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How to Start a Business Plan Out Line

A five-part guide to planning and writing your company's business plan

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1. An Introduction to Business Plans

A business plan is a written description of your business's future. That's all there is to it—a document that describes what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan.

Business plans can help perform a number of tasks for those who write and read them. Investment-seeking entrepreneurs to convey their vision to potential investors use them. Firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better may also use them.

So what's included in a business plan, and how do you put one together? Simply stated, a business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.

Sound impressive? It can be, if put together properly. A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

- The first is the *business concept*, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
- The second is the *marketplace section*, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
- Finally, the *financial section* contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.

Breaking these three major sections down even further, a business plan consists of seven key components:

1. Executive summary
2. Business description
3. Market strategies
4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

In addition to these sections, a business plan should also have a cover, title page and table of contents.

How Long Should Your Business Plan Be?

Depending on what you're using it for, a useful business plan can be any length, from a scrawl on the back of an envelope to, in the case of an especially detailed plan describing a complex enterprise, more than 100 pages. A typical business plan runs 15 to 20 pages, but there's room for wide variation from that norm.

Much will depend on the nature of your business. If you have a simple concept, you may be able to express it in very few words. On the other hand, if you're proposing a new kind of business or even a new industry, it may require quite a bit of explanation to get the message across.

The purpose of your plan also determines its length. If you want to use your plan to seek millions of dollars in seed capital to start a risky venture, you may have to do a lot of explaining and convincing. If you're just going to use your plan for internal purposes to manage an ongoing business, a much more abbreviated version should be fine.

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Who Needs a Business Plan?

About the only person who doesn't need a business plan is one who's not going into business. You don't need a plan to start a hobby or to moonlight from your regular job. But anybody beginning or extending a venture that will consume significant resources of money, energy or time, and that is expected to return a profit, should take the time to draft some kind of plan.

- *Start-ups.* The classic business plan writer is an entrepreneur seeking funds to help start a new venture. Many, many great companies had their starts on paper, in the form of a plan that was used to convince investors to put up the capital necessary to get them under way.

  Most books on business planning seem to be aimed at these start-up business owners. There's one good reason for that: As the least experienced of the potential plan writers, they're probably most appreciative of the guidance. However, it's a mistake to think that only cash-starved start-ups need business plans. Business owners find plans useful at all stages of their companies' existence, whether they're seeking financing or trying to figure out how to invest a surplus.

- *Established firms seeking help.* Not all business plans are written by starry-eyed entrepreneurs. Many are written by and for companies that are long past the start-up stage. WalkerGroup/Designs, for instance, was already well-established as a designer of stores for major retailers when founder Ken Walker got the idea of trademarking and licensing to apparel makers and others the symbols 01-01-00 as a sort of numeric shorthand for the approaching millennium. Before beginning the arduous and costly task of trademarking it worldwide, Walker used a business plan complete with sales forecasts to convince big retailers it would be a good idea to promise to carry the 01-01-00 goods. It helped make the new venture a winner long before the big day arrived. "As a result of the retail support up front," Walker says, "we had over 45 licensees running the gamut of product lines almost from the beginning."

These middle-stage enterprises may draft plans to help them find funding for growth just as the start-ups do, although the amounts they seek may be larger and the investors more willing. They may feel the need for a written plan to help manage an already rapidly growing business. Or a plan may be seen as a valuable tool to be used to convey the mission and prospects of the business to customers, suppliers or others.

Plan Updating Checklist
Here are seven reasons to think about updating your business plan. If even just one applies to you, it's time for an update.

1. A new financial period is about to begin. You may update your plan annually, quarterly or even monthly if your industry is a fast-changing one.
2. You need financing, or additional financing. Lenders and other financiers need an updated plan to help them make financing decisions.
3. There's been a significant market change. Shifting client tastes, consolidation trends among customers and altered regulatory climates can trigger a need for plan updates.
4. Your firm develops or is about to develop a new product, technology, service or skill. If your business has changed a lot since you wrote your plan the first time around, it's time for an update.
5. You have had a change in management. New managers should get fresh information about your business and your goals.
6. Your company has crossed a threshold, such as moving out of your home office, crossing the $1 million sales mark or employing your 100th employee.
7. Your old plan doesn't seem to reflect reality any more. Maybe you did a poor job last time; maybe things have just changed faster than you expected. But if your plan seems irrelevant, redo it.

Finding the Right Plan For You

Business plans tend to have a lot of elements in common, like cash flow projections and marketing plans. And many of them share certain objectives as well, such as raising money or persuading a partner to join the firm. But business plans are not all the same any more than all businesses are.

Depending on your business and what you intend to use your plan for, you may need a very different type of business plan from another entrepreneur. Plans differ widely in their length, their appearance, the detail of their contents, and the varying emphases they place on different aspects of the business.

The reason that plan selection is so important is that it has a powerful effect on the overall impact of your plan. You want your plan to present you and your business in the best, most accurate light. That's true no matter what you intend to use your plan for, whether it's destined for presentation at a venture capital conference, or will never leave your own office or be seen outside internal strategy sessions.

When you select clothing for an important occasion, odds are you try to pick items that will play up your best features. Think about your plan the same way. You want to reveal any positives that your business may have and make sure they receive due consideration.

Types of Plans

Business plans can be divided roughly into four separate types. There are very short plans, or miniplans. There are working plans, presentation plans and even electronic plans. They require very different amounts of labor and not always with proportionately different results. That is to say, a more elaborate plan is not guaranteed to be superior to an abbreviated one, depending on what you want to use it for.

- *The Miniplan.* A miniplan may consist of one to 10 pages and should include at least cursory attention to such key matters as business concept, financing needs, marketing plan and financial statements, especially cash flow, income projection and balance sheet. It's a great way to quickly test a business concept or measure the interest of a potential partner or minor investor. It can also serve as a valuable prelude to a full-length plan later on.

Be careful about misusing a miniplan. It's not intended to substitute for a full-length plan. If you send a miniplan to an investor who's looking for a comprehensive one, you're only going to look foolish.

- *The Working Plan.* A working plan is a tool to be used to operate your business. It has to be long on detail but may be short on presentation. As with a miniplan, you can probably afford a somewhat higher degree of candor and informality when preparing a working plan.

A plan intended strictly for internal use may also omit some elements that would be important in one aimed at someone outside the firm. You probably don't need to include an appendix with resumes of key executives, for example. Nor would a working plan especially benefit from, say, product photos.

Fit and finish are liable to be quite different in a working plan. It's not essential that a working plan be printed on high-quality paper and enclosed in a fancy binder. An old three-ring binder with "Plan" scrawled across it with a felt-tip marker will serve quite well.

Internal consistency of facts and figures is just as crucial with a working plan as with one aimed at outsiders. You don't have to be as careful, however, about such things as typos in the text, perfectly conforming to business style, being consistent with date formats and so on. This document is like an old pair of khakis you wear into the office on Saturdays or that one ancient delivery truck that never seems to break down. It's there to be used, not admired.

- *The Presentation Plan.* If you take a working plan, with its low stress on cosmetics and impression, and twist the knob to boost the amount of attention paid to its looks, you'll wind up with a presentation plan. This plan is suitable for showing to bankers, investors and others outside the company.

Almost all the information in a presentation plan is going to be the same as your working plan, although it may be styled somewhat differently. For instance, you should use standard business vocabulary, omitting the informal jargon, slang and shorthand that's so useful in the workplace and is appropriate in a working plan. Remember, these readers won't be familiar with your operation. Unlike the working plan, this plan isn't being used as a reminder but as an introduction.

