Small Business Development Center
UNIVERSITY OF GEORGIA

Writing a Business Plan

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Why Write a Business Plan?

To evaluate the **feasibility** of your business idea in an objective, critical and <u>unemotional</u> way.

- Marketing - Research market and estimate demand
- Management - Your capabilities and your "team"
- Financial - Forecast costs and sales

It provides an **operating plan** to assist you in running the business and improves your probability of success.

- Identify opportunities and avoid mistakes
- Develop production, administrative, and marketing plans
- Set budgeting guidelines

It **communicates your idea** to others and provides the basis for your financing proposal.

- Forecast profitability
- Analyze and forecast cash flow
- Determine the amount and type of financing needed

Who will use the plan? If you won't need to raise money, your plan is internal and less formal. If you are using it as a financing proposal, presentation quality is very important.

Basic Business Plan Guidelines

- Writing a Business Plan will take a lot of time. Up to 100 hours or more is not uncommon.

- A typical plan will have **three sections**. Section One is a written section describing Management and Marketing aspects of the business. Section Two includes financial projections. Section Three is supplemental information.

- **Section One** should be thorough, but concise and to-the-point. Use headlines, graphs and "bullets" to improve readability. Length of this section is usually 10 - 20 pages.

- **Section Two** describes in numbers the outcome of your business strategies and plans. Your financial projections should be based on facts and research, not "wild guesses." Be prepared to justify your numbers.

- **Section Three** contains supporting information to reinforce the first two sections. This section's contents will vary with your type of business.

- You should do the planning. Hiring someone to do it or delegating it to someone who is not a key member of the company will result in an inferior plan.

- No plan or a poor plan are leading causes of failure. Few businesses can succeed without a good Business Plan.

Ten Ways to Ruin Your Business Plan

Here are errors in business plan preparation and presentation that almost certainly will result in denial of a loan application by a bank:

- **Submitting a "rough copy",** with coffee stains and crossed-out words in the text, tells the banker that the owner doesn't take his idea seriously.
- **Outdated historical financial information** or industry comparisons will leave doubts about the entrepreneur's planning abilities.
- **Unsubstantiated assumptions** can hurt a business plan; the business owner must be prepared to explain the "why" of every point in the plan.
- **Too much "blue sky"** - a failure to consider prospective pitfalls - will lead the banker to conclude that the idea is not realistic.
- **A lack of understanding of financial information**. Even if someone else prepares the projections, the owner must be able to explain it.
- **Absence of any consideration of outside influences** is a gap in a business plan. The owner needs to discuss the potential impact of competitive factors as well as the economic environment prevalent at the time of the request.
- **No indication that the owner has anything at stake**. The lender expects the entrepreneur to have some equity capital invested in the business.
- **Unwillingness to personally guarantee any loans.** If the business owner isn't willing to stand behind his or her company, then why should the bank?
- **Starting the plan with unrealistic loan terms** is a mistake. The lender wants to find out about business viability before discussing detailed loan terms.

Too much focus on collateral. Even for a cash-secured loan, the banker is looking toward projected profits for repayment of the loan. Cash flow should be emphasized as the source of repayment.

Business Plan Outline

Cover Sheet: Business Name, Address, Phone Number, Principals

Statement of Purpose or Executive Summary

Table of Contents

Section One: The Business

A. Description of Business
B. Products/Services
C. Market Analysis
D. Marketing Plan
E. Location
F. Competition
G. Management and Operations
H. Personnel
I. Application and Effect of Loan or Investment

Section Two: Financial Data

A. Projected Financial Statements
  - Income Statements
  - Cash Flow Statements
  - Balance Sheets
  - Assumptions to Projected Financial Statements

B. Break Even Analysis
C. Sources and Uses of Funds

Section Three: Supporting Documents Historical financial statements, tax returns, resumes, reference letters, personal financial statements, facilities diagrams, letters of intent, purchase orders, contracts, etc.

Section One: The Business

The following pages describe in detail each part (A through I) of the previous Business Plan Outline. Disregard any questions that do not apply to your business.

A. Description of the Business

Part A provides an overview of key information which is developed in greater detail in the following pages. **Aim for clarity and simplicity** in this part. Too much detail here gets in the way of the main ideas. **The Elevator Test -** Can you explain your basic business idea in the time it takes to get from the lobby to the 5th floor?

Basic Questions:

1) What general type of business is this?
2) What is the status of the business? Start-up, expansion or take-over?
3) What is the business form? Sole Proprietorship, Partnership, Corporation or Limited Liability Company?
4) What are your products?
5) Who are (will be) your customers?

