

Developing A Business Plan

Overview

The importance of planning should never be overlooked. For a business to be successful and profitable, the owners and the managing directors must have a clear understanding of the firm's customers, strengths and competition. They must also have the foresight to plan for future expansion. Whether yours is a new business or an existing business in the process of expanding, money is often an issue. Taking time to create an extensive business plan provides you with insight into your business. This document can serve as a powerful financing proposal.

This article will take you through the step-by-step process of developing a business plan. A business plan is very specific to each particular business. However, while each business needs a unique plan, the basic elements are the same in all business plans. To complete an effective business plan you must dedicate time to complete the plan. It requires you to be objective, critical and focused. The finished project is an operating tool to help manage your business and enable you to achieve greater success. The plan also serves as an effective communication tool for financing proposals.

At the completion of this exercise, you should be able to:

- Describe the importance of a business plan
- Identify the elements of an effective business plan
- Write a business plan

Outline:

- I. Why Write a Business Plan?
- II. Who Should Write the Business Plan?
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I. Why Write a Business Plan?

Why should a business go through the trouble of constructing a business plan? There are five major reasons:

1. The process of putting a business plan together forces the person preparing the plan to look at the business in an objective and critical manner.
2. It helps to focus ideas and serves as a feasibility study of the business's chances for success and growth.
3. The finished report serves as an operational tool to define the company's present status and future possibilities.
4. It can help you manage the business and prepare you for success.
5. It is a strong communication tool for your business. It defines your purpose, your competition, your management and personnel. The process of constructing a business plan can be a strong reality check.
6. The finished business plan provides the basis for your financing proposal.

Planning is very important if a business is to survive. By taking an objective look at your business you can identify areas of weakness and strength. You will realize needs that may have been overlooked, spot problems and nip them before they escalate, and establish plans to meet your business goals.

The business plan is only useful if you use it. Ninety percent of new businesses fail in the first two years. Failure is often attributed to a lack of planning. To enhance your success, use your plan! A comprehensive, well constructed business plan can prevent a business from a downward spiral.

Finally, your business plan provides the information needed to communicate with others. This is especially true if you are seeking financing. A thorough business plan will have the information to serve as a financial proposal and should be accepted by most lenders.

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II. Who Should Write the Business Plan?

You, the owner of the business, should write the plan. It doesn't matter if you are using the business plan to seek financial resources or to evaluate future growth, define a mission, or provide guidance for running your business -- you are the one that knows the most about the business.

There are a number of software packages in addition to this article that can assist you in the formatting process: Business Plan Pro, Palo Alto Software, \$89.99 and Small Business Advantage, Encore Software, \$39.99 are only two of many available.

Consultants can be hired to assist you in the process of formulating a business plan, but in reality you must do a majority of the work. Only you can come up with the financial data, the purpose of your business, the key employees, and management styles to mention a few items. You may still choose to use a consultant, but realize that you will still need to do most of the work, so why not tackle the plan yourself? If you need further help in one area, then seek the assistance of the consultant.

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III. Business Plan Components

The Executive Summary

The first page of your business plan should be a persuasive summary that will entice a reader to take the plan seriously and read on. The Executive Summary should follow the cover page, and not exceed two pages in length.

The summary should include:

- A brief description of the company's history
- The company's objectives
- A brief description of the company's products or services
- The market the business will compete in
- A persuasive statement as to why and how the business will succeed, discussing the business's competitive advantage
- Projected growth for the company and the market
- A brief description of the key management team
- A description of funding requirements, including a time-line and how the funds will be used

The Product or Service

It is important for the reader to thoroughly understand your product offering or the services you currently provide or plan on providing. However, it is important to explain this section in layman's terms to avoid confusion. Do not overwhelm the reader with technical explanations or industry jargon that he or she will not be familiar with.

It is important to discuss the competitive advantage your product or service has over the competition. Or, if you are entering a new market, you should answer why there is a need for your offering.

If appropriate, discuss any patents, copyrights and trademarks the company currently owns or has recently applied for and

discuss any confidential and non-disclosure protection the company has secured.

Discuss any barriers that you face in bringing the product to market, such as government regulations, competing products, high product development costs, the need for manufacturing materials, etc.

Areas that should be covered in this section include:

- Is your product or service already on the market or is it still in the research and development stage?
- If you are still in the development stage, what is the roll out strategy or timeline to bring the product to market?
- What makes your product or service unique? What competitive advantage does the product or service have over its competition?
- Can you price the product or service competitively and still maintain a healthy profit margin?