You'll also have to include some added elements. Among investors' requirements for due diligence is information on all competitive threats and risks. Even if you consider some of only peripheral significance, you need to address these concerns by providing the information.

The big difference between the presentation and working plans is in the details of appearance and polish. A working plan may be run off on the office printer and stapled together at one corner. A presentation plan should be printed by a high-quality printer, probably using color. It must be bound expertly into a booklet that is durable and easy to read. It should include graphics such as charts, graphs, tables and illustrations.

It's essential that a presentation plan be accurate and internally consistent. A mistake here could be construed as a misrepresentation by an unsympathetic outsider. At best, it will make you look less than careful. If the plan's summary describes a need for $40,000 in financing, but the cash flow projection shows $50,000 in financing coming in during the first year, you might think, "Oops! Forgot to update that summary to show the new numbers." The investor you're asking to pony up the cash, however, is unlikely to be so charitable.

- *The Electronic Plan.* The majority of business plans are composed on a computer of some kind, then printed out and presented in hard copy. But more and more business information that once was transferred between parties only on paper is now sent electronically. So you may find it appropriate to have an electronic version of your plan available. An electronic plan can be handy for presentations to a group using a computer-driven overhead projector, for example, or for satisfying the demands of a discriminating investor who wants to be able to delve deeply into the underpinnings of complex spreadsheets.

2. Plan Your Plan

You've decided to write a business plan, and you're ready to get started. Congratulations. You've just greatly increased the chances that your business venture will succeed. But before you start drafting your plan, you need to—you guessed it—plan your draft.

One of the most important reasons to plan your plan is that you may be held accountable for the projections and proposals it contains. That's especially true if you use your plan to raise money to finance your company. Let's say you forecast opening four new locations in the second year of your retail operation. An investor may have a beef if, due to circumstances you could have foreseen, you only open two. A business plan can take on a life of its own, so thinking a little about what you want to include in your plan is no more than common prudence.

Second, as you'll soon learn if you haven't already, business plans can be complicated documents. As you draft your plan, you'll be making lots of decisions on serious matters, such as what strategy you'll pursue, as well as less important ones, like what color paper to print it on. Thinking about these decisions in advance is an important way to minimize the time you spend planning your business and maximize the time you spend generating income.

To sum up, planning your plan will help control your degree of accountability and reduce time-wasting indecision. To plan your plan, you'll first need to decide what your goals and objectives in business are. As part of that, you'll assess the business you've chosen to start, or are already running, to see what the chances are that it will actually achieve those ends. Finally, you'll take a look at common elements of most plans to get an idea of which ones you want to include and how each will be treated.

Determine Your Objectives

Close your eyes. Imagine that the date is five years from now. Where do you want to be? Will you be running a business that hasn't increased significantly in size? Will you command a rapidly growing empire? Will you have already cashed out and be relaxing on a beach somewhere, enjoying your hard-won gains?

Answering these questions is an important part of building a successful business plan. In fact, without knowing where you're going, it's not really possible to plan at all.

Now is a good time to free-associate a little bit—to let your mind roam, exploring every avenue that you'd like your business to go down. Try writing a personal essay on your business goals. It could take the form of a letter to yourself, written from five years in the future, describing all you have accomplished and how it came about.

As you read such a document, you may make a surprising discovery, such as that you don't really want to own a large, fast-growing enterprise but would be content with a stable small business. Even if you don't learn anything new, though, getting a firm handle on your goals and objectives is a big help in deciding how you'll plan your business.

Goals and Objectives Checklist

If you're having trouble deciding what your goals and objectives are, here are some questions to ask yourself:

1. How determined am I to see this succeed?
2. Am I willing to invest my own money and work long hours for no pay, sacrificing personal time and lifestyle, maybe for years?
3. What's going to happen to me if this venture doesn't work out?
4. If it does succeed, how many employees will this company eventually have?
5. What will be its annual revenues in a year? Five years?
6. What will be its market share in that time frame?
7. Will it be a niche marketer, or will it sell a broad spectrum of good and services?
8. What are my plans for geographic expansion? Local? National? Global?
9. Am I going to be a hands-on manager, or will I delegate a large proportion of tasks to others?
10. If I delegate, what sorts of tasks will I share? Sales? Technical? Others?
11. How comfortable am I taking direction from others? Could I work with partners or investors who demand input into the company's management?
12. Is it going to remain independent and privately owned, or will it eventually be acquired or go public?

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Your Financing Goals

It doesn't necessarily take a lot of money to make a lot of money, but it does take some. That's especially true if, as part of examining your goals and objectives, you envision very rapid growth.

Energetic, optimistic entrepreneurs often tend to believe that sales growth will take care of everything, that they'll be able to fund their own growth by generating profits. However, this is rarely the case, for one simple reason: You usually have to pay your own suppliers before your customers pay you. This cash flow conundrum is the reason so many fast-growing companies have to seek bank financing or equity sales to finance their growth. They are literally growing faster than they can afford.

Start by asking yourself what kinds of financing you're likely to need—and what you'd be willing to accept. It's easy when you're short of cash, or expect to be short of cash, to take the attitude that almost any source of funding is just fine. But each kind of financing has different characteristics that you should take into consideration when planning your plan. These characteristics take three primary forms:

- First, there's the amount of control you'll have to surrender. An equal partner may, quite naturally, demand approximately equal control. Venture capitalists often demand significant input into management decisions by, for instance, placing one or more people on your board of directors. Angel investors may be very involved or not involved at all, depending on their personal style. Bankers, at the other end of the scale, are likely to offer no advice whatsoever as long as you make payments of principal and interest on time and are not in violation of any other terms of your loan.

- You should also consider the amount of money you're likely to need. Any amount less than several million dollars is too small to be considered for a standard initial public offering of stock, for example. Venture capital investors are most likely to invest amounts of $250,000 to $3 million. On the other hand, only the richest angel investor will be able to provide more than a few hundred thousand dollars, if that.

Almost any source of funds, from a bank to a factor, has some guidelines about the size of financing it prefers. Anticipating the size of your needs now will guide you in preparing your plan.

- The third consideration is cost. This can be measured in terms of interest rates and shares of ownership as well as in time, paperwork and plain old hassle.

How Will You Use Your Plan

Believe it or not, part of planning your plan is planning what you'll do with it. No, we haven't gone crazy—at least not yet. A business plan can be used for several things, from monitoring your company's progress toward goals to enticing key employees to join your firm. Deciding how you intend to use yours is an important part of preparing to write it.

- *Do you intend to use your plan to help you raise money?* In that case, you'll have to focus very carefully on the executive summary, the management, and marketing and financial aspects. You'll need to have a clearly focused vision of how your company is going to make money. If you're looking for a bank loan, you'll need to stress your ability to generate sufficient cash flow to service loans. Equity investors, especially venture capitalists, must be shown how they can cash out of your company and generate a rate of return they'll find acceptable.

- *Do you intend to use your plan to attract talented employees?* Then you'll want to emphasize such things as stock options and other aspects of compensation as well as location, work environment, corporate culture and opportunities for growth and advancement.
- *Do you anticipate showing your plan to suppliers to demonstrate that you're a worthy customer?* A solid business plan may convince a supplier of some precious commodity to favor you over your rivals. It may also help you arrange supplier credit. You may want to stress your blue-ribbon customer list and spotless record of repaying trade debts in this plan.

Assessing Your Company's Potential

For most of us, unfortunately, our desires about where we would like to go aren't as important as our businesses' ability to take us there. Put another way, if you choose the wrong business, you're going nowhere.

Luckily, one of the most valuable uses of a business plan is to help you decide whether the venture you have your heart set on is really likely to fulfill your dreams. Many, many business ideas never make it past the planning stage because their would-be founders, as part of a logical and coherent planning process, test their assumptions and find them wanting.

