

HOW TO PREPARE A BUSINESS PLAN
~ Guidelines for Entrepreneurs ~

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I. INTRODUCTION

The business plan is the principal sales tool in raising capital. Before risking any capital, bankers or investors want to assure themselves that you have thought through your plans carefully, that you know what you are doing, and that you can respond effectively to problems and opportunities. They will insist on seeing your business plan before considering any financial commitment, and often will not even meet with you without a prior review of the business plan. Therefore, your business plan must be well prepared and persuasive in conveying the potential of the enterprise it describes. It should address all major issues, and yet not be so detailed that it “turns off” the reader. You should try not to have a business plan more than 50 pages long.

The guidelines that follow describe:

1. The necessary sections of a business plan
2. What should be included in each section and subsection
3. Why the information is necessary

Intelligent use of these guidelines should result in a complete professional business plan that makes an orderly presentation of the facts necessary to obtain a decision from any funding source.

Because these guidelines were written to cover a variety of possible ventures, rigid adherence to them is not possible nor even desirable for all ventures. For example, a plan for a service business would not require a discussion of manufacturing or product design. Space has been provided for you to address topics and make notes. Be prepared to use additional space as needed. Use this information in preparing the text of your plan.

II. SUMMARY OF BUSINESS PLAN

Summary Statement

Prepare a 1 or 2 page summary of your business plan. It should be a brief, appealing and accurate presentation of the highlights of your venture and its opportunities. The summary is best written after the plan has been completed. It must contain information on at least the following:

A. Present Status of Company:

Indicate:

- When the company was formed and its current status
- Company purpose
- What is special or unique about it
- Who are the founders
- Background of the entrepreneurs that makes them particularly qualified (for example, unique know-how) to pursue the business opportunity.

B. Market Opportunity:

Identify and explain (briefly) the market opportunity:

- * Information on the size and growth rate of the market for the company's product or service.
- * Percentage of that market that will be captured
- * Brief statement about industry-wide trends
- * Plans for the expansion of the initial product line

C. Financial data:

- ◆ Resource requirements
- ◆ State your initial, second, and third year sales and profit goals
- ◆ Net cash requirements

III. THE BUSINESS PLAN

1. COMPANY ANALYSIS

Describe the nature and history of the company and provide some background on its industry to provide the potential banker or investor with insights to better understand projections and estimates.

A. Company History:

- ❖ Date that the venture became a legal entity and how it is or will be organized (corporation, partnership, sole proprietorship, etc.)
- ❖ Profit or not- profit
- ❖ The circumstances leading to the company formation

If existing:

1. Why the business has been successful or not
2. Key factors of business growth
3. Profitability patterns
4. Transitions

B. Mission statement: (why you are in business, what you do, who you serve)

Address these topics:

- | | |
|--|-----------------------------------|
| ▪ Target markets | • Technological position (if any) |
| ▪ Current or anticipated customer list | • Operational resources |
| ▪ Integration strategy (forward or backward) | • Company strengths & weaknesses |
| ▪ Pricing strategy | • Key success factors |
| ▪ Proprietary position (if any) | • Competitive position |

C. Goals and Objectives (List most important business, personal, and financial goals and objectives)

Short-Term

Long-Term

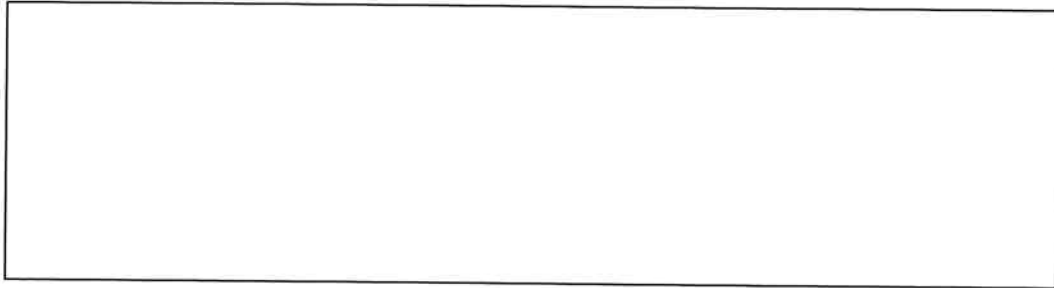
2. **MANAGEMENT TEAM**

The Management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management team with a proper balance of technical and business skills, and experience in doing what is proposed.

