

# Business Plan

The business plan is a very basic document necessary to cover two communications. The first is to explain, for the benefit of the author (business person, entrepreneur), the vision for the company and what expectations and results are expected to occur. The second is to provide a reasonable explanation to all others how it is intended to perform.

The identification of a market niche begins the planning and the realization that the market is either a neglected segment, a segment with unfulfilled demand that either in quality or quantity outstrips supply, or one that with innovation can reap rewards and market share.

Inventors, lenders, potential employees and partners should be able to review a business plan to determine risk/reward measurements as well as overall feasibility.

Outlines of a business plan may differ from region to region, school to school or even lender to lender, however, basic information will be similar throughout all plans as the information necessary for formal review must be contained for action to occur.

# Outline

## 1. The Venture

- A. Brief Summary
- B. Description of the Venture
- C. Market Analysis
- D. Venture Personnel – Key Personnel with Summary of Backgrounds
- E. Venture Financing – Needs/Requirements

## 2. Financial Information

- A. Sources and Uses of Funds
- B. Capital Equipment Needs
- C. Profit & Loss – (Projected) i.e., Operating Statements
- D. Cash Flow – (Projected)
- E. Balance Sheet – (Projected) Assets and Liabilities
- F. Break Even Analysis
- G. Historical Statements – Last Three Years, If Available
  - (1) Profit & Loss
  - (2) Balance Sheet
  - (3) Tax Returns
  - (4) Cash Flow (Sources & Uses)

## 3. Supportive Documents

- A. Personal Financial Statements and Tax Returns
- B. Resumes' of Key Personnel
- C. Contracts – Signed or Proposed
- D. Any Other Relevant Information

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### Attachments:

- Worksheet 1 – Description of the Venture
- Worksheet 2 – Market Analysis: Product/Service Description
- Worksheet 3 – Market Analysis: Industry & Marketplace Analysis
- Worksheet 4 – Market Analysis: Marketing Strategy
- Worksheet 5 – Market Analysis: Distribution & Sales Strategy
- Worksheet 6 – Market Analysis: Operations Plan
- Worksheet 7 – Financial Information: Development Plan
- Worksheet 8 – Financial Information: Financial Plan
- Important DOs and DON'Ts for a Business Plan

# The Venture

## **A. Brief Summary**

A one-page summary should be furnished by the owner/operator that gives the reader an understanding of their business. The detailed business plan will follow but this gives sufficient information to route the plan/request to the appropriate parties.

## **B. Description of the Venture**

A much more detailed description must now follow and may incorporate some of the summary information. It is necessary to completely describe the company organization, operations, the primary market, any background helpful to the analysis along with a timeline of goals—both short and long-term.

## **C. Market Analysis**

The market analysis is one of the most crucial aspects of the business plan. The environment in which the entrepreneur operates is helpful for the entrepreneur and lender or investors to know. It will identify competitors that may impact the operations of the business as well as identifies pricing on technical innovation strategies which gives the business a competitive edge in the market. Business cycles and practices unique to the industry should be identified. All key features of the product or service being offered that buyers/users consider important should be identified as well.

## **D. Venture Personnel**

- Directors and Officers – Name and positions of all directors, officers and key employees should be identified.
- Personal Information – You should include resume and personal financial statement for each principal involved in the business. Small Business Administration (SBA) requests will normally require the completion of personal history profiles and personal financial statements.
- Labor Costs – Indicate all persons who will be part of your business from owner directors through hourly employees. Describe their position with the firm and the total costs associated with their employment (salary, fringe benefits, director fees, bonuses, commissions, etc.). Any stock options given at this point should be listed in this table showing name, amount of the stock options, stock prices, and the amount, if any, exercised already. If stock options are planned, a description should be given.