Test your idea against at least two variables. First, financial, to make sure this business makes economic sense. Second, lifestyle, because who wants a successful business that they hate?

Answer the following questions to help you outline your company's potential. There are no wrong answers. The objective is simply to help you decide how well your proposed venture is likely to match up with your goals and objectives.

Financial:

1. What initial investment will the business require?
2. How much control are you willing to relinquish to investors?
3. When will the business turn a profit?
4. When can investors, including you, expect a return on their money?
5. What are the projected profits of the business over time?
6. Will you be able to devote yourself full time to the business, financially?
7. What kind of salary or profit distribution can you expect to take home?
8. What are the chances the business will fail?
9. What will happen if it does?

Lifestyle:

1. Where are you going to live?
2. What kind of work are you going to be doing?
3. How many hours will you be working?
4. Will you be able to take vacations?
5. What happens if you get sick?
6. Will you earn enough to maintain your lifestyle?
7. Does your family understand and agree with the sacrifices you envision?

3. Elements of a Business Plan

Now that you understand why you need a business plan and you've spent some time doing your homework gathering the information you need to create one, it's time to roll up your sleeves and get everything down on paper. The following pages will describe in detail the seven essential sections of a business plan: what you should include, what you shouldn't include, how to work the numbers and additional resources you can turn to for help. With that in mind, jump right in.

Executive Summary

Within the overall outline of the business plan, the executive summary will follow the title page. The summary should tell the reader what you want. This is very important. All too often, what the business owner desires is buried on page eight. Clearly state what you're asking for in the summary.

The statement should be kept short and businesslike, probably no more than half a page. It could be longer, depending on how complicated the use of funds may be, but the summary of a business plan, like the summary of a loan application, is generally no longer than one page. Within that space, you'll need to provide a synopsis of your entire business plan. Key elements that should be included are:

1. *Business concept.* Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.

2. *Financial features.* Highlights the important financial points of the business including sales, profits, cash flows and return on investment.

3. *Financial requirements.* Clearly states the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.

4. *Current business position.* Furnishes relevant information about the company, its legal form of operation, when it was formed, the principal owners and key personnel.

Quick Tips

- Keep your executive summary short and concise.
- State your goal for your business plan upfront; don't bury it where readers can't find it

5. *Major achievements.* Details any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product development, or results from any test marketing that has been conducted.

When writing your statement of purpose, don't waste words. If the statement of purpose is eight pages, nobody's going to read it because it'll be very clear that the business, no matter what its merits, won't be a good investment because the principals are indecisive and don't really know what they want. Make it easy for the reader to realize at first glance both your needs and capabilities.

Business Description

Tell Them All About It

The business description usually begins with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to footnote sources of information as appropriate. This is important if you're seeking funding; the investor will want to know just how dependable your information is, and won't risk money on assumptions or conjecture.

When describing your business, the first thing you need to concentrate on is its structure. By structure we mean the type of operation, i.e. wholesale, retail, food service, manufacturing or service-oriented. Also state whether the business is new or already established.

In addition to structure, legal form should be reiterated once again. Detail whether the business is a sole proprietorship, partnership or corporation, who its principals are, and what they will bring to the business.

You should also mention who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer service.

Once you've described the business, you need to describe the products or services you intend to market. The product description statement should be complete enough to give the reader a clear idea of your intentions. You may want to emphasize any unique features or variations from concepts that can typically be found in the industry.

Be specific in showing how you will give your business a competitive edge. For example, your business will be better because you will supply a full line of products; competitor A doesn't have a full line. You're going to provide service after the sale; competitor B doesn't support anything he sells. Your merchandise will be of higher quality. You'll give a money-back guarantee. Competitor C has the reputation for selling the best French fries in town; you're going to sell the best Thousand Island dressing.

Quick Tips

1. Provide industry information, including present and future outlook.
2. Footnote your information so readers can check the reliability of your sources.
3. Describe your business, including structure, legal form, business systems, and products or services.
4. Specifically show how your business will gain the competitive edge.
5. Explain how your business is going to be profitable.

How Will I Profit?

Now you must be a classic capitalist and ask yourself, "How can I turn a buck? And why do I think I can make a profit that way?" Answer that question for yourself, and then convey that answer to others in the business concept section. You don't have to write 25 pages on why your business will be profitable. Just explain the factors you think will make it successful, like the following: it's a well-organized business, it will have state-of-the-art equipment, its location is exceptional, the market is ready for it, and it's a dynamite product at a fair price.

If you're using your business plan as a document for financial purposes, explain why the added equity or debt money is going to make your business more profitable.

Show how you will expand your business or be able to create something by using that money.

Show why your business is going to be profitable. A potential lender is going to want to know how successful you're going to be in this particular business. Factors that support your claims for success can be mentioned briefly; they will be detailed later. Give the reader an idea of the experience of the other key people in the business. They'll want to know what suppliers or experts you've spoken to about your business and their response to your idea. They may even ask you to clarify your choice of location or reasons for selling this particular product.

The business description can be a few paragraphs in length to a few pages, depending on the complexity of your plan. If your plan isn't too complicated, keep your business description short, describing the industry in one paragraph, the product in another, and the business and its success factors in three or four paragraphs that will end the statement.

While you may need to have a lengthy business description in some cases, it's our opinion that a short statement conveys the required information in a much more effective manner. It doesn't attempt to hold the reader's attention for an extended period of time, and this is important if you're presenting to a potential investor who will have other plans he or she will need to read as well. If the business description is long and drawn-out, you'll lose the reader's attention, and possibly any chance of receiving the necessary funding for the project.

Market Strategies

Define Your Market

Market strategies are the result of a meticulous market analysis. A market analysis forces the entrepreneur to become familiar with all aspects of the market so that the target market can be defined and the company can be positioned in order to garner its share of sales. A market analysis also enables the entrepreneur to establish pricing, distribution and promotional strategies that will allow the company to become profitable within a competitive environment. In addition, it provides an indication of the growth potential within the industry, and this will allow you to develop your own estimates for the future of your business.

Begin your market analysis by defining the market in terms of size, structure, growth prospects, trends and sales potential.

The total aggregate sales of your competitors will provide you with a fairly accurate estimate of the total potential market. For instance, within the beer brewing industry, the total market potential would be the total sales of malt beverages in the United States, which is $15.2 billion.

Once the size of the market has been determined, the next step is to define the target market. The target market narrows down the total market by concentrating on segmentation factors that will determine the total addressable market—the total number of users within the sphere of the business's influence. The segmentation factors can be geographic, customer attributes or product-oriented.

For instance, if the distribution of your product is confined to a specific geographic area, then you want to further define the target market to reflect the number of users or sales of that product within that geographic segment.

Once the target market has been detailed, it needs to be further defined to determine the total feasible market. This can be done in several ways, but most professional planners will delineate the feasible market by concentrating on product segmentation factors that may produce gaps within the market. In the case of a microbrewery that plans to brew a premium lager beer, the total feasible market could be defined by determining how many drinkers of premium pilsner beers there are in the target market.

Quick Tips

1. Define the total market for your industry.
2. Define your target market.
3. Further narrow your target by determining the feasible market.

It's important to understand that the total feasible market is the portion of the market that can be captured provided every condition within the environment is perfect and there is very little competition. In most industries this is simply not the case. There are other factors that will affect the share of the feasible market a business can reasonably obtain. These factors are usually tied to the structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share.