Additional Questions for Start-Ups:

1) Why will **you** be successful in this business?
2) What is your experience with this type of business?
3) What will be special or unique about this business?
4) Why will your business be successful?

Additional Questions for Purchase of Existing Business:

1) When and by whom was the business founded?
2) Why is the owner selling?
3) How was the purchase price determined?
4) What are the current financial conditions and trends?
5) How will your management make the business more profitable?

B. Products/Services

In this section, describe your product offering. This will include details of product features and an overview of unique technology or processes. But don’t stop there and don’t focus too much on technology. You must also describe the product benefits and why customers will want to buy.

For most businesses, the **products/services are not totally unique.** If yours are, take advantage of this while you can and plan for the competitive battles that will come.

If your products/services are not unique, you must find a way to **position** your products/services in the mind of your customer and to **differentiate** them from the competition. Positioning is the process of establishing your image with prospects or customers. (Examples include: Highest quality, Lowest price, Widest selection, Best customer service, Fastest delivery, etc.)

Basic Questions:

1) What products/services are you (will you be) selling?
2) What are the features and benefits of what you sell?
3) What Position do you have (or want to have) in the market?
4) How do your products/services differ from the competition?
5) What makes your products unique and desirable?
6) Why do (will) customers buy from you?

C. Market Analysis

For start-ups or existing businesses, market analysis is important as the basis for the marketing plan and to help justify the sales forecast. Existing businesses will rely heavily on past performance as an indicator of the future. Start-ups have a greater challenge - they will rely more on market research using libraries, trade associations, government statistics, surveys, competitor observation, etc. In all cases, make sure your market analysis is relevant to establishing the viability of the business and the reasonableness of the sales forecast.

Questions for Existing Businesses:

1) Who are your current customers? (List largest customers or categories.)
2) What do they buy from you?
3) Why do they buy from you? (Quality, Price, Reputation, etc.?)

Basic Questions:

1) Who are the purchasers of your products or type of products? (Geographic, Demographic and Psychographic characteristics)
2) What is the size of the market? Is it growing?
3) What is (will be) your share? How will your share change over time?
4) What is the industry outlook?
5) Are there segments of users who are under-served by competition?
6) Do any of these under-served segments present opportunities?

D. Marketing Plan

In this section, you include the highlights or your detailed marketing plan. The basic components of a Marketing Plan are:

- What are you selling? (What benefits do you provide and what position or image do you have?)
- Who wants the things you sell? (Identify Target Markets)
- How will you reach your Target Markets and motivate them to buy? (Develop Product, Price, and Promotional Strategies)

Product Strategies

1) How will products be packaged?
2) How broad will your product line be?
3) What new products will you introduce?
4) What Position or Image will you try to develop or reinforce?

Pricing Strategies

1) What will be your pricing strategies? (For example: Premium, Every Day Low Price, Frequent Sale Prices, Meet Competitor Price, etc.)
2) How will you compare with competition and how will they respond?
3) Why will customers pay your price?
4) What will be your credit policies?
5) Is there anything about your business which insulates you from price competition?
6) Can you add value and compete on issues other than price?

Promotional Strategies

1) Who are your Target Markets?
2) How will you reach your Target Markets? (What Media will you use?)
3) How will you motivate them to buy? (What Message will you stress?)
4) What is the cost and timetable for implementation of the marketing plan?

E. Location

Locations with greater customer traffic usually cost more to buy or rent, but they require less spending for advertising to attract customers. This is especially true of retail businesses where traffic count and accessibility are critical.

Basic Questions:

1) What is the business address?
2) Is it owned or leased? If leased, what are the terms?
3) Are renovations or modifications needed, and what are the costs?
4) Describe the property and the surrounding area.
5) Why is this a good location for your business?

For Mail Order, Telemarketing, Manufacturing, Consulting, or other companies where the customer does not purchase while physically at the business address, less location detail is needed. Modify the location section to fit your situation. In some cases, a good location may be one close to suppliers, transportation hubs or a complementary business that will also attract your Target Market.

F. Competition

"Who is your competition?" is one of the first questions a banker or investor will ask. Business by nature is competitive, and few businesses are completely new. If there are no competitors, be careful; there may be no market for your products.

Expand your concept of competition. If you plan to open the first roller skating rink in town, your competition includes movie theaters, malls, bowling alleys, etc.

Basic Questions:

1) Who are (will be) your largest competitors? List them.
2) How will your operation be better (and worse) than your competitors?
3) How are competitors doing? What are their sales and profits?
4) (If Start-Up) How will competition respond to your market entry?

G. Management and Operations

Because management problems are the leading cause of business failures, it is important to discuss management qualifications and structure. Resumes of Principals should be included in supporting data. If your business will have few employees and rely heavily on outside professionals, list these key people and their qualifications. If you are seeking financing, include personal financial statements for all principals in supporting data section.