- Owners/Investors – Indicate all issues relating to financing to date such as name, amounts, and ownership percentage for each investor. Again, if shares have been offered to investors, indicate this including any outstanding as well as exercised. Shares offered in exchange for services should be listed as well. Employment agreements with directors, officers or employees, if existing, should be provided here with copies attached. Explanations of these should accompany as to why necessary and the expected results.
- Professional Consultants – All professionals utilized should be listed that have been consulted or plans exist to consult and amounts paid/to be paid should be provided.

### **E. Venture Financing – Needs/Requirements**

In this area you should be realistic and conservative in computing the amount necessary to start and operate the venture until cash flow supports the operation. Almost all entrepreneurs require supplemental financing to support initial operations so be careful in the estimation of expenses necessary in the start-up. The failure to plan adequately can lead to financial problems brought on by a lack of capital.

Working capital is key to survival and the requirements must be met to survive. Your plan should include a breakdown of major components in order to compare to average ratios of business in similar industry and size. One reference piece would be The Robert Morris Associates Books (RMA) available at most commercial banks.

## **Financial Information**

The financial portion of any business plan consists of certain financial statements listed below. These are vastly important given loan requests, venture capital requests and other investor commitments and can give some indication of the expected business performance and condition at a point in time.

### **Financial Projections and Start-up Costs**

The most common mistake in starting a business is the underestimation of start-up costs. Standard accounting procedures identify two cost categories—fixed and variable.

Fixed costs are those incurred in the purchase or lease of equipment, utility deposits, furniture, fixtures and equipment, vehicles, rent or mortgage payments, and supplies. These are not based on some volume of production or sales.

Variable costs are those associated with the volume of operations as well as start-up costs that are “unplanned”. These typically are the costs most underestimated.

First and foremost, variable costs include expenses associated with operating the business until the point of positive cash flow. Initial funding sources are available to cover some fixed initial costs. Most lending sources expect the entrepreneur (owner/operator) to provide the working capital necessary to operate the business to positive cash flow.

Variable costs would include such things as payrolls, inventory, utility bills, and unplanned expenses or losses due to production waste, unanticipated production costs such as bonds, insurance premiums, and losses due to errors in quotes. Many times a percentage of variable costs should be set aside as a line item for unanticipated expenses (i.e., 10-20%).

Time to generate positive cash flow, the coverage of fixed and variable costs, is usually underestimated. The initial goal to reach positive cash flow, not make a profit, is essential. Start-up costs should be reflected in the first year's operating statement and the entrepreneur needs to be realistic or at least conservative.

#### **A. Sources and Application of Funds**

Businesses should list the amount of money they have spent or are prepared to spend on the project for which they are preparing the business plan. This document should include funds raised and the source of those funds (owner's cash, loans from friends or investors) and identify the costs against which the funds were spent.

#### **B. Capital Equipment List**

If the borrower has production equipment, that should be listed with the date purchased and appraised value.

#### **C. Operating Statement**

The Operating Statement is a projection of the costs of doing business. These figures form the basis of the cash flow projection.

The foundation of an accurate operating estimate is a good cost accounting system.

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## Operating Statement – Projected

Month/Year to Month/Year

Sales		\$X,XXX	
Less Cost of Goods Sold		<u>XXX</u>	
Gross Profit			\$X,XXX
Variable Expenses:			
Operating Supplies	\$XXX		
Wages and Salaries	XXX		
Repair and Maintenance	XXX		
Advertising	XXX		
Administrative and Legal	XXX		
Outside Labor	XXX		
Miscellaneous	XXX		
Other (List)	<u>XXX</u>		
Total Variable Expenses		\$X,XXX	
Fixed Expenses:			
Rent	\$XXX		
Utilities	XXX		
Insurance	XXX		
Taxes and Licenses	XXX		
Interest	XXX		
Depreciation	XXX		
Other (List)	<u>XXX</u>		
Total Fixed Expenses		<u>X,XXX</u>	
Total Expenses			<u>\$X,XXX</u>
<b>Net Profit</b>			<b><u>\$X,XXX</u></b>

#### **D. Cash Flow Statement**

Cash flow projections demonstrate the inflow and outflow of cash over a period of time.. It projects increases and decreases in the cash accounts of the company which assists in the projection of the firm's ability to pay bills, cover payrolls, service bank debt from one period to the next and shows the sources and uses of cash. These entries for the Cash Flow Statement flow from the Operating Statement. The difference is that the Operating Statement recognizes sales and expenses when they are incurred; the Cash Flow Statement recognizes sales and expenses when they are actually paid for.

