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**BUSINESS PLAN**  
**SBU**

# THE BUSINESS PLAN

A **Business Plan** is a description of your business, including your product or service, your market(s), your people, and your financing needs. You should consider that a well-written business plan plays two important roles. First, it is a useful management tool that can help you plot a course for your company's start-up and initial growth. Second, it is a vital sales tool you will use to impress potential investors with your planning ability and your general competence as a manager and a businessperson.

Your business plan will help you answer questions crucial to your success: What business am I really in? What will I sell? Where is my market? Who will buy from me? Why? Who are my competitors? How can I compete effectively with them? How much money will I need to launch and sustain my business? How will I get the work done? How will I control the operation? And probably the most important question of all: What will I get out of being successful in this venture?

No one can answer these questions for you. As the owner-manager of your own business, *you* have to answer them and draw up your own business plan. An effective plan should emphasize the strengths of the proposed venture- -but it should also anticipate and deal with any potential problems or challenges to be faced. Your consideration of each point in the outline below will provide the basis for answering the questions above, and many more that will arise in your effort to launch your business.

The following pages offer a generalized, but fairly detailed approach for writing a comprehensive business plan for your new business venture. In some situations, only parts of this outline will be appropriate for your purposes. In others, the full outline should be used. In either case, however, you should always tailor the plan to your specific situation and objectives.

It takes time and energy and patience to draw up a satisfactory business plan. Use this outline to stimulate your thinking about the issues raised, and to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan as it unfolds and you see the need for changes. Bear in mind that anything you leave out of the picture will create additional hardship, add additional cost, or drain your money when it unexpectedly comes up later. If you leave out or ignore too many items, you and your business are headed for disaster.

Keep in mind, too, that your final goal is to put your plan into action. Action is the difference between a plan and a dream. Your plan is one thing, the **Implementation Schedule** or **Timetable**, though, is the necessary ingredient that will move your plan from a written document to a living, viable business.

**Good Luck!**

## I. EXECUTIVE SUMMARY

This section should not be a mere listing of topics. It should emphasize the high points of your proposal, including:

- A. The **purpose** of your plan.
- B. A brief description of the **market potential**.
- C. **Significant distinctive product/service features**.
- D. A *brief* description of the **financial results** you expect in the first year or two of operation.
- E. **Key reasons** why you feel this project or venture is workable at this time.

## II. TABLE OF CONTENTS

This section of your plan should be designed to help readers locate specific sections or points of interest to them in the plan. Use plenty of detail; enough to help the unfamiliar reader find his/her way around your document.

## III. COMPANY DESCRIPTION

- A. What business are you in?
  1. **Describe** the new business in *elaborate* detail for the uninformed. (Be crisp and concise in your writing - - get right to the point!)
  2. **Justify** the new business.
    - a. If the new business will be similar to established firms, check available statistical data to document and substantiate the probability for success. (Conduct a *Secondary Source Feasibility Study*).
    - b. If the business is based on an entirely new idea, what contract or commitment from potential customers do you have? What will be needed to ensure reasonable probability of success?
    - c. Show comments from competent advisors who have no direct stake in the outcome. (NOTE: Be sure to seek guidance from those who may have viewpoints different from yours).
- B. What are your principal:
  1. **Products or services?** (In clear, descriptive detail here - - write for the uninformed or novice reader).
  2. **Markets?** Who will buy what you hope to sell?
  3. **Applications?** *Why* will your intended market want to buy what you sell?
- C. What is your **distinctive competence?** What are the chief factors that you will do *especially well* which will account for your success?
- D. What are the **Key Success Factors** which you need to concentrate on to make your business successful?

#### **IV. MANAGEMENT AND OWNERSHIP**

##### **A. Planning:**

1. **What is your basic strategy? Prepare a policy statement for your firm that clearly articulates what you intend to be and where you intend to go.**
2. **Define your key operational goals. (Sales in dollars or units, profits expected, and any other meaningful measurements which will later serve as control points).**

##### **B. Organization:**

1. **What will be the legal form of your business? Why?**
2. **How will the duties and responsibilities of the major managers, the major functions, and the operative employees be organized?**
3. **How many people will you need - - by type of skill ?**
4. **Show a sample organizational chart for the first year.**