Accordingly, this section of the business plan will be of primary interest to potential bankers or investors and will significantly influence their decisions.

A. Organization:

Graphically show the key management roles in the company, the individuals who will fill each position, and their relationships to each other and the employees.



- ◆ Discuss any previous experience of the management group in working together. Indicate how their skills complement one another and result in an effective entrepreneurial management team.

- ◆ If any key individuals will not be on board at the start of the venture, indicate when they will join the company.

- ◆ Describe the use of outside consultants, etc. to fill key roles as appropriate

B. Functions of Personnel:

- Describe the exact duties and responsibilities of each of the key members of the management team. Include a brief (three or four sentence) statement of the career highlights of each individual that focuses on accomplishments demonstrating ability to perform the assigned role.

- Complete resumes for each key management member are included as exhibits of the business plan. These resumes should stress the training, experience, salary history and accomplishments of each manager, in performing functions similar to the role in the venture. List accomplishments such as:

- ✓ Profit improvement
- ✓ Labor management
- ✓ Manufacturing or technical achievements
- ✓ Ability to meet budgets and schedules
- ✓ Community organization
- ✓ References
- ✓ Recognition or rewards received, e.g. pay increases, promotion, etc.

A sample resume is attached.

C. Management Compensation and Ownership:

The likelihood of obtaining financing is small when the founding management team is not prepared to accept modest initial salaries. If the founders demand substantial salaries, the potential banker or investor will conclude that their psychological commitment to the venture is less than it should be.

- State the salary that is to be paid to each key person
- Describe the stock ownership planned for the key personnel, the amount of their equity investment (if any), and any performance-dependent stock-options or bonuses that are contemplated

D. Board of Directors:

- Discuss the company's philosophy as to the size and composition of the board.
- Identify and propose board members and include a one or two sentence statement of the member's background that shows what he or she can bring to the company.
Include resumes for each board member as an exhibit to the business plan.

E. Management Assistance and Training Needs:

- ◆ Outline the strengths and weaknesses of your management team and board of directors.
- ◆ Describe the kind, extent, and timing of any management training that will be required to overcome weaknesses in any of the following:

Accounting and taxes:

Planning:

Organizing:

Financial management:

People management:

Time management:

Sales:

Promotion:

Decision-making:

Cost control:

Personnel policies:

Pricing:

F. Supporting Professional Services:

C. Identify outside consultants and advisors:

- Your CPA tax advisor: _____
- Your accountant: _____
- Your business lawyer: _____
- Your patent attorney: _____
- Your banker: _____
- Your insurance broker: _____
- Other key outsiders: _____

3. **INDUSTRY ANALYSIS**

Describe the background of your industry.

- How the industry has developed (Include previous trends and their cause)
- Industry's growth patterns
- The industry's future (new products, developments, markets, customers trends, etc.)
- Impact of socio economic trends, government policy, and population shifts.
- How international trade impacts the industry
- How well small businesses prosper in the industry
- How small businesses are affected by large companies
- How small businesses are affected by franchises
- How your business fits into the industry

List source of this information (for example, US Industrial Outlook or Industry Surveys)

4. **PRODUCTS OR SERVICES**

The potential banker or investor will be vitally interested in exactly what you are going to sell, what kind of product protection you have and the opportunities and possible drawbacks to your product or service. This section deals with these questions.

A. Description:

- ◆ Describe in detail the product or services to be sold.

What they do:

Why should people buy them:

What makes them unique or special:

How expensive or difficult they are to make:

Pricing:

How products or service compliment one another

Seasonality of products or service:

B. Position on the product life-cycle (each product or service)

Product #1

- 1 () New product (first sales)
- 2 () Growing Purchase (rapid increase)
- 3 () Established Position (sales peak)
- 4 () Maturity (sales hold steady)
- 5 () Loss of Value (sales fall off)
- 6 () Declining Purchase (rapid loss of sales)

Product #2

- 1 () New product (first sales)
- 2 () Growing Purchase (rapid increase)
- 3 () Established Position (sales peak)
- 4 () Maturity (sales hold steady)
- 5 () Loss of Value (sales fall off)
- 6 () Declining Purchase (rapid loss of sales)

- Describe the primary end-use as well as any significant secondary applications.
- Highlight any differences between what is currently on the market and what you will offer.