<b>Cash Flow – Projected</b>			
Month/Year to Month/Year			
Sources of Cash:			
Beginning Cash Balance	\$X,XXX		
Cash Sales	X,XXX		
Accounts Receivable Collections	X,XXX		
Other Sources	<u>X,XXX</u>		
Total Cash Available		\$X,XXX	
Uses of Cash:			
Payroll	\$X,XXX		
Trade Payable	X,XXX		
Administrative	X,XXX		
Other	X,XXX		
Owner's Drawing Account	<u>X,XXX</u>		
Total Cash Requirements		<u>\$X,XXX</u>	
Cash Surplus or Shortfall (Sources minus Uses)			<u>\$X,XXX</u>
Line of Credit Draw (Offsets Cash Shortfall)			

#### **E. Balance Sheet**

The Balance Sheet describes the condition of your business on a particular day, usually the last day of the month, quarter, or year. This makes it difficult from other financial statements, most of which cover a period of time. Another difference between the Balance Sheet and other statements is that it must balance the assets and liabilities of the business. Often times, headings such as the following are used in the Balance Sheet:

## Balance Sheet

Month/Year

### ASSETS

#### Current Assets:

Cash	\$XX,XXX	
Accounts Receivable	X,XXX	
Inventory	X,XXX	
Notes Receivable	<u>X,XXX</u>	
Total Current Assets		\$XX,XXX

#### Fixed Assets:

Building (Less Depreciation)	\$XX,XXX	
Land		
Equipment (Less Depreciation)	XX,XXX	
Fixtures (Less Depreciation)	<u>XX,XXX</u>	
Total Fixed Assets		XX,XXX

Other Assets: XX,XXX

#### **Total Assets**

**\$XX,XXX** (Equals  
Liabilities +  
Owner Equity)

### LIABILITIES

#### Current Liabilities:

Accounts Payable	\$X,XXX	
Notes Payable	X,XXX	
Long-Term Debt (Due Currently)	X,XXX	
Salaries Due	X,XXX	
Employee Taxes & Insurance	X,XXX	
Sales Taxes Due	<u>X,XXX</u>	
Total Current Liabilities		\$XX,XXX

#### Long-Term Liabilities:

Mortgage Balances	X,XXX	
Notes Payable	X,XXX	
Installment Loans	X,XXX	
Long-Term Lease Obligation	<u>X,XXX</u>	
Total Long-Term Debt		XX,XXX

### OWNER EQUITY

Owner Initial Capital	XX,XXX	
Earned Surplus	<u>XX,XXX</u>	

#### **Total Liabilities and Owner Capital**

**\$XX,XXX** (Equals Assets)

- Assets – Anything the business owns that has monetary value is an asset. The assets of a company (small) usually include cash, notes receivable, accounts receivable, inventories, land, buildings, machinery, equipment, and other investments.
- Current Assets – All cash and assets that are expected to be converted into cash during the normal operating cycle of the business (generally within a year).
- Fixed Assets – Assets acquired for long term use in the business. They include land, buildings, plant, machinery, equipment, furniture, fixtures and so on.
- Other Assets – Assets which constitute value but are not directly used to generate cash such as consumable office supplies and vehicles.
- Liabilities – The claims of creditors against the assets of the business—in other words, debts owned by the business.
- Current Liabilities – Those items due for payment within a year. They include trade payable, vehicle installment loans, salaries, and especially employee taxes such as unemployment, insurance and workers compensation insurance.
- Long Term (or Fixed) Liabilities – Debts, or parts of debt, that are not due for payment within a year. The allowance for future incomes taxes represents the taxes that will have to be paid on the projects of the current year but are not due for payment until later. Accrued liabilities are similar to the allowance for future income taxes in that the expenses are charged against profits of the current year, although payment will not be made until later.
- Equity – Assets of a business minus its liabilities is equity. This equity is the investment of the owner or owners plus any profits that have been left to accumulate in the business. If the business is incorporated, the financials will show a capital stock account. This account represents the paid-in value of the shares issued to the owners of the business.
- Undistributed Profits – These profits are recorded in an earned surplus account. If the business is a proprietor or a partnership, the capital accounts typically appear under the name or names of the owners. Increases in equity as a result of the undistributed earnings are also recorded there as are decreases in equity if the business shows a loss instead of a profit.