##### **C. Staffing:**

1. **Who are (or will be) your Key Managers?**
2. **What are their skills? Their relevant experience? How do they relate to the Key Success Factors for your business?**
3. **What is their track record? How do you feel this will help your business succeed?**
4. **How do you intend to attract and compensate key people?**
5. **Will you have a Board of Directors (or Board of Advisors)? List the people who will sit with you, and their area of expertise.**
6. **Where will you find, and how will you attract operative personnel?**
7. **How will you compensate them? What Incentive plans will you use?**
8. **Have working conditions been designed to be desirable and practical?**
9. **Do you have an established procedure for:**
  - a. **Selecting and hiring new employees?**
  - b. **Inducing and orienting new employees?**
  - c. **Training and follow-up of new employees?**
10. **Do you have an established procedure for discipline and/or termination of unsatisfactory employees?**
11. **What outside services will you use?**
  - a. **Banker**
  - b. **Accountant, C.P.A., or Tax Advisor**
  - c. **Attorney**
  - d. **Insurance Advisor**
  - e. **Other Consultants as appropriate**

**D. Directing:**

1. What management and leadership style will be appropriate for your business?
2. What plans do you have to assure complete and accurate communications within your company?
3. How will you handle employee problems, complaints and grievances?
4. How will you handle emergencies?

**E. Control:**

1. What will be the key indicators of success or of "normal" operations?
2. How will you monitor these indicators?
3. What will you do when you observe unfavorable deviations from your plan?
4. Do you have budgets set for:
  - a. Expense items?
  - b. Revenue expectations?
  - c. Profit projections?
5. How will you monitor Accounts Receivable? (if you sell on credit or terms).
6. What is your basic Timetable?
7. What are your control milestones and deadlines?
8. Do you have a Back-up Plan? (What if things don't go as you hope?)
9. What triggers your Back-up Plan? (Know in advance what you will do in a crisis; don't wait until you become emotionally involved - - you won't think objectively).

**V. MARKETING PLAN**

**A. Market Analysis (Industry description and outlook).**

1. What industry are you in?
2. How big is it now? How big will it be in five years? In ten years?
3. What are its chief characteristics? (How do you describe it succinctly?)
4. Who are (or will be) the major customers?
5. What are (or will be) the major application(s) of your product or service? (How will it be used?)
6. What are the major trends in the industry that might affect your business?

**B. Target Market (Market Segmentation and Target Market Identification).**

1. Who are your potential customers?
2. How will you identify them?
3. What variables will you use to segment your market?
4. Why do you feel they are valid segmentation variables?
5. What needs or wants do they have that your product or service will fill?
6. How will you communicate with them? (How will they know about your product or service?)

### **C. Your Competition**

1. Who are (or will be) your major competitors?
2. Why are they successful? What are they doing right?
3. What is the approximate market share commanded by each major competitor in your field?
4. What are the trends shown by the competition in your field?
5. What are the available substitutes for your product or service?
6. How important are they in the total market you intend to serve?
7. Why do you expect your target market to leave your competitors and available substitutes to buy from you?
8. What is (or will be) your distinctive difference - - the one thing that will separate you from all competitors and substitutes?

### **D. The Marketing Mix**

#### **1. Product:**

- a. Describe in detail your product or service.
- b. Describe its history; its position in the industry; any future trends.
- c. For what purposes are your products or services used?
- d. What are the important features of your product or service?
- e. Are any of these proprietary features?
- f. Are your proprietary features legally protected?
- g. What are the benefits to the customer of your product or service?
- h. What stage of the product life cycle will your product or service be in?
- i. What is the product classification of your product or service?
- j. What are your plans for future development of your product or service?
- k. What are your plans for a follow-up product or service to replace this one?
- l. What are your policies regarding service and warranties?

#### **2. Price:**

- a. What is the pricing history of your product or service?
  - (1) by distribution method; or
  - (2) by geographic area or territory; or
  - (3) by customer classification; or
  - (4) by any other relevant classification?
- b. What are the current pricing trends?
- c. What do you expect for the future?
- d. What is your pricing strategy? Why did you select it?
  - (1) Introduction; to gain acceptance in the marketplace
  - (2) To maintain or to increase market share
  - (3) Profit impact
- e. Do you expect demand to be elastic or inelastic?
- f. How do your nearest competitors set price?
- g. What will you do in response to price changes by your competitors?
- h. Include a Breakeven Analysis for different prices and different sales levels; indicate your expectations for the "most probable" level, and why.

