment or product. Then, take action to protect your business against these catastrophes. Risks differ related to your industry and specific offerings, and gaps in coverage can occur as the business grows. Your risk management program should be evaluated annually.

- Product liability
- Personal/business liability
- Business interruption
- Vehicle
- Disability
- Workers' compensation
- Unemployment
- Fire
- Theft

Management and Human Resources Plan - The people in any business are an important and expensive resource. Before developing this section, the entrepreneur must identify how the

business will grow and what skills will be needed. If additional locations are planned, new managers must be hired or trained. Researchers and engineers may be needed if growth comes from developing new products. If growth will result from selling intensively to a few clients who buy on multiple occasions, employees capable of developing good relationships and delivering excellent customer service are needed. The obvious expense of human resources is salary and benefits. Less obvious is the cost of recruitment, selection and training when turnover occurs. This section requires knowledge of state and federal regulations governing employer and employee relationships.

- Key managers' responsibilities, training, reporting and procedures
- Personnel number of full- and part-time employees special skills/education required/continuing education, job descriptions and evaluation methods, benefits, wages, commissions, bonus plans and use of subcontracted personnel policies
- Organizational chart
- Lists of stockholders and board members
- Amount of authorized stock and issued stock Professional assistance (attorney, accountant, banker, insurance representative, etc.)

Financial Plan - Books and software packages can be purchased with formatted worksheets to produce the documents you need for your financial plan. The numbers used for each expense should be as accurate as possible based on current research. Identify any fluctuations that can be predicted, such as increases in raw materials, lease or utilities in year two or three of your business. Estimate the month and year when additional employees will be hired and what will be paid. A break-even analysis helps you understand when the business becomes profitable and allows you to set goals realistically. Without a financial plan, you will find it nearly impossible to interest lenders or investors in helping you start and grow because you have no facts to back up your enthusiasm and commitment to your venture.

- Start-up costs (all one-time expenses such as equipment, deposits, fees, etc.)
- Monthly expenses (ongoing expenses for lease, insurance, utilities, etc.)
- Sources and uses of funds*
- Balance sheets (opening day and projected three years)
- Projected cash flow (monthly first year, quarterly year two and three)
- Profit and loss forecast or statement (annual for three years)
- Break-even analysis
- Existing business (historical statements for three years*)

- Personal financial statement of the owner(s)*
- Assumptions used in preparation of financial projections

Attached Exhibits

- Managers' resumes
- Advertisements, news articles and other promotional documents
- Contracts, leases, and filing documents (Fictitious Name, Employer Identification Number, Articles of Incorporation)
- Letters of support
- Pictures of the product or service
- Marketing research
- Patents, trademarks, copyrights, license agreements
- Income tax returns (three years)*
- Invoices or estimates for facility or equipment purchases*

(*) Items marked with an asterisk are added to the business plans being used to secure financing. For assistance in developing your business plan, contact the Small Business Development Center (SBDC) or the SCORE chapter in your area.

How to Finance Your Business

A leading cause of small business failure is inadequate start-up capital. Before you begin your new venture, you must realistically project not only your start-up costs for equipment, renovations and promotions but also your cash flow requirements for the early stages of operation. It often takes time to build sales levels, yet rent, utilities and other costs are immediate. During this time, bills are arriving faster than the customers, cash reserves can help the business survive. Funding needed for the start-up and operation of a business is available in two forms:

- Debt capital - borrowed funds
- Equity capital - funds generated through stock sale or the owner's investment

The terms on repayment of debt capital vary and are negotiated between lender and borrower. Raising capital through stock sale is complex and highly regulated; you should seek legal advice. More than half of all businesses are started with capital invested by the owner or the owner's

family. Should you decide that your own resources are insufficient, the traditional sources of financing are banks, local, state and federal agencies and venture capital firms.

In many cases, the most fundamental document you will need for a loan application is a business plan. It shows the lender your ability to research and envision the establishment and operation of the firm. In the previous section of this guide, the business plan outline contains several items marked with an asterisk (*).

These items are particular additions to a business plan being used with a loan application. In addition to the plan, lenders consider several factors in evaluating a business loan:

- Management Experience: your background compared to the skills required for your chosen business.
- Repayment Ability: your realistic projection of business income allows you to maintain loan payments.
- Collateral: your pledge of assets toward business stability and loan repayment.
- Credit: your historical and current record of repayment of obligations.

