

## **WHY WRITE A BUSINESS PLAN?**

A business plan describes the business: how it operates, how it is managed, how it interacts in the marketplace, how it functions financially and what its strengths and weaknesses are. The business plan is a planning tool that details the goals of the business and gives the owner a path to follow. It can help the owner make judgments and decisions on opportunities and threats by providing a framework to assess the options. Although often not required by banks, a business plan is the most professional format to present the information the bank will need to evaluate a loan request.

Lack of planning can cause serious business problems or outright business failure. Poor management and planning are estimated to account for over 90% of business failures. The most common mistakes made are: poor initial planning; not understanding market position; not knowing costs; not properly pricing; not planning cash flow in advance; not monitoring financial position at all times; not controlling costs; and, not planning and managing growth. A good business plan can help the business owner avoid all of these costly pitfalls.

Here is a basic business plan outline followed by descriptive detail which is included to aid in the writing of the plan. This detailed guide will assist you in preparing one of the most important business documents for your business, large or small.

### **I. EXECUTIVE SUMMARY**

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- B. Product/Services Offered
- C. Markets/Customers Served
- D. Distribution of Products/Services

### **II. THE BUSINESS DESCRIPTION**

- A. Name and one line description of what the business does.
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## I. EXECUTIVE SUMMARY

This may be the most important part of the business plan because it is the first – and sometimes only — section that is read by the intended audience. The Executive Summary should capture the attention of readers, so that they want to read the rest of the plan. The information included in the executive summary should focus on the business' competitive advantage and what makes the business viable.

We recommend that you write the Executive Summary last, after you have completed all the other business plan sections. For this section, write in paragraph form without headings **The headings are included to illustrate what should be included in this section, but do not include the headings in the actual Executive Summary.**

### A. Vision and Business Goals

What is the long-term vision of the business, and what are the goals for getting there during the period covered by this business plan? What are the one year, three year and five year goals for the business? State quantified goals for these time periods, such as annual revenue (\$), annual profit (\$), or annual percent increase (%) in these categories.

### B. Products/Services Offered

Describe the product/service in enough detail so that it is readily understandable and confirms the viability of the business. How will it be differentiated from the competition's offerings?

### C. Markets/Customers Served

Who buys the product/services, and what market segments does the business serve? How large is the total market? What is the business' current market share? What will the market share increase to as the company grows and its sales goals are reached?

### D. Distribution of Products/Services

How does the product/service reach the customer? Is the method of distribution unique? Is this the business' competitive advantage? (Do not include this information in the executive summary unless the method of distribution confers some unique advantage upon the business.)

## **II. THE BUSINESS DESCRIPTION**

### **A. Name and Address of Business, Type of Business**

Use the exact legal name of the business and the physical address and general location of the business. Is the business primarily engaged in wholesale or retail trade, service, manufacturing, agriculture/forestry/fishing, construction or transportation?

### **B. Date Founded, By Whom**

### **C. Form and Ownership**

What is the legal form of the business? List all owners and their percent ownership.

### **D. Mission Statement, Business Goals**

The mission statement is practical and philosophical. A good mission statement can provide direction for the company in the future. The mission statement can include: the purpose for which the company exists; what the company does; the company's goals; quality; its role in the community; ethical practices; profitability; customers; shareholders; the environment.

Business goals should be quantified and summarized for one, three and five years.

### **E. Key Officers, Management**

Who will put the business plan into action? List all key employees and include one to five paragraphs on their qualifications. Also list key advisors, including your accountant and lawyer if you have these, and any other business advisors (It is a strength to show the use of advisors.) The reader will need to be persuaded that the people running the company have the qualifications to get the job done and done well. Include resumes and job descriptions of all key employees for the business in the Attachments.

## **III. THE MARKETING PLAN**

The marketing plan is the critical link between the product/service and customers. Oftentimes, the marketing plan is the hardest section of the business plan to write. This section contains the extensive research required before the financial projections can be completed. The information in the financial plan (the fifth section of the business plan) is based on data that is gathered as part of the marketing planning process. One critical part of the marketing plan is a clear-cut delineation of the business' target markets. Much hinges on the plan's reader being convinced that there will be a large enough market for the product/service. The overall goal of the marketing section is to demonstrate that your product or service meets an important customer need and provides a solid benefit to customers in a well-defined market niche.

## A. Products/Services Differentiation

First, describe your product or service plainly and clearly. If you have several products or services, be sure to describe the full line of offerings. Then describe the specific benefits these products and services deliver to customers. Finally, tell what is different about your products and services when compared others on the market. Successful businesses provide something that is unique. Some of the ways that products/services are differentiated can include: higher quality; better customer service; quicker responsiveness; safer/healthier; more attractive; more convenient; lower cost.