The Market

Investors look for management teams with a thorough knowledge of their target market. If you are launching a new product, include your marketing research data. If you have existing customers, provide an analysis of who your customers are, their purchasing habits, their buying cycle. For more information, see these companion articles: [Conducting a Marketing Analysis and Prepare a Customer Profile](#).

This section of the plan is extremely important, because if there is no need or desire for your product or service there won't be any customers. If a business has no customers, there is no business.

This section of the plan should include:

- A general description of your market
- The niche you plan on capitalizing on and why
- The size of the niche market. Include supporting documentation
- A statement and supporting documentation as to why you believe there is a need for your product or offering by this market
- What percentage of the market do you project you can capture?
- What is the growth potential of the market? Include supporting documentation
- Will your share of the market increase or decrease as the market grows?
- How will you satisfy the growth of the market?
- How will you price your goods or services in the growing competitive market?

The Marketing Strategy

Once you have identified who your market is, you'll need to explain your strategy for reaching the market and distributing your product or service. Potential investors will look at this section carefully to make sure there is a viable method to reach the target market identified at a price point that makes sense.

Analyze your competitors' marketing strategies to learn how they reach the market. If their strategy is working, consider adopting a similar plan. If there is room for improvement -- work on creating an innovative plan that will position your product or service in the minds of your potential customers. The most effective marketing strategies typically integrate multiple mediums or promotional strategies to reach the market. The following are some promotional options to consider. For more in-depth information on these media, see the article called [Create a Promotional Package](#).

- TV
- Radio
- Print
- Web
- Direct mail
- Trade shows
- Public relations
- Promotional materials
- Telephone sales
- One-on-one sales

- Strategic alliances

If you have current samples of marketing materials or strategies that have proved successful, make sure you include them with your plan.

Developing an innovative marketing plan is critical to your company's success. Investors look favorably upon creative strategies that will put your product or service in front of potential customers. Spend time developing this section.

Once you have identified how you will reach the market, discuss in detail your strategy for distributing the product or service to your customers. Will you mail order, personally deliver, hire sales reps, contract with distributors or resellers, etc.?

The Competition

Understanding your competition's strengths and weaknesses is critical for establishing your product's or service's competitive advantage. If you find a competitor is struggling, you need to know why, so you don't make the same mistake. If your competitors are highly successful, you'll want to identify why. You'll also want to explain why there is room for another player in the market.

Specific areas to address in this section are:

1. Identify your closest competitors. Where are they located? What are their revenues? How long have they been in business?
2. Define their target market.
3. What percentage of the market do they currently have?
4. How do your operations differ from your competition? What do they do well? Where is there room for improvement?
5. In what ways is your business superior to the competition?
6. How is their business doing? Is it growing? Is it scaling back?
7. How are their operations similar to yours and how do they differ?
8. Are there certain areas of the business where the competition surpasses you? If so, what are those areas and how do you plan on compensating?

Analyzing your competitors should be an ongoing practice. Knowing your competition will allow you to become more motivated to succeed, efficient and effective in the marketplace.

Operations

Now that you have had an opportunity to really sell your idea and wow potential investors, the next question on their mind is how will you implement the idea. What resources and processes are necessary to get the product to market? This section of the plan should describe the manufacturing, R&D, purchasing, staffing, equipment and facilities required for your business.

You'll want to provide a roll out strategy as to when these requirements need to be purchased and implemented. Your financials should reflect your roll out plan.

In addition, describe the vendors you will need to build the business. Do you have current relationships or do you need to establish new ones? Who will you choose and why?

The Management Team

For most investors the experience and quality of the management team is the most important aspect they evaluate when investing in a company. Investors must feel confident that the management team knows its market, product and has the ability to implement the plan. In essence, your plan must communicate management's capabilities in obtaining the objectives outlined in the plan. If this area is lacking, your chances for obtaining financing are bleak.

If your team lacks in a critical area, identify how you plan on compensating for the void. Whether it is additional training required or additional management staff needed, show that you know the problem exists, and provide your options for solutions.

When preparing this section of the business plan you should address the following five areas:

1. Personal history of the principals:
 - a. Business background of the principals
 - b. Past experience -- tracking successes, responsibilities and capabilities
 - c. Educational background (formal and informal)
 - d. Personal data: age, current address, past addresses, interests, education, special abilities, reasons for entering into a business
 - e. Personal financial statement with supporting documentation
2. Work experience:
 - a. Direct operational and managerial experience in this type of business
 - b. Indirect managerial experiences
3. Duties and responsibilities:
 - a. Who will do what and why
 - b. Organizational chart with chain of command and listing of duties
 - c. Who is responsible for the final decisions?
4. Salaries and benefits:
 - a. A simple statement of what management will be paid by position
 - b. Listing of bonuses in realistic terms
 - c. Benefits (medical, life insurance, disability...)
5. Resources available to your business:
 - a. Insurance broker(s)
 - b. Lawyer
 - c. Accountant
 - d. Consulting group(s)
 - e. Small Business Association
 - f. Local business information centers
 - g. Chambers of Commerce
 - h. Local colleges and universities
 - i. Federal, state, and local agencies
 - j. Board of Directors
 - k. World Wide Web (various search engines)
 - l. Banker