Projected annual balance sheets for three years should be prepared. Existing firms should include historical balance sheets from the three previous years the firm has been in existence. If the firm has been in existence fewer than three years, historical balance sheets should be provided as well as three years of annual projections. The key point in estimating projections is to demonstrate the increase in operations and subsequent ability to repay the loan from increased cash flows.

Once these are completed, the entrepreneur can identify the amount and sources of funding necessary to carry out the plan.

## F. Break Even Analysis

Entrepreneurs should calculate a breakeven point to determine the volume of sales necessary to reach that minimum point where they can cover both fixed and variable costs.

Example: To calculate the break even point in sales:

Step 1: Calculate Fixed Costs (overhead)

Step 2: Compute Gross Profit Rate (% of markup)

Break even point in sales:  $\frac{\text{Fixed Costs}}{\text{Gross Profit Rate}}$

For Example:  $\frac{\$50,000 \text{ Fixed Costs}}{50\% \text{ Gross Profit Rate}}$

Equals: \$100,000 in Sales

## G. Historical Statements

- Operating Statements – The Operating Statement, or Income Statement as it is sometimes called, presents a summary of a business's revenue and expenses for a specific period of time, such as a month or a year, and reflects either a net profit or a net loss for the period.
- Balance Sheet – The Balance Sheet describes the condition of your business on a particular day, usually the last day of the month, quarter or year. Other financial statements typically cover a period time. Another difference between the Balance Sheet and other statements is that it must balance the assets to the liabilities and owner's equity of the business. Assets commonly include cash, notes receivable, accounts receivable, inventories, land, buildings, machinery, equipment and other investments or even intangible assets. Liabilities are simply the claims of creditors against the assets of the business—that is, debts owned by the business. Owners equity then consists of the assets of a business minus its liabilities.
- Income Tax Returns – Every business must file an annual income tax return. The organization of the business determines which IRS forms are used. Generally sole proprietorships, partnerships, partner and shareholders of S Corporations pay tax on income by making regular payments of estimated tax during the year using IRS Form ES (Estimated Tax for Individuals).
  - Sole Proprietorship – Schedule C, Form 1040
  - Farming – Schedule F, Form 1040
  - Partnership – Form 1065 (Information Return)
  - Corporation – Form 1120 or 1120-A
  - S Corporation – Form 1120S

- Cash Flow Statement – Cash flow projections are used to demonstrate the inflow and outflow of cash over time. It projects increases and decreases in the cash of the company. It is useful to project the ability of the firm to pay bills, cover payroll, and service bank debt from one period to the next (usually per month). Sources and uses of cash are indicated.

## **Supportive Documents**

The following documents must be included for the business plan to be considered complete:

- Personal Financial Statements and Tax Returns
- Resumes' of Key Personnel
- Contracts – Signed or Proposed
- Any Other Relevant Information

## Worksheet 1

# Description of The Venture

*The Description of the Venture is a description of the company you have founded or want to found. How will it be organized? Will it be a sole proprietorship, partnership, or corporation? What are your ambitions for the company? Will it always be a small company, or do you want to grow it into an international giant? Upon reading this section, the reader should have a good idea of where you are and where you are going with your company.*