Projecting Market Share

Arriving at a projection of the market share for a business plan is very much a subjective estimate. It's based on not only an analysis of the market but on highly targeted and competitive distribution, pricing and promotional strategies. For instance, even though there may be a sizable number of premium pilsner drinkers to form the total feasible market, you need to be able to reach them through your distribution network at a price point that's competitive, and then you have to let them know it's available and where they can buy it. How effectively you can achieve your distribution, pricing and promotional goals determines the extent to which you will be able to garner market share.

For a business plan, you must be able to estimate market share for the time period the plan will cover. In order to project market share over the time frame of the business plan, you'll need to consider two factors:

1. *Industry growth which will increase the total number of users.* Most projections utilize a minimum of two growth models by defining different industry sales scenarios. The industry sales scenarios should be based on leading indicators of industry sales, which will most likely include industry sales, industry segment sales, demographic data and historical precedence.

2. *Conversion of users from the total feasible market.* This is based on a sales cycle similar to a product life cycle where you have five distinct stages: early pioneer users, early users, early majority users, late majority users and late users. Using conversion rates, market growth will continue to increase your market share during the period from early pioneers to early majority users, level off through late majority users, and decline with late users.

Defining the market is but one step in your analysis. With the information you've gained through market research, you need to develop strategies that will allow you to fulfill your objectives.

Positioning Your Business

When discussing market strategy, it's inevitable that positioning will be brought up. A company's positioning strategy is affected by a number of variables that are closely tied to the motivations and requirements of target customers within as well as the actions of primary competitors.

Before a product can be positioned, you need to answer several strategic questions such as:

1. How are your competitors positioning themselves?
2. What specific attributes does your product have that your competitors' don't?

3. What customer needs does your product fulfill?

Once you've answered your strategic questions based on research of the market, you can then begin to develop your positioning strategy and illustrate that in your business plan. A positioning statement for a business plan doesn't have to be long or elaborate. It should merely point out exactly how you want your product perceived by both customers and the competition.

Pricing

How you price your product is important because it will have a direct effect on the success of your business. Though pricing strategy and computations can be complex, the basic rules of pricing are straightforward:

1. All prices must cover costs.
2. The best and most effective way of lowering your sales prices is to lower costs.
3. Your prices must reflect the dynamics of cost, demand, changes in the market and response to your competition.
4. Prices must be established to assure sales. Don't price against a competitive operation alone. Rather, price to sell.
5. Product utility, longevity, maintenance and end use must be judged continually, and target prices adjusted accordingly.
6. Prices must be set to preserve order in the marketplace.

There are many methods of establishing prices available to you:

- *Cost-plus pricing.* Used mainly by manufacturers, cost-plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained.
- *Demand pricing.* Used by companies that sell their product through a variety of sources at differing prices based on demand.
- *Competitive pricing.* Used by companies that are entering a market where there is already an established price and it is difficult to differentiate one product from another.
- *Markup pricing.* Used mainly by retailers, markup pricing is calculated by adding your desired profit to the cost of the product. Each method listed above has its strengths and weaknesses.

Distribution

Distribution includes the entire process of moving the product from the factory to the end user. The type of distribution network you choose will depend upon the industry and the size of the market. A good way to make your decision is to analyze your competitors to determine the channels they are using, then decide whether to use the same type of channel or an alternative that may provide you with a strategic advantage.

Some of the more common distribution channels include:

- *Direct sales.* The most effective distribution channel is to sell directly to the end-user.
- *OEM (original equipment manufacturer)* sales. When your product is sold to the OEM, it is incorporated into their finished product and it is distributed to the end user.
- *Manufacturer's representatives.* One of the best ways to distribute a product, manufacturer's reps, as they are known, are salespeople who operate out of agencies that handle an assortment of complementary products and divide their selling time among them.
- *Wholesale distributors.* Using this channel, a manufacturer sells to a wholesaler, who in turn sells it to a retailer or other agent for further distribution through the channel until it reaches the end user.

- *Brokers.* Third-party distributors who often buy directly from the distributor or wholesaler and sell to retailers or end users.
- *Retail distributors.* Distributing a product through this channel is important if the end user of your product is the general consuming public.
- *Direct Mail.* Selling to the end user using a direct mail campaign.

As we've mentioned already, the distribution strategy you choose for your product will be based on several factors that include the channels being used by your competition, your pricing strategy and your own internal resources.

Promotion Plan

With a distribution strategy formed, you must develop a promotion plan. The promotion strategy in its most basic form is the controlled distribution of communication designed to sell your product or service. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication effort. This includes:

- *Advertising.* Includes the advertising budget, creative message(s), and at least the first quarter's media schedule.
- *Packaging.* Provides a description of the packaging strategy. If available, mockups of any labels, trademarks or service marks should be included.
- *Public relations.* A complete account of the publicity strategy including a list of media that will be approached as well as a schedule of planned events.
- *Sales promotions.* Establishes the strategies used to support the sales message. This includes a description of collateral marketing material as well as a schedule of planned promotional activities such as special sales, coupons, contests and premium awards.
- *Personal sales.* An outline of the sales strategy including pricing procedures, returns and adjustment rules, sales presentation methods, lead generation, customer service policies, salesperson compensation, and salesperson market responsibilities.

Sales Potential

Once the market has been researched and analyzed, conclusions need to be developed that will supply a quantitative outlook concerning the potential of the business. The first financial projection within the business plan must be formed utilizing the information drawn from defining the market, positioning the product, pricing, distribution, and strategies for sales. The sales or revenue model charts the potential for the product, as well as the business, over a set period of time. Most business plans will project revenue for up to three years, although five-year projections are becoming increasingly popular among lenders.

When developing the revenue model for the business plan, the equation used to project sales is fairly simple. It consists of the total number of customers and the average revenue from each customer. In the equation, "T" represents the total number of people, "A" represents the average revenue per customer, and "S" represents the sales projection. The equation for projecting sales is: (T)(A) = S

Using this equation, the annual sales for each year projected within the business plan can be developed. Of course, there are other factors that you'll need to evaluate from the revenue model. Since the revenue model is a table illustrating the source for all income, every segment of the target market that is treated differently must be accounted for. In order to determine any differences, the various strategies utilized in order to sell the product have to be considered. As we've already mentioned, those strategies include distribution, pricing and promotion.

Competitive Analysis

Identify and Analyze Your Competition

The competitive analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strengths and weaknesses of the competitors within your market, strategies that will provide you with a distinct advantage, the barriers that can be developed in order to prevent competition from entering your market, and any weaknesses that can be exploited within the product development cycle.

The first step in a competitor analysis is to identify the current and potential competition. There are essentially two ways you can identify competitors. The first is to look at the market from the customer's viewpoint and group all your competitors by the degree to which they contend for the buyer's dollar. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.

Once you've grouped your competitors, you can start to analyze their strategies and identify the areas where they're most vulnerable. This can be done through an examination of your competitors' weaknesses and strengths. A competitor's strengths and weaknesses are usually based on the presence and absence of key assets and skills needed to compete in the market.

Quick Tips

1. Identify your competition.
2. Analyze their strategies.
3. Determine their strengths and weaknesses.

To determine just what constitutes a key asset or skill within an industry, David A. Aaker in his book, *Developing Business Strategies* suggests concentrating your efforts in four areas:

1. The reasons behind successful as well as unsuccessful firms
2. Prime customer motivators
3. Major component costs
4. Industry mobility barriers

According to theory, the performance of a company within a market is directly related to the possession of key assets and skills. Therefore, an analysis of strong performers should reveal the causes behind such a successful track record. This analysis, in conjunction with an examination of unsuccessful companies and the reasons behind their failure, should provide a good idea of just what key assets and skills are needed to be successful within a given industry and market segment.

