

## **DEVELOPING A BUSINESS PLAN**

Resource: Small Business Development Center

A business plan helps you design and lay out your business and gives you a map to follow in growing your business. Business planning is the process through which you research, learn about, analyze, and understand your business and your goals.

### **What Is the Purpose of a Business Plan?**

1. Reduces risk by forcing evaluation of:
  - Market demand for product or service
  - Strategies (business structure, marketing and distribution)
  - Competition
  - Finance
2. Business planning is a means to managing change.

### **When Is a Business Plan not Necessary?**

When you can afford to fail....

### **Benefits of Writing a Business Plan:**

1. Exposes risk and opportunities.
2. Increases knowledge of customer needs and competitor strengths and weaknesses.
3. Places focus on a marketing position (competitive advantage).
4. Provides bankers (or other investors) with a professional and acceptable format for presenting evidence supporting a business start-up.
5. Serves as an internal planning tool.
6. Breaks the business into small, understandable pieces rather than one complex "idea" that's very difficult to examine and evaluate.
7. Creates a time-line for business evolution.
8. Supplies a method for developing logical financial projections.
9. Provides an action plan to measure implementation.

### **Considerations When Meeting With Your Banker**

#### **Five C's of Obtaining Credit**

When determining an individual's qualifications for a business loan, the bank will likely focus on the Five C's:

- **Character** (The bank will run your credit bureau and may even "Google" your name.)
- **Cash Flow** (How much money do you project will flow through the business?)
- **Conditions** (Will the market conditions support your business? Is there demand for your services?)
- **Capital** (How much cash are you personally investing? Do you have other investors for the project?)
- **Collateral** (What collateral are you providing to secure the loan?)

#### **Financial Information that will Most Likely be Requested**

- Three Years of Personal Tax Returns
- Personal Financial Statement
- Three Years of Business Tax Returns (if purchasing an existing business)
- Year-to-Date Income and Expenses (if purchasing an existing business)
- Business Financial Statement (if purchasing an existing business)

## **WRITING A BUSINESS PLAN**

The following format will assist you in developing a typical business plan for presentation to potential investors/bankers. Following this process, the business concept will become further refined. This is only a guide. Your business may suggest additional areas be discussed or others left out. The key is to be able to answer yes to the question: Does the finished business plan tell a convincing story?

Keep in mind that within the business plan, the overlying theme is to present:

- Observations and facts about the entrepreneur's skills, the market's unmet needs (demand), market trends, and the competition (strengths and weaknesses).
- Strategies that will allow the business to deliver reasonable and affordable solutions given the resources of the business.
- Evidence supporting observations regarding the market, leading to sales and expense projections.

## **THE BUSINESS PLAN**

**I. EXECUTIVE SUMMARY** - This area is completed last...skip to section II.

A. PURPOSE: A concise summary of your plan. The primary objective is to gather interest within a short amount of reading time (a few minutes maximum) so as to encourage reading of the entire plan.

B. TYPICAL AREAS DISCUSSED:

1. Describe the business in detail
  - Be specific & clear
2. What products and services will be offered?
3. Describe primary markets.
  - Where will the business be located, geographically?
  - Describe who are your customers)
4. What differentiates you from the competition?
5. Describe key personnel.
  - Owners, managers and principals with more than a 20% investment in the business

**II. COMPANY DESCRIPTION** --- BEGIN TO WRITE THE PLAN HERE

A. PURPOSE: Provide a clear description of the business you plan to create or purchase.

B. TYPICAL AREAS DISCUSSED:

1. Business stage: (Start-up, existing business or business purchase.)
2. Location or area the business will serve.
3. Owners and their backgrounds (why are these owners the best choice to own and operate this business).
5. Company structure: (Corporation, LLC, Sole Proprietorship, and Partnership)
6. Company goals.

### **III. PRODUCTS AND/OR SERVICES**

- A. **PURPOSE:** Describe the products and/or services and the unique benefits. (Be specific)
- B. **TYPICAL AREAS DISCUSSED:**
1. What is (are) the product(s) or service(s) you will sell? What need does it satisfy?
  2. What unique benefits do the products or services offer?
  3. Is it ready for market?

### **IV. MARKET OBSERVATIONS** (Define the Target Market)

- A. **PURPOSE:**  
Provide a description of unmet market needs (demand) and evidence supporting those observations.
- B. **TYPICAL AREAS DISCUSSED:**  
Customer Profiles: Consumer Market, Business Market or Both
- a. Define customers in terms of:
    - Geographic Profile (Consumer or Business)
    - Demographic Profile (Consumer)
    - Type of Business Customer
    - Size of Business Customers: Sales Volume, Number of Employees, etc.
  - b. How will the customer know about you and your business?
  - c. What is the best way to communicate with your customers?
- C. **MARKET SIZE:**  
Given the above two profiles, how many potential customers make up your customer market?
- D. **TRENDS:**
1. Will the market change over time? (Is it growing, stable or decreasing?)
  2. What are the trends for this industry? (You need to list sources and dates of all research)
- E. **COMPETITION: Identify, describe, and evaluate competitors.**
1. How are customers currently obtaining this product or service?
  2. What are your competitors' strengths and weaknesses?
  3. If direct competitors do not seem to exist, how are potential customers solving their needs for the product or service?
- F. **COMPETITIVE ADVANTAGE:**
1. How will your products or services compare to the competition? What "advantage" will draw customers to buy your products or services? Typical examples include:
    - a. Best selection or exclusive brands
    - b. Financing
    - c. Quality
    - d. Better service
    - e. Unique atmosphere
    - f. Extensive knowledge
    - g. Location
    - h. Price
    - i. Delivery
    - j. Warranties and guarantees

2. What type of customer is likely to value your competitive advantage(s)?

**G. Describe pricing in comparison to competitors (both direct and indirect):**

(People tend to be creatures of habit and need some incentive to change from the way they are used to buying the products or services they want. Therefore, your business will have to offer them something that is different (a competitive advantage) from what your competitors are offering, and most importantly, you must be able to successfully communicate this difference to those specific types of people who are most likely to buy your products or services.)

**V. PROMOTIONAL PLAN**

A. PURPOSE: Describe the method by which your products and services will be sold to customers.

B. TYPICAL AREAS DISCUSSED:

1. Who will be responsible for selling the products or services?
2. What methods will be used to make customers aware of competitive advantages?
3. Does your business face seasonality of sales (high and low sales periods)?
4. Customer base:
  - a. If start-up, do you have a potential customer list?
  - b. If business purchase, have you been introduced to major customers? Are they willing to give you an opportunity to prove yourself? Can you document this? Will the seller sign a non-compete agreement?

**VI. OPERATIONS**

A. PURPOSE: Describe how the business will operate.

B. TYPICAL AREAS DISCUSSED:

1. Facility - purchased or rented? Why? What are the purchase or lease terms?
2. Zoning Requirements? Signage zoning requirements?
3. Suppliers - Why have certain suppliers been chosen? Have back-up suppliers been identified?
4. Key personnel- roles, responsibilities, experience.
  - a. Labor availability and specialized skills required.
  - b. Wage and Benefit packages.
5. Identify advisors, accountant, attorney and insurance provider. (Contact professionals only when your business plan is completed)

**ADDITIONAL INFORMATION THAT MAY BE REQUESTED**

**Other Information that may be Requested**

- Management team biographies, vitas, resumes.
- Press releases and publicity pieces.
- Manufacturing processes or flow charts.
- Letters of recommendation.
- Purchase orders or letters of intent to purchase products and/or services.