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**What is the name of our company? Does the company currently exist or will it be forming?**

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**How is our company organized (e.g., sole proprietorship, partnership, corporation...)?**

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**What is our overall strategy and what objectives do we have? What are our goals for the company (keep it small, grow it big, franchise it...)? What is the exit strategy for ourselves and for our investors (sell to larger company, go public, buy out investors...)?**

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**What additional information do we need to describe and organize our company?**

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## Worksheet 2

# **Market Analysis: Product/Service Description**

*The Product and Services information is a detailed description of the products and/or services you will be selling. You should not assume that the reader is familiar with your products/service, so be sure to explain and describe it carefully.*

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**What exactly is our product or service? What isn't it? Carefully describe.**

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**What is unique about our product/service? What are its features and benefits? Do we have any proprietary rights to the product/service (for example, technology, patents, copyrights, etc.)?**

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**Why is our product/service superior to the competition, and how is it different?**

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**What additional information do we need to define our product or service?**

## Worksheet 3

# Market Analysis: **Industry & Marketplace Analysis**

*The Industry & Marketplace Analysis information dispassionately describes and outlines the industry and the marketplace in which you will compete. When finished with this section, you and your readers should understand the dynamics, problems, and opportunities driving your industry and marketplace.*

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**What is the industry that addresses this market? What trends are important in this industry? How does this industry segment the market?**

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**What is the market we intend to serve? How large is it? What is its growth potential?**

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**What motivates customer purchase decisions?**

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**What additional information do we need about our marketplace?**

## Worksheet 4

# Market Analysis: Marketing Strategy

*The Marketing Strategy portion of your plan will make or break the prospects for your venture. In the Marketing Strategy section, show how you are going to fit into your marketplace. What are unmet needs in the marketplace and how are you going to fill them? How will you differentiate your product or service from your competitors? What unique features, benefits, or capabilities will you bring to the marketplace? Who are your customers?*

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**Who are our target customers? What problems are we solving for them? What are their profiles? What motivates their buying decisions?**

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**What are the strengths of our product/service? Weaknesses? Who are our competitors? How will we differentiate our product or service?**

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**How will our product be priced? What are gross revenues per unit sold? What are anticipated annual sales?**

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**What additional information do we need to create an effective marketing strategy?**

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## Worksheet 5

# **Market Analysis: Distribution & Sales Strategy**

*How will you reach your customers? How will you close the sale with your customers? Remember, "nothing happens until the sale is made."*

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**What distribution channels will we use (e.g., direct sales, mail-order, wholesalers, etc.)?**

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**How will we communicate with our customers (e.g., advertising, promotions, etc.)?**

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**How will our product or service be sold? Who will do the selling (our own people, manufacturing representatives, etc.)?**

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**What are the costs associated with our sales strategy? Which costs are fixed? Which are variable?**

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**What additional information do we need to create an effective sales strategy?**

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## Worksheet 6

# Market Analysis: Operations Plan

*The Operations portion outlines how you will run your business and deliver value to your customers. Operations is defined as the processes used to deliver your products and services to the marketplace and can include manufacturing, transportation, logistics, travel, printing, consulting, after-sales service, and so on. In all likelihood, about 80% of your expenses will be for operations, 80% of your employees will be working in operations, and 80% of your time will be spent worrying about operating problems and opportunities.*

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**Which operations are critical to the success of our business? Which are secondary?**

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**How will we produce and deliver our product/service? What will we do in-house, and what will we purchase (make vs. buy)?**

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**What will it cost to produce and deliver our product or service? Estimate fixed costs (plant, equipment, etc.) and variable costs (labor, materials, etc.)**

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**What additional information do we need to understand and cost our operations?**

## Worksheet 7

# Financial Information: Development Plan

*The Development section is a road map of how you are going to get from where you are now to where you want to be in the future. These steps can be as routine as securing retail space, or as critical as applying for and getting a patent on key technology.*

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**What must be done before we can introduce our product or service to the marketplace?  
What are the risks?**