For instance, in the personal-computer operating-system software market, Microsoft reigns supreme with DOS and Windows. It's been able to establish its dominance in this industry because of superior marketing and research as well strategic partnerships with a large majority of the hardware vendors that produce personal computers. This has allowed DOS and Windows to become the operating environment, maybe not of choice, but of necessity for the majority of personal computers on the market.

Microsoft's primary competitors, Apple and IBM, both have competing operating systems with a great deal of marketing to accompany them; however, both suffer from weaknesses that Microsoft has been able to exploit. Apple's operating system for its Macintosh line of computers, while superior in many ways to DOS and Windows, is limited to the Macintosh personal computers; therefore, it doesn't run many of the popular business applications that are readily available to DOS and Windows. To an extent, IBM's OS/2 operating system suffers from the same problem. While it will run on all of the personal computers DOS and Windows can run on and even handle Windows applications, the number of programs produced for OS/2 in its native environment is very small. This is the type of detailed analysis you need in analyzing an industry.

Through your competitor analysis, you will also have to create a marketing strategy that will generate an asset or skill competitors don't have, which will provide you with a distinct and enduring competitive advantage. Since competitive advantages are developed from key assets and skills, you should sit down and put together a competitive strength grid. This is a scale that lists all your major competitors or strategic groups based upon their applicable assets and skills and how your own company fits on this scale.

Create A Competitive Strength Grid

To put together a competitive strength grid, list all the key assets and skills down the left margin of a piece of paper. Along the top, write down two column headers: "weakness" and "strength." In each asset or skill category, place all the competitors that have weaknesses in that particular category under the weakness column, and all those that have strengths in that specific category in the strength column. After you've finished, you'll be able to determine just where you stand in relation to the other firms competing in your industry.

Once you've established the key assets and skills necessary to succeed in this business and have defined your distinct competitive advantage, you need to communicate them in a strategic form that will attract market share as well as defend it. Competitive strategies usually fall into these five areas:

- Product
- Distribution
- Pricing
- Promotion
- Advertising

Many of the factors leading to the formation of a strategy should already have been highlighted in previous sections, specifically in marketing strategies. Strategies primarily revolve around establishing the point of entry in the product life cycle and an endurable competitive advantage. As we've already discussed, this involves defining the elements that will set your product or service apart from your competitors or strategic groups. You need to establish this competitive advantage clearly so the reader understands not only how you will accomplish your goals, but also why your strategy will work.

Design and Development Plan

What You'll Cover In This Section

The purpose of the design and development plan section is to provide investors with a description of the product's design, chart its development within the context of production, marketing and the company itself, and create a development budget that will enable the company to reach its goals.

There are generally three areas you'll cover in the development plan section:

- Product development
- Market development
- Organizational development

Each of these elements needs to be examined from the funding of the plan to the point where the business begins to experience a continuous income. Although these elements will differ in nature concerning their content, each will be based on structure and goals.

The first step in the development process is setting goals for the overall development plan. From your analysis of the market and competition, most of the product, market and organizational development goals will be readily apparent. Each goal you define should have certain characteristics. Your goals should be quantifiable in order to set up time lines, directed so they relate to the success of the business, consequential so they have impact upon the company, and feasible so that they aren't beyond the bounds of actual completion.

Quick Tips

1. Sections of the design and development plan include product, market and organizational development.
2. Approach each element from a funding point-of-view so that you can tell how your business will begin to experience continuous revenue.
3. Create quantifiable goals for your overall design and development plan.

Goals For Product Development

Goals for product development should center on the *technical* as well as the *marketing* aspects of the product so that you have a focused outline from which the development team can work. For example, a goal for product development of a microbrewed beer might be "Produce recipe for premium lager beer" or "Create packaging for premium lager beer." In terms of market development, a goal might be, "Develop collateral marketing material." Organizational goals would center on the acquisition of expertise in order to attain your product and market-development goals. This expertise usually needs to be present in areas of key assets that provide a competitive advantage. Without the necessary expertise, the chances of bringing a product successfully to market diminish.

Procedures

With your goals set and expertise in place, you need to form a set of procedural tasks or work assignments for each area of the development plan. Procedures will have to be developed for product development, market development, and organization development. In some cases, product and organization can be combined if the list of procedures is short enough.

Procedures should include how resources will be allocated, who is in charge of accomplishing each goal, and how everything will interact. For example, to produce a recipe for a premium lager beer, you would need to do the following:

- Gather ingredients.
- Determine optimum malting process.
- Gauge mashing temperature.
- Boil wort and evaluate which hops provide the best flavor.
- Determine yeast amounts and fermentation period.
- Determine aging period.
- Carbonate the beer.
- Decide whether or not to pasteurize the beer.

The development of procedures provides a list of work assignments that need to be accomplished, but one thing it doesn't provide are the stages of development that coordinate the work assignments within the overall development plan. To do this, you first need to amend the work assignments created in the procedures section so that all the individual work elements are accounted for in the development plan. The next stage involves setting deliverable dates for components as well as the finished product for testing purposes. In Terence P. McGarty's book, *Business Plans That Win Venture Capital* there are primarily three steps you need to go through before the product is ready for final delivery:

1. *Preliminary product review.* All the product's features and specifications are checked.
2. *Critical product review.* All the key elements of the product are checked and gauged against the development schedule to make sure everything is going according to plan.

3. *Final product review.* All elements of the product are checked against goals to assure the integrity of the prototype.

Scheduling and Costs

This is one of the most important elements in the development plan. Scheduling includes all of the key work elements as well as the stages the product must pass through before customer delivery. It should also be tied to the development budget so that expenses can be tracked. But its main purpose is to establish time frames for completion of all work assignments and juxtapose them within the stages through which the product must pass. When producing the schedule, provide a column for each procedural task, how long it takes, start date and stop date. If you want to provide a number for each task, include a column in the schedule for the task number.

Development Budget

That leads us into a discussion of the development budget. When forming your development budget, you need to take into account all the expenses required to design the product and to take it from prototype to production.

Costs that should be included in the development budget include:

- *Material*. All raw materials used in the development of the product.
- *Direct labor*. All labor costs associated with the development of the product.
- *Overhead*. All overhead expenses required to operate the business during the development phase such as taxes, rent, phone, utilities, office supplies, etc.
- *G&A costs*. The salaries of executive and administrative personnel along with any other office support functions.
- *Marketing & sales*. The salaries of marketing personnel required to develop pre-promotional materials and plan the marketing campaign that should begin prior to delivery of the product.
- *Professional services*. Those costs associated with the consultation of outside experts such as accountants, lawyers, and business consultants.
- *Miscellaneous Costs*. Costs that are related to product development.
- *Capital equipment*. To determine the capital requirements for the development budget, you first have to establish what type of equipment you will need, whether you will acquire the equipment or use outside contractors, and finally, if you decide to acquire the equipment, whether you will lease or purchase it.

Personnel

As we mentioned already, the company has to have the proper expertise in key areas to succeed; however, not every company will start a business with the expertise required in every key area. Therefore, the proper personnel have to be recruited, integrated into the development process, and managed so that everyone forms a team focused on the achievement of the development goals.

Before you begin recruiting, however, you should determine which areas within the development process will require the addition of personnel. This can be done by reviewing the goals of your development plan to establish key areas that need attention. After you have an idea of the positions that need to be filled, you should produce a job description and job specification.

Once you've hired the proper personnel, you need to integrate them into the development process by assigning tasks from the work assignments you've developed. Finally, the whole team needs to know what their role is within the company and how each interrelates with every position within the development team. In order to do this, you should develop an organizational chart for your development team.