Personnel

The success of a business can often be measured by its employees. Seventy percent of consumers will go elsewhere if they don't receive prompt and courteous service. You must consider the following questions in completing this section of the business plan:

1. What are your current personnel needs (full or part-time)? How many employees do you envision in the near future and then in the next three to five years?
2. What skills must your employees have? What will their job descriptions be?
3. Are the people you need readily available and how will you attract them?
4. Will you be paying salaries or hourly wages?
5. Will there be benefits? If so, what will they be and at what cost?

6. Will you pay overtime?

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IV. Financial Data

At the heart of any business operation is the accounting system. It is important to have a certified public accountant establish your accounting system before the start of business. At times there is a tendency to do it yourself. Remember that an incredible number of businesses fail due to managerial inefficiencies. Leave it to the trained professional to help you in the area of accounting and legal matters. If your business can't afford a public accountant to establish your books, then you are undercapitalized. You need to secure additional resources before starting.

One of the first steps to having a profitable business is to establish a bookkeeping system which provides you with data in the following four areas:

- Balance Sheet - indicates what the cash position of the business is and what the owner's equity is at a given point (the balance sheet will show assets, liabilities and retained earnings).
- Break-Even Analysis - is based on the income statement and cash flow. All businesses should perform this analysis without exceptions. A break-even analysis shows the volume of revenue from sales that are needed to balance the fixed and variable expenses.
- Income Statement - also called the profit and loss statement, is used to indicate how well the company is managing its cash, by subtracting disbursements from receipts.
- Cash Flow - this projects all cash receipts and disbursements. Cash flow is critical to the survival of any business.

If the goal of your business plan is to obtain financing, you will be required to generate financial forecasts. The forecasts demonstrate the need for funds and the future value of equity investment or debt repayments. This exercise is critical in obtaining capital for your business. To obtain capital from lending institutions you must demonstrate the need for the funding and your ability to repay the loan.

The forecast that you generate should cover a three to five-year period. This is a period in which realistic goals can be established and attained without much speculation. Forecasts should be broken down in monthly increments.

Projections and forecasts are an integral part of your financial portfolio. Carefully and accurately state your assumptions. Honesty is the best policy! Over-optimism and over-inflation can lead to failure. For more help, review the tools [Conduct a Sales Forecast](#) and Prepare a Balance Sheet.

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V. Supporting Documentation

You must include any documents that lend support to statements made in the body of your company's business plan. The following is a list of some items for your consideration. Please be aware that this list is not complete and may vary depending on the stage of development of your business.

1. Resumes
2. Credit information, include in Appendix
3. Quotes or Estimates
4. Letters of Intent from prospective customers
5. Letters of Support from credible people who know you

6. Leases or Buy/Sell Agreements
7. Legal Documents relevant to the business
8. Census/Demographic data

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VI. Summary

The completed business plan should be bound. For internal purposes three-ring binders work well. Additions and changes can easily be placed in the binders. For the business plan that is to be circulated to a lender and/or investor, many types of appropriate folders and binders can be purchased at office supply stores.

Once the business plan is completed, it should become an operational tool to measure the success of the business. This plan should be updated as milestones are reached. Often companies will spend enormous time, energy and financial resources to complete this arduous task just for the purpose of obtaining additional capital. The companies that shelve the business plan after its completion and presentation to lenders lose out on the real value of this useful tool in the growth and development of small and large businesses.

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VII. Resources

Magazines

Journal of Accountancy

The Practical Accountant

Books

Bob Adams, "Adams Streetwise Complete Business Plan" (Adams Media 1998)

Constantinos C. Markides, "All the Right Moves: A Guide to Drafting Breakthrough Strategy" (Harvard Business School Press, 1999)

Jerry Jinnett Pinson, "Anatomy of a Business Plan" (Dearborn Trade, 1999)

Eric Press, "Analyzing Financial Statements" (Lebhar-Friedman, 1999)

Peter Schwartz, "The Art of the Long View" (Currency-Doubleday, 1996)

Web Sites

[American Institute of Certified Public Accountants](#) (AICPA) - Avenue of The Americas, New York, N.Y.

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