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**How long will it take to bring our product or service to market? What is our timeline?**

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**What are the one-time start-up and development costs of our business (equipment, deposits, fixtures, furniture, ...)?**

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**What additional information do we need to understand and cost the development of our product or service?**

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## Worksheet 8

# Financial Information: Financial Plan

*Your Financial Plan should be frosting on a cake. You have outlined a great business concept, demonstrated a real need in the marketplace, shown how you will execute your ideas, and now will show how much money everyone is going to make.*

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### Summarize estimates made in previous sections:

- A. Annual unit sales: \_\_\_\_\_  
B. Price per unit: \_\_\_\_\_  
C. Variable cost per unit (production and sales): \_\_\_\_\_  
D. Fixed costs (admin, production, and sales): \_\_\_\_\_  
E. One-time start-up costs (eqpmt, mktg, legal, etc.): \_\_\_\_\_  
F. Working capital required (receivables, inventory, etc.): \_\_\_\_\_

### Calculate estimated annual gross revenues and income:

- G. Estimated annual revenues ( $A \times B$ ): \_\_\_\_\_  
H. Estimated annual variable costs ( $A \times C$ ): \_\_\_\_\_  
I. Estimated annual contribution margin ( $G - H - D$ ): \_\_\_\_\_

### Calculate break-even figures:

- J. Contribution margin per unit ( $B - C$ ): \_\_\_\_\_  
K. Annual break-even quantity ( $D \div J$ ): \_\_\_\_\_  
L. Ratio of break-even to expected quantities ( $K \div A$ ): \_\_\_\_\_

### Estimate the money you will initially need to start your business:

- M. Total up-front funds required ( $E + F$ ): \_\_\_\_\_  
N. Additional units to cover up-front funds ( $M \div J$ ): \_\_\_\_\_  
O. Break-even quantity with up-front funds ( $K + N$ ): \_\_\_\_\_

### Calculate financial performance figures:

- P. Payback period for startup funds ( $M \div I$ ): \_\_\_\_\_  
Q. Annual return on start-up investment ( $I \div M$ ): \_\_\_\_\_  
R. Variable cost to price ratio ( $C \div B$ ): \_\_\_\_\_

S. Contribution margin ratio (I÷G): \_\_\_\_\_

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**Do these numbers look attractive enough to proceed? How can they be improved?**

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**How much cash will we need to start our business? Where will we get it (savings, a loan, venture capital, an angel...)?**

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**What other information do we need for our financial projections?**

## Important DOs and DON'Ts for a Business Plan

- **DO** be brief. Begin with a one-page executive summary. Then, limit the body of the plan to seven to ten typewritten pages, double-spaced. (Note that internal business plans and budgets normally are more detailed than those presented to external users.) Include everything important to the business and to the financing decision, but leave secondary issues and information for discussion at a later meeting.
- **DO** let the reader know early what business the company is in. While this may seem obvious, many plans tell the reader on page 20 what business the company is in, and with some plans the reader is never certain.
- **DO** state the company's objectives.
- **DO** describe the strategy and tactics that will enable the company to reach those objectives.
- **DO** cite clearly how much money the company will need, over what period of time and how the funds will be used.
- **DO** have a clear and logical explanation about when and how the money will be paid back.
- **DON'T** use highly technical descriptions of your products, processes and operations. Use layman's terms. Keep it simple and complete.
- **DO** be realistic in making estimates and assessing market and other potentials.
- **DO** discuss your company's business risks. Your credibility can be seriously damaged if existing risks and problems are discovered by outside parties on their own.
- **DON'T** make vague or unsubstantiated statements. For example, don't just say that sales will double in the next two years or that you are adding new product lines.
- **DO** be specific. Substantiate your statements with underlying data and market information.
- **DO** summarize and properly structure internal budgets and plans to facilitate review by outside parties.
- **DO** enclose your proposal/business plan in an attractive but not overdone cover.
- **DO** provide extra copies of your plan to speed the review process.