Assessing Risks
Finally, the risks involved in developing the product should be assessed and a plan developed to address each one. The risks during the development stage will usually center on technical development of the product, marketing, personnel requirements, and financial problems. By identifying and addressing each of the perceived risks during the development period, you will allay some of your major fears concerning the project and those of investors as well.

Operations and Management Plans

The Purpose Of This Section
The operations and management plan is designed to describe just how the business functions on a continuing basis. The operations plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operations of the business. In fact, within the operations plan you'll develop the next set of financial tables that will supply the foundation for the "Financial Components" section.

The financial tables that you'll develop within the operations plan include:

- The operating expense table
- The capital requirements table
- The cost of goods table

There are two areas that need to be accounted for when planning the operations of your company. The first area is the organizational structure of the company, and the second is the expense and capital requirements associated with its operation.

Organizational Structure
The organizational structure of the company is an essential element within a business plan because it provides a basis from which to project operating expenses. This is critical to the formation of financial statements, which are heavily scrutinized by investors; therefore, the organizational structure has to be well-defined and based within a realistic framework given the parameters of the business.

Although every company will differ in its organizational structure, most can be divided into several broad areas that include:

- Marketing and sales (includes customer relations and service)
- Production (including quality assurance)
- Research and development
- Administration

These are very broad classifications and it's important to keep in mind that not every business can be divided in this manner. In fact, every business is different, and each one must be structured according to its own requirements and goals.

Terence P. McGarty in his book, *Business Plans That Win Venture Capital*, lists four stages for organizing a business:

1. Establish a list of the tasks using the broadest of classifications possible.
2. Organize these tasks into departments that produce an efficient line of communications between staff and management.
3. Determine the type of personnel required to perform each task.

4. Establish the function of each task and how it will relate to the generation of revenue within the company.

Calculate Your Personnel Numbers

Once you've structured your business, however, you need to consider your overall goals and the number of personnel required to reach those goals. In order to determine the number of employees you'll need to meet the goals you've set for your business, you'll need to apply the following equation to each department listed in your organizational structure: *C / S = P*

In this equation, C represents the total number of customers, S represents the total number of customers that can be served by each employee, and P represents the personnel requirements. For instance, if the number of customers for first year sales is projected at 10,110 and one marketing employee is required for every 200 customers, you would need 51 employees within the marketing department: *10,110 / 200 = 51*

Once you calculate the number of employees that you'll need for your organization, you'll need to determine the labor expense. The factors that need to be considered when calculating labor expense (LE) are the personnel requirements (P) for each department multiplied by the employee salary level (SL). Therefore, the equation would be: *P * SL = LE*

Using the marketing example from above, the labor expense for that department would be: *51 * $40,000 = $2,040,000*

Calculate Overhead Expenses

Once the organization's operations have been planned, the expenses associated with the operation of the business can be developed. These are usually referred to as overhead expenses. Overhead expenses refer to all non-labor expenses required to operate the business. Expenses can be divided into *fixed* (those that must be paid, usually at the same rate, regardless of the volume of business) and *variable* or *semivariable* (those which change according to the amount of business).

Overhead expenses usually include the following:

- Travel
- Maintenance and repair
- Equipment leases
- Rent
- Advertising & promotion
- Supplies
- Utilities
- Packaging & shipping
- Payroll taxes and benefits
- Uncollectible receivables
- Professional services
- Insurance
- Loan payments
- Depreciation

In order to develop the overhead expenses for the expense table used in this portion of the business plan, you need to multiply the number of employees by the expenses associated with each employee. Therefore, if NE represents the number of employees and EE is the expense per employee, the following equation can be used to calculate the sum of each overhead (OH) expense: *OH = NE * EE*

Develop a Capital Requirements Table

In addition to the expense table, you'll also need to develop a capital requirements table that depicts the amount of money necessary to purchase the equipment you'll use to establish and continue operations. It also illustrates the amount of depreciation your company will incur based on all equipment elements purchased with a lifetime of more than one year.

In order to generate the capital requirements table, you first have to establish the various elements within the business that will require capital investment. For service businesses, capital is usually tied to the various pieces of equipment used to service customers.

Capital for manufacturing companies, on the other hand, is based on the equipment required in order to produce the product. Manufacturing equipment usually falls into three categories: testing equipment, assembly equipment and packaging equipment.

With these capital elements in mind, you need to determine the number of units or customers, in terms of sales, that each equipment item can adequately handle. This is important because capital requirements are a product of income, which is produced through unit sales. In order to meet sales projections, a business usually has to invest money to increase production or supply better service. In the business plan, capital requirements are tied to projected sales as illustrated in the revenue model shown earlier in this chapter.

For instance, if the capital equipment required is capable of handling the needs of 10,000 customers at an average sale of $10 each, that would be $100,000 in sales, at which point additional capital will be required in order to purchase more equipment should the company grow beyond this point. This leads us to another factor within the capital requirements equation, and that is equipment cost.

If you multiply the cost of equipment by the number of customers it can support in terms of sales, it would result in the capital requirements for that particular equipment element. Therefore, you can use an equation in which capital requirements (CR) equals sales (S) divided by number of customers (NC) supported by each equipment element, multiplied by the average sale (AS), which is then multiplied by the capital cost (CC) of the equipment element. Given these parameters, your equation would look like the following: $CR = [(S / NC) * AS] * CC$

The capital requirements table is formed by adding all your equipment elements to generate the total new capital for that year. During the first year, total new capital is also the total capital required. For each successive year thereafter, total capital (TC) required is the sum of total new capital (NC) plus total capital (PC) from the previous year, less depreciation (D), once again, from the previous year. Therefore, your equation to arrive at total capital for each year portrayed in the capital requirements model would be: $TC = NC + PC - D$

Keep in mind that depreciation is an expense that shows the decrease in value of the equipment throughout its effective lifetime. For many businesses, depreciation is based upon schedules that are tied to the lifetime of the equipment. Be careful when choosing the schedule that best fits your business. Depreciation is also the basis for a tax deduction as well as the flow of money for new capital. You may need to seek consultation from an expert in this area.

Create a Cost of Goods Table

The last table that needs to be generated in the operations and management section of your business plan is the cost of goods table. This table is used only for businesses where the product is placed into inventory. For a retail or wholesale business, *cost of goods sold*—or *cost of sales*—refers to the purchase of products for resale, i.e. the inventory. The products that are sold are logged into cost of goods as an expense of the sale, while those that aren't sold remain in inventory.

For a manufacturing firm, cost of goods is the cost incurred by the company to manufacture its product. This usually consists of three elements:

1. Material
2. Labor
3. Overhead

As in retail, the merchandise that is sold is expensed as a *cost of goods*, while merchandise that isn't sold is placed in inventory. Cost of goods has to be accounted for in the operations of a business. It is an important yardstick for measuring the firm's profitability for the cash-flow statement and income statement.

In the income statement, the last stage of the manufacturing process is the item expensed as cost of goods, but it is important to document the inventory still in various stages of the manufacturing process because it represents assets to the company. This is important to determining cash flow and to generating the balance sheet.

That is what the cost of goods table does. It's one of the most complicated tables you'll have to develop for your business plan, but it's an integral part of portraying the flow of inventory through your operations, the placement of assets within the company, and the rate at which your inventory turns.

In order to generate the cost of goods table, you need a little more information in addition to what your labor and material cost is per unit. You also need to know the total number of units sold for the year, the percentage of units which will be fully assembled, the percentage which will be partially assembled, and the percentage which will be in unassembled inventory. Much of these figures will depend on the capacity of your equipment as well as on the inventory control system you develop. Along with these factors, you also need to know at what stage the majority of the labor is performed.