Obtaining a loan requires preparation and creditworthiness, but a bit of sales ability can help. You will be competing with many other business owners, and knowing what the lender needs when requesting a loan is just as important as knowing what a customer needs when selling your product. Many lenders want assurance that:

- You have something at risk in starting and operating this business. (Do not ask them to go out on a limb to back you if you are not out on the limb yourself. You must have resources committed to your own venture to secure the support of others.)
- Your proposal is sound and based on the 5 C's of credit: capacity, capital, collateral, character, and condition (industry). [Talk with a SCORE mentor](#) for recommendations on sources of financing.

Worksheet: Start-Up Costs

Start-up costs are those expenses that you will incur before your business opens. They vary according to the type of business, but this worksheet will help you begin assessing your financial needs so that your venture is not undercapitalized at the outset.

Category	Description	Cost
Deposit, office or building lease	(Facility/location expense)	\$
Decorating/remodeling/build-out	(Changes in facility required for business operation)	\$
Furniture/fixtures		\$
Equipment	(Production, office machines, security, etc.)	\$
Installation	(Fixtures, equipment)	\$
Telecommunications/data		\$
Utilities	(Installation and deposits)	\$
Initial inventory	(Stock, supplies for manufacturing)	\$
Office supplies		\$
Advertising and promotion	(Business cards, stationery, brochures, grand opening)	\$
Signs	(Vehicle, interior and exterior of facility)	\$
Licenses, permits and fees		\$
Insurance		\$
Legal/professional services		\$
Working capital	(Cash reserve for early months of business before sales are sufficient to pay bills)	\$
Total Start-up Costs		\$

Worksheet: Monthly Expenses

Some of your start-up expenses will also become ongoing monthly costs once your firm is in operation. It is necessary to estimate all of your monthly costs so that you are realistic about the income your firm will need. This worksheet includes some basic considerations. Completing it will help you and your accountant develop cash flow projections. In the column adjacent to the monthly expenses, make notes of those that increase or decrease in particular months.

Monthly Expense	Cost	Possible Variations
Rent	\$	
Equipment Lease	\$	
Maintenance and Repairs	\$	
Advertising	\$	
Office Supplies	\$	
Delivery	\$	
Postage	\$	
Vehicle Expenses	\$	
Legal/Professional Fees	\$	
Insurance(s)	\$	
Telecommunications/Data	\$	
Other Utilities	\$	
Travel	\$	
Dues/Memberships	\$	
Materials	\$	
Payroll	\$	

Payroll Taxes	\$	
Total Monthly Expenses	\$	

Glossary of Financial Terms

- **accounts payable:** money your firm owes to other organizations.
- **accounts receivable:** money other organizations owe to your firm.
- **accrual basis:** financial record-keeping system in which income is recorded when earned, and expenses are recorded when incurred.
- **amortization:** reduction of debt through installment payments.
- **assets:** cash, property and other resources owned by your firm.
- **balance sheet:** a financial document summarizing your firm's assets, liabilities and net worth at a given time.
- **break-even point:** the point at which the amount of your sales income covers your costs.
- **business plan:** a document that describes all management, marketing, financial and operation activities for your business; often a document required to secure financing.
- **cash flow statement:** a financial tool that describes money coming into and going out of your business.
- **collateral:** assets pledged toward repayment of a debt.
- **current assets:** cash, inventory, accounts receivable and other assets that will be used in the operation of the business within one year.
- **current liabilities:** debts that your business will pay within one year.
- **depreciation:** the reduction in value of an asset as the result of use.
- **equity financing:** money contributed to the firm by the owner(s) and investors.
- **fixed costs:** expenses that don't change regardless of production increases or decreases (rent, insurance, interest on loans, etc).
- **gross profit:** the result of subtracting the cost of goods sold from sales.
- **guarantor:** the person who makes a commitment to repay a loan if another defaults.
- **income statement:** a financial statement showing your firm's profit or loss within a specified period of time.
- **liabilities:** amounts owed to others.
- **line-of-credit:** a lender agrees to allow a borrower to draw a pre-specified amount from an account as needed.
- **net profit:** the result obtained when expenses are subtracted from revenues.

- **operating ratios:** expenses expressed as a percent of sales.
- **owner's draw:** the amount of money taken from the business by the owner.
- **profit and loss statement:** a statement of the results of business operation for a specified period; the bottom line shows the net profit or loss of your firm.
- **principal:** the amount owed on a loan (not including interest).
- **pro forma:** a financial planning statement that projects future performance.
- **receivables:** money owed to your firm by its customers.
- **return on investment:** profit generated from investing money in a firm.
- **variable costs:** costs that change as production output changes (raw materials, production labor, storage and shipping, etc.).
- **working capital:** money available to a firm for daily operations.

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