3. **Distribution (Place) (Channels and Methods)**
  - a. Through what **channels** are your products or services currently sold?
  - b. What **functions** do these channels perform?
  - c. How effectively do these channels cover the **potential market**?
  - d. What **geographical area** do you plan to serve?
  - e. How will you **physically move products** from one location to another?
  - f. How will you monitor and **control your inventory**?
  - g. How will you know when to **re-order stock**?
  
4. **Promotion:**
  - a. What *exactly* are your **Advertising Plans**? (How do you intend to make your target market aware of your firm and its offerings?)
  - b. What is your **Advertising Budget**?
  - c. How did you arrive at it?
  - d. What are your plans for generating **Publicity** about your business or its products or services?
  - e. How will you **Sell** your product or service? Describe your **Sales Force** in detail. Who will sell; where; their background and training, etc.
  - f. Will you use any **Sales Promotion** technique? Describe them, and why you selected them, and what you expect them to do for your sales.
  
- E. **The Marketing Environment:** Describe in detail how any of these might affect your business or its sales potential:
  - a. The Legal environment or forces at work
  - b. Political forces now or in the near future
  - c. The economy, and economic forces at work
  - d. Regulatory agencies or government controls over your industry or firm
  - e. Trends in the Society at large or in our Culture
  - f. Technology and High-Tech changes
  
- F. **Test Marketing**
  1. Have you conducted any **preliminary or test market studies**?
  2. If so, what were the **results**? What were the reactions of prospective customers?
  3. Did they see a **prototype**, or did you just describe the idea and ask for their response?

## VI OPERATIONS

- A. How will you accomplish **production** or conduct service operations? (Describe your manufacturing or production process).
  1. How much will you do **Internally**, and by what methods?
  2. How much will you **subcontract** out to others?
    - a. At start-up and for the first year.
    - b. In future years?

- B. What is your present **capacity** level for production or for operations?  
(How much can you produce now?)
1. Is this adequate for **near-term needs**?
  2. How can this be **expanded** when growth demands more capacity?
  3. Is your facility designed with **operations and workflow efficiency** in mind?
- C. What **production or operating advantages** do you have? How can you capitalize on them?
- D. What are the **critical parts or components** you need to use to produce your product or service?
1. Are any of these parts **"single-source"** parts? **"Sole-source"** parts? Or do you have **"back-up" vendors** to assure continuity of supply and quality?
  2. What are the **lead times** involved between the time you order the part and the time you actually have it?
- E. What are the **Standard Costs** for production at different levels of production?
- F. **Location:**
1. Why did you (or will you) locate in the location you have selected? Are there significant strategic or logistic reasons?
  2. Does your location offer **flexibility or opportunity for growth**?
  3. Is your location well suited for:
    - a. **transportation needs and requirements** (access, delivery load/unload, etc.)?
    - b. **communication needs**?
    - c. **customer needs** (can they find you and get to you easily)?
    - d. other important resources such as utilities, water, rail spurs, etc.?
    - e. **labor availability**?
    - f. **prevailing wage rates**?
    - g. **local zoning and laws** which may affect your right or ability to do business there?
  4. What are any significant **recent developments or trends** (such as population growth) which might have an impact in the future on your choice now of your location?
- G. **Regulations and Laws** which apply to your business:
1. What **regulations** must be complied with in your business (Federal, State, and/or local)? Example: Licenses, permits, registrations, etc.
  2. What police, health department, fire, OSHA, or other safety regulations apply to your business? What have you done (or will you do) to **assure compliance**?
  3. What information does the law require you to furnish about your employees?
  4. Do you have a **record-keeping and reporting system** in place to be certain that you comply, and that accurate, timely reports are filed?
  5. What regulations govern the use of a **business or trade name**? Your brand name? **Trade Marks**? **Patent protections**? **Non-competition agreements**? Other significant legal protections?



- H. Do you plan to offer trade or consumer credit to your customers?
1. How will you evaluate and approve credit applications?
  2. Will you use the services of a credit checking service or bureau?
  3. What information will you need or want to collect before evaluating credit applications?
  4. How will you monitor and control collections of Accounts Receivable?
  5. What will you do if someone does not pay you? What credit collection policies and procedures will you use?
  6. What will you do if you must write off the account as a Bad Debt?

## VII. FINANCIAL PLAN

### A. Present Financial Statements:

1. Balance Sheet (current)
2. Profit & Loss Statement (Income Statement) (Past two years if possible)
3. Include these statements for any relevant past operating periods as appropriate.