- Define the present state of development of the product or service. For products, provide a summary of the functional specifications. Include product literature and or service photographs when available.
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C. Proprietary Position:

- Describe any patents, trade secrets or other proprietary features. Attach copies of any patent applied for or granted.
 - Discuss a head start that you might have that would enable you to achieve a favored or entrenched position.
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D. Potential:

- Describe any features of your product or service that may give it an advantage over the competition.
 - Discuss any opportunities for the expansion of the product line or the development of related products or services.
 - Emphasize your opportunities and explain how you will take advantage of them.
 - Discuss any product disadvantages or the possibilities of rapid obsolescence because of technological or styling changes, or marketing fads.
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5. DESIGN AND DEVELOPMENT PLANS

If the product, process or service of the proposed venture requires any design and development before it is ready to be placed on the market, the nature and extent of this work should be fully discussed. The banker or investor will want to know the extent and nature of any design and development, and the costs and time required to achieve a marketable product. Such design and development might be: the engineering work necessary to convert a laboratory prototype to a finished product; the design of special tooling; the work of an industrial designer to make a product more attractive and saleable; or the identification and organization of manpower, equipment and special

techniques to implement a service business.

A. Development Status and Tasks:

- ◆ Describe the current status of the product or service and explain what remains to be done to make it marketable.
- ◆ Describe, briefly, the competence or expertise that your company has or can acquire to complete this development.
- ◆ Indicate the type and extent of technical assistance that will be required, state who will supervise this activity within your organization and experience in related development work.

B. Difficulties and risks:

- ◆ Identify any major anticipated design and development problems and approaches to their solution.
- ◆ Discuss their possible effect upon the schedule, cost of design and development, and time of market introduction.

C. Product Improvement and new products:

- ◆ Discuss any on-going design and development work that is planned to keep your product or service competitive, and to develop new related product that can be sold to the same group of customers.

D. Cost:

- ◆ Present and discuss a design and development budget. The costs should include labor, materials, consulting fees, etc. Miscalculations are often made about design and development costs and this can seriously impact cash flow projections. Accordingly, consider and perhaps show a 10-20% cost contingency. These cost data will become an integral part of the financial plan.

6. MARKET ANALYSIS

Market Research and Evaluation:

To be an attractive investment, a company should be selling to a market that is large and growing, and where a small market-share can provide significant sales volume. The company's competition should be profitable but not so strong as to overwhelm you.

The purpose of this section is to present facts to convince the reader that the product or service has a substantial market and can achieve profitable sales in the face of the competition.

Marketing research can help you learn many things about your business. One of the most important is an idea of how many customers you potentially have, and how many of these potential customers are likely to become actual buyers. Marketing research is the basis for the overall business strategy, especially the marketing and financial plans.

The information you need to identify and count potential customers falls into four basic areas: a.) information within your own files, b.) information available to everyone (known as secondary sources), c.) research you do yourself, and d.) research you pay to have done.

A. Customers:

Your customers are the most important part of your business. Without customers you wouldn't be in business. It's critical to carefully analyze who your customers are, how much and how often they buy from you, and why they do business with you rather than someone else.

The first place to start is to define customers by their physical characteristics such as age, gender, occupation, income, etc. These are important because they represent the natural categories of customers or segments. There are many but some of the more common customer characteristics include:

Gender – Men and women often exhibit very different habits when it comes to purchasing.

Age – is second only to gender as most important characteristic to measure.

Income – is a good indicator because it often shows whether the customer can buy.

Occupation – relates closely with age, income, and education.

Family status – couples needs differ significantly from singles.

Children – households with children can exhibit very different buying habits.

Education – is an indicator of advertising comprehension, reasoning power, etc.

Ethnic origin – people from different cultures have different values and needs.