## B. Industry Profile

What industry are you part of (for instance, retail clothing, or custom metal fabrication, or forestry management). What is the current phase in the life cycle of the industry (starting, emerging, growing, mature, or declining)? What is the competitive profile in your industry – do you have one or two, several, or many competitor firms in the industry? What is the size of this industry? An indicator of size is the dollar (\$) volume of sales, number of households reached, number of firms in the industry within your market reach. This information can be found through trade associations and other sources on the Internet. What are the growth trends and product/service outlook for this industry? Is the industry characterized by high or low margins, is it capital intensive, or is a large inventory required? Is your business trying to meet an existing need in the marketplace or are your offering a new solution to an existing problem?

## C. Competitive Analysis

List all the companies that directly compete with you for customers, or, if there are many, list the main competitors. Also list indirect competition – companies that offer an alternative to your product or service. How many competitors, are there in the marketplace and what are their competitive characteristics? Attach a competitive matrix to summarize the competitive analysis.

	Taco Bell	Taco del Sol	Cazador	Taco Heaven
Service	2	2	5	3
Quality	2	3	5	3
Flavor	2	4	5	3
Menu	3	2	5	3
Quickness	4	3	1	5
Atmosphere	2	2	4	3

### **Competitive Matrix for Taco Heaven (a hypothetical fast-food, Mexican Restaurant)**

Once you have laid out the picture of your business's competition, describe how your business will gain a competitive advantage over other similar businesses within your market. What market segment niche will your business pursue to gain customers now served by competing firms?

The relationship of supply and demand will affect the entire marketing plan. High demand coupled with low supply usually indicates fewer competitors, which translates to lower marketing costs for your business. However, other new entrants will also be drawn to the marketplace and their emergence will change the market and affect the profitability of the product/service. On the other hand, low demand and high supply indicates market saturation – many competing firms already active in the market. That translates to higher marketing costs for your business. In this situation, market share must be gained by taking away customers from competitors, and there will be a competitive reaction which must be addressed in the marketing plan.

#### E. Target Market Demographics/Customer Profile

Describe the members of your target market in detail. These are the customers who are most likely to benefit from the business and thus purchase the product/service. If you sell to individuals, describe the age, gender, income level, and place of residence of your customers. Add other features called psycho-demographics to capture special interests, hobbies, or pursuits that make these people your customers. If you sell to other businesses, describe their size, industry, location, and any other company characteristics that cause you to target these customers.

Although many people or businesses are *possible* customers, the target market zeroes in on your most *probable* customers. The “80/20 Rule” is that 80% of a company's revenues are generated by 20% of its customers. This is the customer that you are describing in this section.

#### D. Market Size

How large is your market? If you sell to individuals, research the number of people meeting your demographic profile in the defined geography in which you operate. If you sell to businesses, research the number of businesses that use your product/service within the defined market geography.

It is important to research and communicate a good estimate of the number of potential customers in your defined market territory. Demographic information is available from the Census and Economic Information Center at <http://ceic.mt.gov/>. This information includes the number of persons in age ranges, income levels, education levels, in households, residences, etc. Data is available on the number of businesses, sales levels, business sectors, and number of employees from the U.S. Census as well. This data is also available at the public library and at the Mansfield Library at the University of Montana.

What are the growth trends and potential for this market number? Are there any areas within your defined territory that have a large concentration of people meeting your target profile?

## F. Marketing Strategy/Market Share

What are the specific plans and action steps to be taken to capture customers and market share during the planning period? The market strategies are usually described under the four sections listed below. Each strategy should clearly connect the product features with the target market members that you described earlier.

- Pricing—Describe whether you are high, medium or low-priced in comparison to your competition, and why. The pricing strategy should directly correlate to the demographics of the target market that you laid out earlier.
- Distribution – How will your product reach the customer? Will you sell it direct, or will you sell on a wholesale basis to retailers? Will you use the Internet or a physical location, or both?
- Promotion – What are all the ways that you will promote your product, including advertising, printed materials, sales calls, publicity, Yellow Pages and word of mouth? A strong business plan will include a calendar detailing the promotion steps taken each month of the year.
- Packaging – This applies primarily to products, but can be adapted to services as well. Describe the labels, boxes, bags and collateral information that is included as part of the product presentation to the customer. Is your packaging professionally designed to appeal to the demographics you cited in your target market?