### B. Future (*Pro Forma*) Financial Statements:

1. Year-end Balance Sheets for the first full year of operations
2. Profit & Loss Statements by month or by quarter at least until Break-Even, then yearly to cover a five-year period into the future.
3. **NOTE:** It is common to present monthly statements for the first year or two, quarterly statements for the next two years, then annual statements out to the fifth operating year.
4. Your Break-Even Point should be clearly identified, including the timing of reaching Break-Even, and the important assumptions you used in reaching your conclusion.
5. Also provide other relevant financial planning tools, such as:
  - a. Cash Budgets
  - b. Cash Flow projections (Monthly)
  - c. Capital Budgets (large, important purchases; for equipment or buildings, or other major acquisitions planned in the future, etc.)
  - d. Manufacturing and/or shipping plan, or Sales Budget
  - e. Clearly identify all key assumptions which have been made in your *pro formas*, why you used them instead of reasonable alternatives, and give your assessment of how reliable or how valid they are likely to be. (A reality check).

**C. Sources and Uses of Funds:**

1. **How much money** do you or will you need to begin operations?
2. How much money will you need over the next five years if the business succeeds as you are projecting?
3. **When, exactly**, will extra money be needed, and what will it be used for?
4. What will be the **source** of these funds?
  - a. **Equity sources:** Specify how much **ownership** you and/or others will have in the business.
  - b. **Debt sources:** Specify how much money you will **borrow**.
    - (1) **What terms** will you need for repaying the loan (how many years will you need the **payback period** to be?)
    - (2) **Where will the money come from** to meet the repayment schedule for all borrowed money?
    - (3) **What collateral** (if any) will you pledge as security?
    - (4) **What is your "back-up plan"** to repay debts if the business does not work out as you hope?
5. If you have any plans to "go public" with a stock offering, discuss them here, including the **size** of the offering, **how much capital** you hope to raise, and the **timing** of the offering.

**VIII. START-UP SCHEDULE AND TIMETABLE**

- A. Provide a **list of activities, in sequence**, which must be accomplished to prepare for the start-up of the business. (This should be in a fair amount of detail, listing all the **major milestones and requirements** which must be met before you can launch the business).
- B. Provide a **timetable**, showing when each step is to be completed and the **relationships** between items which are interdependent. Also list important **commitments** which must be met.

**IX. CRITICAL RISKS AND POTENTIAL PROBLEMS**

- A. List and discuss the **Critical Risks** or other important factors which might have a **negative bearing** on the outcome of the start-up plan, or of the business venture in the foreseeable future. Discuss your **actions and defenses** to eliminate or mitigate the impact of controllable negative factors.
- B. List any **Potential Problems** which might arise. Discuss the **probability** that they will occur, and discuss the **severity** of the impact if they should occur. Present your plan to **reduce or eliminate** Potential Problems. (What will you do to see that they do not happen, or if they do happen, that the negative consequences are minimized?)

X. **APPENDICES OR EXHIBITS** (As required or helpful)

- A. **Resumes** of your Key Managers.
- B. **Pictures** of the product or of the prototype.
- C. **Detailed descriptions** of the product or of the service to be offered.
- D. **Professional references or testimonials.** Show your **successful relevant track record.**
- E. **Market Studies:** Relevant articles from trade journals; **contracts or commitments** from prospective customers, etc.
- F. Copies of relevant **Patents, Copyrights, or other legal protections, documents, or certifications** which you are required to obtain.
- G. Anything else which you feel is relevant, and which would help make your **Business Plan** be comprehensive and complete.

In summary, your **Business Plan** should describe:

- \* **Your company, and its Industry.**
- \* **Your product(s) and/or service(s).**
- \* **The market and your marketing approach.**
- \* **How you will make the product or deliver the service.**
- \* **Who is involved in the company.**
- \* **How much money the company needs, and what it will do with it.**
- \* **How successful (financially) you predict the company will be.**

By following these guidelines, you should be able to think your prospective business through thoroughly, and construct a **Business Plan** that will guide you through initial start-up - - and which will impress and persuade potential investors in your ability to manage, and in the potential of your company.

Will your business unfold exactly like the plan you draw up? Very unlikely. Nevertheless, it is the *process of planning* that is important. It is what you do and what you think of to be able to create your plan that is important. Things may not work out exactly as you expected or hoped. But if you have a good plan, you will be much better prepared to make **mid-course corrections** as needed, or to take advantage of **unexpected opportunities** when they arise.

So take your time, and be as comprehensive and thorough as you can be - - a lot is riding on the outcome. **BEST WISHES FOR SUCCESS!**