Financial Statements to Include

Financial data is always at the back of the business plan, but that doesn't mean it's any less important than up-front material such as the business concept and the management team. Astute investors look carefully at the charts, tables, formulas and spreadsheets in the financial section, because they know that this information is like the pulse, respiration rate and blood pressure in a human—it shows whether the patient is alive and what the odds are for continued survival.

Financial statements, like bad news, come in threes. The news in financial statements isn't always bad, of course, but taken together it provides an accurate picture of a company's current value, plus its ability to pay its bills today and earn a profit going forward.

The three common statements are a cash flow statement, an income statement and a balance sheet. Most entrepreneurs should provide them and leave it at that. But not all do. Robert Crowley, vice president of Massachusetts Technology Development Corp., a state-owned venture firm, once described it as "this horrible disease . . . called spreadsheet-itis. It's the most common ailment in business plans today." Crowley says electronic spreadsheet software allows business plan writers to easily crank out many pages and many varieties of financial documents. But this is a case of the more, the less merry. As a rule, stick with the big three: income, balance sheet and cash flow statements.

These three statements are interlinked, with changes in one necessarily altering the others, but they measure quite different aspects of a company's financial health. It's hard to say that one of these is more important than another. But of the three, the income statement may be the best place to start.

Income Statement

The income statement is a simple and straightforward report on the proposed business's cash-generating ability. It's a score card on the financial performance of your business that reflects when sales are made and when expenses are incurred. It draws information from the various financial models developed earlier such as revenue, expenses, capital (in the form of depreciation), and cost of goods. By combining these elements, the income statement illustrates just how much your company makes or loses during the year by subtracting cost of goods and expenses from revenue to arrive at a net result—which is either a profit or a loss.

For a business plan, the income statement should be generated on a monthly basis during the first year, quarterly for the second, and annually for each year thereafter. It's formed by listing your financial projections in the following manner:

1. *Income*. Includes all the income generated by the business and its sources.
2. *Cost of goods*. Includes all the costs related to the sale of products in inventory.
3. *Gross profit margin*. The difference between revenue and cost of goods. Gross profit margin can be expressed in dollars, as a percentage, or both. As a percentage, the GP margin is always stated as a percentage of revenue.
4. *Operating expenses*. Includes all overhead and labor expenses associated with the operations of the business.
5. *Total expenses*. The sum of all overhead and labor expenses required to operate the business.
6. *Net profit*. The difference between gross profit margin and total expenses, the net income depicts the business's debt and capital capabilities.
7. *Depreciation*. Reflects the decrease in value of capital assets used to generate income. Also used as the basis for a tax deduction and an indicator of the flow of money into new capital.
8. *Net profit before interest*. The difference between net profit and depreciation.
9. *Interest*. Includes all interest derived from debts, both short-term and long-term. Interest is determined by the amount of investment within the company.
10. *Net profit before taxes*. The difference between net profit before interest and interest.
11. *Taxes*. Includes all taxes on the business.
12. *Profit after taxes*. The difference between net profit before taxes and the taxes accrued. Profit after taxes is the bottom line for any company.

Quick Tips

1. The three main financial documents you need to include in your plan are the income statement, cash-flow statement and balance sheet.
2. First-year business owners need to generate an income statement and cash flow statement monthly. For the second year, generate these reports quarterly. After that, once a year will suffice. A balance sheet only needs to be generated annually.
3. Stick to these main statements because more spreadsheets will not help the readability of your plan.

Following the income statement is a short note analyzing the statement. The analysis statement should be very short, emphasizing key points within the income statement.

Cash Flow Statement

The cash-flow statement is one of the most critical information tools for your business, showing how much cash will be needed to meet obligations, when it is going to be required, and from where it will come. It shows a schedule of the money coming into the business and expenses that need to be paid. The result is the profit or loss at the end of the month or year. In a cash-flow statement, both profits and losses are carried over to the next column to show the cumulative amount. Keep in mind that if you run a loss on your cash-flow statement, it is a strong indicator that you will need additional cash in order to meet expenses.

Like the income statement, the cash-flow statement takes advantage of previous financial tables developed during the course of the business plan. The cash-flow statement begins with cash on hand and the revenue sources. The next item it lists is expenses, including those accumulated during the manufacture of a product. The capital requirements are then logged as a negative after expenses. The cash-flow statement ends with the net cash flow.

The cash-flow statement should be prepared on a monthly basis during the first year, on a quarterly basis during the second year, and on an annual basis thereafter. Items that you'll need to include in the cash-flow statement and the order in which they should appear are as follows:

1. *Cash sales*. Income derived from sales paid for by cash.
2. *Receivables*. Income derived from the collection of receivables.
3. *Other income*. Income derived from investments, interest on loans that have been extended, and the liquidation of any assets.
4. *Total income*. The sum of total cash, cash sales, receivables, and other income.
5. *Material/merchandise*. The raw material used in the manufacture of a product (for manufacturing operations only), the cash outlay for merchandise inventory (for merchandisers such as wholesalers and retailers), or the supplies used in the performance of a service.
6. *Production labor*. The labor required to manufacture a product (for manufacturing operations only) or to perform a service.
7. *Overhead*. All fixed and variable expenses required for the production of the product and the operations of the business.
8. *Marketing/sales*. All salaries, commissions, and other direct costs associated with the marketing and sales departments.
9. *R&D*. All the labor expenses required to support the research and development operations of the business.
10. *G&A*. All the labor expenses required to support the administrative functions of the business.
11. *Taxes*. All taxes, except payroll, paid to the appropriate government institutions.
12. *Capital*. The capital required to obtain any equipment elements that are needed for the generation of income.
13. *Loan payment*. The total of all payments made to reduce any long-term debts.
14. *Total expenses*. The sum of material, direct labor, overhead expenses, marketing, sales, G&A, taxes, capital and loan payments.
15. *Cash flow*. The difference between total income and total expenses. This amount is carried over to the next period as beginning cash.
16. *Cumulative cash flow*. The difference between current cash flow and cash flow from the previous period.

As with the income statement, you will need to analyze the cash-flow statement in a short summary in the business plan. Once again, the analysis statement doesn't have to be long and should cover only key points derived from the cash-flow statement.

The Balance Sheet

The last financial statement you'll need to develop is the balance sheet. Like the income and cash-flow statements, the balance sheet uses information from all of the financial models developed in earlier sections of the business plan; however, unlike the previous statements, the balance sheet is generated solely on an annual basis for the business plan and is, more or less, a summary of all the preceding financial information broken down into three areas:

1. Assets
2. Liabilities
3. Equity

Courtesy of CFO Capital Partners.com

To obtain financing for a new business, you may need to provide a projection of the balance sheet over the period of time the business plan covers. More importantly, you'll need to include a personal financial statement or balance sheet instead of one that describes the business. A personal balance sheet is generated in the same manner as one for a business.

As mentioned, the balance sheet is divided into three sections. The top portion of the balance sheet lists your company's assets. Assets are classified as current assets and long-term or fixed assets. Current assets are assets that will be converted to cash or will be used by the business in a year or less. Current assets include:

- *Cash*. The cash on hand at the time books are closed at the end of the fiscal year.
- *Accounts receivable*. The income derived from credit accounts. For the balance sheet, it's the total amount of income to be received that is logged into the books at the close of the fiscal year.
- *Inventory*. This is derived from the cost of goods table. It's the inventory of material used to manufacture a product not yet sold.
- *Total current assets*. The sum of cash, accounts receivable, inventory, and supplies.