## III. OPERATING AND CONTROL SYSTEMS

This section of the business plan describes how the business will function internally to produce, deliver, monitor its products/services, and keep track of the results from doing business. Without operating and control systems fully thought out and presented in the plan, the reader will question whether the business can actually realize the goals detailed in the business plan.

### A. Personnel

How many employees does the company have, and how many will be added over the planning period? Include an organization chart if your company is larger. What types of functions will they perform? What are the skills required to fulfill job responsibilities? What will their hours be (part-time, shift, etc.)? What pay scale and benefits will be offered by the company?

### B. Production/Service Methods

How is the product/service actually produced? Describe the production process from start to finish, including packaging. It may be helpful to illustrate the process by depicting a day in the life of the company from opening to closing. How is service performed? Do the clients come to an office, or is the service performed at the customer's site? What hours is the business open?

### C. Quality Control

How will consistent quality of product and service delivery be assured? What specific quality control measures will be implemented?

### D. Facilities and Equipment

Describe the physical facilities in which the business will be located. Is it owned or leased? What are the terms (price and length) of the lease? What is the size (square feet) of the building and the age? Is there enough space to accommodate growth? Can the facilities be upgraded or will the business have to move if it grows during the planning period? Are the mechanicals (electric, plumbing, sewer, telecommunications) up to code and adequate for intended usage? Is there adequate parking and street access? Describe the equipment used in production, including age and repair of equipment.

### E. Suppliers

What materials are used to produce the product/service, and who are the suppliers? Is there more than one source of supply? Are these suppliers reputable and reliable? Do they supply the best quality at the most competitive prices?

### F. Billing and Collection Policies and Procedures

What are the terms of payment for your product or service (cash, credit card, payment 30 days from invoice, etc...)? Explain why this plan was chosen. How is credit worthiness determined? Describe billing procedures. Are accounts receivable monitored? How often? When is a receivable considered delinquent? Outline the steps followed from the time an account becomes delinquent until the delinquency is resolved. Are formal collection policies in place? Describe the collection procedures. Who is responsible for billing receivables and for collections?

### G. Recordkeeping Policies and Procedures

Business owners are responsible for maintaining a universally accepted method of recordkeeping. The system should be simple to use, accurate, timely, and consistent. It provides business management information for the owner but must also be designed for understanding by others with an interest in the business — business consultants, lenders or government entities, for example.

What recordkeeping tools or systems are in place? Identify the types of records kept. Who is responsible for recordkeeping? What is this person's background or experience with recordkeeping? Does the business use professional recordkeeping outside services? If so, from whom and what aspects of business recordkeeping do they perform? Describe daily, weekly or monthly recordkeeping routines. Identify financial reports used to measure and monitor the business condition. How often are these reports prepared?

## **IV. THE FINANCIAL PLAN**

The financial section is the numerical expression of the marketing and operations sections of the business plan. The financial projections indicate if the business idea is attractive enough to secure investments and financing. The thoroughness of the financial plan will indicate to the reader that the business will be well managed. According to the SBA, "businesses do not fail for the lack of money as much as for the lack of money management." Entrepreneurs need sound records and financial management to keep track of assets and liabilities. And, they must always know the company's current and future cash positions.

The cash flow projections and analysis are the most important section of the business plan. The need for cash flow planning comes from the time discrepancy that usually exists between the expenditure of funds for inventory, payroll, rent, debt payments and other overhead and the actual receipt of cash from sales. Profits are great, but cash pays the bills. Cash flow planning is simple in concept, but involves considerable effort to develop. Time is the critical ingredient in cash flow planning. The company may have considerable money coming in the future, but it could become insolvent if cash is paid out in the present. At any time, a negative cash balance must be covered either with equity or debt.

### **A. Financial Statements**

#### **1. Existing Businesses**

Existing business need to include a summary of the past three years of Balance Sheets and Income Statements with the business plan. In this section also discuss any relevant trends and year to year changes in: assets, debt and equity; revenues, cost of goods sold (COGS), overhead and net income. Reviewers of the plan will analyze these statements and use them as a basis for evaluating the cash flow projections, break-even analysis, pricing and margins. If there are large unexplained differences between the past and the future, the accuracy of the projections will be questioned which could result in the loan request being denied or the loan amount reduced.

Also include a current Balance Sheet and Income Statement for the most recent period in addition to the historical statements.

#### **2. Start-up Businesses**

Since a start-up business does not have historical financial statements, industry standard financials can be used as a baseline. Industry standard information is available from Risk Management Associates (RMA). RMA data can be found at the library.

### **B. Pro-Forma Financial Statements**

Pro-forma financial statements are the projected financial statements that show the financial results if the business is operated as outlined in the business plan Marketing and Operations

sections. For an existing business, the pro-forma statements should include an income statement and balance sheet that show where the business will be financially after the proposed changes are implemented.