Other assets that appear in the balance sheet are called long-term or fixed assets. They are called long-term because they are durable and will last more than one year. Examples of this type of asset include:

- *Capital and plant*. The book value of all capital equipment and property (if you own the land and building), less depreciation.
- *Investment*. All investments by the company that cannot be converted to cash in less than one year. For the most part, companies just starting out have not accumulated long-term investments.
- *Miscellaneous assets*. All other long-term assets that are not "capital and plant" or "investments."
- *Total long-term assets*. The sum of capital and plant, investments, and miscellaneous assets.
- *Total assets*. The sum of total current assets and total long-term assets.

After the assets are listed, you need to account for the liabilities of your business. Like assets, liabilities are classified as current or long-term. If the debts are due in one year or less, they are classified as a current liabilities. If they are due in more than one year, they are long-term liabilities. Examples of current liabilities are as follows:

- *Accounts payable*. All expenses derived from purchasing items from regular creditors on an open account, which are due and payable.
- *Accrued liabilities*. All expenses incurred by the business which are required for operation but have not been paid at the time the books are closed. These expenses are usually the company's overhead and salaries.
- *Taxes*. These are taxes that are still due and payable at the time the books are closed.
- *Total current liabilities*. The sum of accounts payable, accrued liabilities, and taxes.

Long-term liabilities include:

- *Bonds payable*. The total of all bonds at the end of the year that are due and payable over a period exceeding one year.
- *Mortgage payable*. Loans taken out for the purchase of real property that are repaid over a long-term period. The mortgage payable is that amount still due at the close of books for the year.

- *Notes payable*. The amount still owed on any long-term debts that will not be repaid during the current fiscal year.
- *Total long-term liabilities*. The sum of bonds payable, mortgage payable, and notes payable.
- *Total liabilities*. The sum of total current and long-term liabilities.

Once the liabilities have been listed, the final portion of the balance sheet-owner's equity-needs to be calculated. The amount attributed to owner's equity is the difference between total assets and total liabilities. The amount of equity the owner has in the business is an important yardstick used by investors when evaluating the company. Many times it determines the amount of capital they feel they can safely invest in the business.

In the business plan, you'll need to create an analysis statement for the balance sheet just as you need to do for the income and cash flow statements. The analysis of the balance sheet should be kept short and cover key points about the company.

4. Get Help With Your Plan

By the time you've read this guide and tried your hand at a few of the various components of a plan, you should be ready to go ahead and complete your own. However, there's always room for improvement, and there are a number of resources you can tap into to increase your expertise in plan writing.

Hiring a Consultant

Businesspeople tend to fall into two camps when it comes to consultants. Some believe strongly in the utility and value of hiring outside experts to bring new perspective and broad knowledge to challenging tasks. Others feel consultants are overpaid yes-men brought in only to endorse plans already decided on or to take the heat for unpopular but necessary decisions.

Who's right? Both are, depending on the consultant you hire and your purpose for hiring one. Most consultants are legitimate experts in specific or general business areas. And most consultants can be hired to help with all or part of the process of writing a business plan.

The downside is, you have to spend a lot of time on communication before and during the process of working with a consultant. Be sure you have fully explained—and the consultant fully understands—the nature of your business, your concept and strategy, your financial needs, and other matters such as control, future plans and so on. Refer to these important issues throughout the process—you don't want to pay for a beautifully done plan that fits somebody else's business, not yours. And when the work is done, debrief the consultant to find out if there is anything you can learn that wasn't included in the plan.

If you decide to hire a consultant to help you prepare your plan, take care to select the right person. Here are some guidelines:

1. Get referrals. Ask colleagues, acquaintances and professionals such as bankers, accountants and lawyers for the names of business plan consultants they recommend. A good referral goes a long way to easing any concerns you may have. Few consultants advertise anyway, so referrals may be your only choice.

2. Look for a fit. Find a consultant who is expert in helping businesses like yours. Ideally, the consultant should have lots of experience with companies of similar size and age in similar industries. Avoid general business experts or those who lack experience in your field.

3. Check references. Get the names of at least three clients the consultant has helped to write plans. Call the former clients and ask about the consultant's performance. Was the consultant's final fee in line with the original estimate? Was the plan completed on time? Did it serve the intended purpose?

4. Get it in writing. Have a legal contract for the consultant's services. It should discuss in detail the fee, when it will be paid and under what circumstances. And make sure you get a detailed written description of what the consultant must do to earn the fee. Whether it's an hourly rate or a flat fee isn't as important as each party knowing exactly what's expected of them.

Associations

- *SCORE*: The Service Corps of Retired Executives, more commonly known as SCORE, is a nonprofit group of mostly retired businesspeople who volunteer to provide counseling to small businesses at no charge. A program of the SBA, SCORE has been around since 1964 and has helped more than 3 million entrepreneurs and aspiring entrepreneurs.

SCORE is a source for all kinds of business advice, from how to write a business plan to investigating marketing potential and managing cash flow. SCORE counselors work out of nearly 400 local chapters throughout the United States. You can obtain a referral to a counselor in your local chapter by contacting the national office.

- *National Business Incubation Association*: The NBIA is the national organization for business incubators, which are organizations specially set up to nurture young firms and help them survive and grow. Incubators provide leased office facilities on flexible terms, shared business services, management assistance, help in obtaining financing, and technical support. NBIA says there are nearly 600 incubators in North America. Its services include providing a directory to local incubators and their services.
- *Chamber of commerce*: The many chambers of commerce throughout the United States are organizations devoted to providing networking, lobbying, training and more. If you think chambers are all about having lunch with a bunch of community boosters, think again. Among the services the U.S. Chamber of Commerce offers is a Web-based business solutions program that provides online help with specific small-business needs, including planning, marketing and other tasks such as creating a press release, collecting a bad debt, recruiting employees or creating a retirement plan.

The U.S. Chamber of Commerce is the umbrella organization for local chambers, of which there are more than 1,000 in the United States. If you plan on doing business overseas, don't forget to check for an American Chamber of Commerce in the countries where you hope to have a presence. They are set up to provide information and assistance to U.S. firms seeking to do business there. Many, but not all, countries have American Chambers.

Government Agencies

- Copyright Clearance Center
- Copyright Office, Library of Congress
- Department of Agriculture
- Department of Commerce
- Department of Energy
- Department of Interior
- Department of Labor
- Department of Treasury
- Export-Import Bank of the United States

- Internal Revenue Service
- Patent and Trademark Office
- Printing Office, Superintendent of Documents
- Securities and Exchange Commission
- Small Business Administration
- SBA Small Business Development Centers

Books and Software

- *Start Your Own Business* by Rieva Lesonsky. Whether you're just thinking about starting a business, have taken the first few steps, or already have your own business, this comprehensive, easy-to-understand guide can help ensure your success. It walks you through every aspect of the start-up process–from evaluating your business ideas to laying the groundwork to day-to-day operations.
- *Dictionary of Business Terms*. This compact dictionary is a cure for jargon overexposure. It provides concise definitions of business terms from "abandonment" to "zoning ordinance." Appendices explain common business acronyms; provide tables of compounded interest rate factors and more. It's the kind of book you'll turn to again and again.
- *Encyclopedia of Entrepreneurs* by Anthony and Diane Hallett. This reference guide profiles the lives and enterprises of hundreds of famous entrepreneurs, from Mary Kay Ash of Mary Kay Cosmetics to Eastman Kodak's George Eastman. The stories are inspiring and provide a rich trove of real-life business strategies that worked.
- *Guerrilla Marketing* by Jay Conrad Levinson. The most recent release of this marketing classic provides updated marketing techniques for those with little cash but high hopes. Levinson's insistence on the central role of planning, and his simple but effective explanations of how to do it, will serve business planners well.

- *Guts & Borrowed Money* by Tom Gillis. This practical guide is organized like an encyclopedia so you can quickly and easily look up detailed explanations of everything from arbitration to vision statements.