For a new business, all financial statements are pro-forma. The Sources and Uses Chart (see below) can be used as the beginning balance sheet for the business. Income statements can be generated using the projected cash flow.

### C. Pricing Strategy, Gross Profit Margin

Pricing is the single most important factor affecting profits. Pricing a product/service includes consideration of the following assumptions: the customer is central to the business; the business operates in a competitive marketplace; pricing is a reflection of the business's position in the marketplace; it is a criterion by which consumers evaluate the product/service; and, pricing must be adequate to return a profit to company owners and investors. Pricing is not done in a vacuum; price is what a customer is willing to pay, not necessarily what the business would like to charge. The prices of other products/services limit pricing freedom. To set prices, (1) determine floor and ceiling prices, (2) evaluate price sensitivities of customers, (3) select a strategy and (4) set the price. It is also important to identify your Gross Profit or Gross Profit Margin in order to calculate the Break Even sales for the business as discussed below. (Please see our cash flow template in Excel which calculates the GPM and GPM% automatically.)

### D. Break-even Analysis

How many units must be sold to cover all costs? A break-even analysis pinpoints how changing prices, increasing or decreasing expenses will affect profitability and unit sales. A break-even analysis tests the feasibility of achieving the level of unit sales necessary to pay for all costs. Break-even in units is calculated:

- Break-even units = total fixed costs/(unit sales price - unit cost of goods sold)
- Break-even dollars = break-even units x selling price
- Break-even sales revenue = total fixed costs/gross profit margin percentage.

### E. Projected Cash Flow Spreadsheet

Prepare monthly cash flow projections for the next two fiscal years using the [cash flow template](#). The cash flow projection is a critical tool for a new and growing business. It indicates how much cash is needed, and when it is needed so that investing and borrowing needs can be arranged in advance. It is important to understand and arrange for cash infusions in advance because financing and equity may not be available on short notice.

### F. Forecasting Assumptions

No reader can understand the projections without an explanation of the forecasting assumptions behind the numbers. The assumptions need to be written out on a line by line basis, explaining any seasonal variations. If the assumptions are credible and supported by

the research in the marketing plan, the projections are likely to be accepted by lenders and investors.

**G. Risk Analysis and Alternative Plans of Action**

What steps will be taken if some or all of the assumptions in the plan change? There are always differences between a plan and what actually happens in the business, and the business needs to be flexible and quickly adapt to changes in the marketplace. By careful, thorough planning, big surprises can be avoided, but uncontrollable external factors (oil shortages, drought) are always present. How will the company respond if sales drop? What if product costs go up? What if a new competitor unexpectedly enters the market? Consumer preferences shift: how can the product/service be adapted to meet new/changing needs?

**V. REQUEST FOR FINANCING**

**A. Amount, Purpose of Request, Collateral**

How much money does the business need to borrow? What is the purpose of the borrowing? What are the business and owners offering for collateral to secure the loan and the estimated value of the collateral? This figure should tie to the financial projections provided.

**B. Sources and Uses of Funds**

Fill in the Sources and Uses chart to show prospective borrowers the scope of the total project that you are taking on. Detail all the sources of funds that will be used to complete the project.

<b>SOURCE AND USE CHART</b>				
<b>Uses of Funds</b>		<b>Sources of Funds</b>		
	Project Costs	Financing	Equity	Total
Working Capital	\$	\$	\$	\$
Inventory				
Machinery/Equipment				
Furniture/Fixtures				
Real Estate Land Existing Improvements Construction				
Business Purchase				
Debt Refinance				
Other				
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

### C. Repayment Plan

How long will it take the business to repay the debt? What are the requested repayment terms? The projected cash flow spreadsheets should show these payments and also demonstrate that the business is generating enough cash to repay monthly principal and interest according to the debt amortization schedule.

### D. Debt Repayment Contingency Plan

If there is a cash shortfall, where will cash come from to repay debt?

## **VI. BUSINESS PLAN ATTACHMENTS**

Below is a list of possible attachments to support the business plan. These attachments must be included if applicable to the business.

- Resumes
- Organization Chart and job descriptions
- Personal and business references
- Business licenses, permits
- Insurance information
- Samples of marketing materials - business cards, brochures, statements, ads, flyers, price lists, etc.
- Schematic of floor plan, signage and/or picture of business location
- Product endorsements
- Letter of Intent to Purchase
- Leases
- Contracts
- Proof of fulfilling legal requirements for your type of business--for example, insurance and authority for transportation businesses; medical license for health care provider.