Basic Questions:

1) What is the business management experience of the management team?
2) What are the functional areas of the business?
3) Who will be responsible for each functional area?
4) Who reports to whom?
5) What will salaries be?
6) What management resources outside the company are available?
7) How will your products/services be produced? (Describe manufacturing processes, proprietary technology and key supplier relationships.)

H. Personnel

The success of many companies depends on their ability to recruit, train and retain quality employees. The amount of emphasis in your plan will depend on the number and type of employees required.

Basic Questions:

1) What are the personnel needs now? In the future?
2) What skills must they have? What training will you provide?
3) Are the people you need available?
4) What is their compensation? What fringe benefits will be provided?

I. Application and Effect of Loan or Investment

This section is important whether you are seeking a loan, outside investment (equity) or investing your own money. It may be necessary to complete Section Two, Financial Data, before completing this part.

Basic Questions:

1) What is the total investment required?
2) How will the loan or investment be used?
3) How will the loan or investment make the business more profitable?
4) When will the loan be repaid?
5) If you are seeking equity (selling part of the business), what percent of the company are you willing to give up?

Section Two: Financial Data

A. Projected Financial Statements

The basic purposes of financial projections are:

- Establish the profit potential of the business, given reasonable assumptions
- Determine how much capital the company needs and how it will be used
- Demonstrate the business can generate the cash to operate and re-pay loans

It is usually helpful, but not necessary to complete at least a rough draft of Section One before attempting this section. In the first section, you will develop and describe your strategies for the business. In Section Two, you will estimate the financial impact of those strategies.

The personal computer is an excellent tool for financial projections; you let the computer do the calculations and you can do several scenarios very quickly. For those who have a strong background in accounting and personal computer spreadsheets, you may attempt to complete your own financial forecast. (There are also some specialized software programs which help you plan and organize your financial data.) If you would like assistance, gather the suggested information on the following page "Steps in Financial Projections" and contact the Small Business Development Center. The SBDC will review the information from your research and help you develop your projection.

The quality of your projection depends on the accuracy of the assumptions. (Garbage in - Garbage out.) Existing businesses will rely heavily on past financial results as the basis for their forecasts. Start-ups have greater challenges. They must do extensive research to prove the reasonableness of their numbers. Examples of sources include: Industry data from public sources and trade associations, personal interviews with potential customers and people in the business, Competitive observation and analysis, etc.

Steps in Financial Projections

1) **Estimate fixed asset requirements by month for the year.** Include Land, Buildings, Leasehold Improvements, Equipment, and Vehicles. *Use the following "Capital Equipment List".*

2) **List repayment schedule for existing loans.**

For items 3 through 6, use the following "Projected Income Statement".

3) **Estimate and itemize any start-up, one-time or unusual expenses.** Include such thing as installation costs, initial marketing materials and legal fees.

4) **Estimate and itemize fixed expenses by month for at least one year.** Include such things as rent, insurance, utilities, salaries, marketing, legal/accounting, etc. Determine all categories which apply to your business.

5) **Estimate sales by month for at least one year.** If you have multiple product lines, estimate them individually. Pay careful attention to seasonal factors.

6) **Calculate Gross Profit percentage for each product line.**
   Sales price - cost of goods sold = gross profit $
   Gross profit $ ÷ sales price = gross profit %

For items 7 through 9, use the following "Cash Flow Assumptions".

7) **Determine the amount of inventory required.** Express in number of days sales or turnover if possible. Estimate monthly inventory based on sales.

8) **Determine the average collection period** (in days) for any credit sales.

9) **Determine how fast you must pay your vendors.** What % of total will be paid in the month incurred and what % will be paid in 30 days, 60 days, etc.

10) **Estimate obligations for Income Tax payments.**

Note: After completing the above, you may want to seek the assistance of your accountant or a SBDC consultant to develop the projected financial statements.

Capital Equipment List

Item Description:	Cost:

Total Cost of Capital Equipment: ______________________

Note: List major capital items individually. Group other, smaller items (like office equipment) into a single line item.

Projected Income Statement
For the 12 Months Beginning __________

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total Year 1
Total Revenue													
Cost of Goods Sold													
Gross Profit													
Accounting & Legal													
Admini Salaries													
Autos & Vehicles													
Depreciation													
Dues & Subscriptions													
Entertainment													
Equipment Rental													
Insurance-Business													
Insurance-Health													
Interest													
Contract Labor													
Licenses													
Marketing													
Miscellaneous													
Office Supplies													
Postage													
Rent													
Repairs & Maintenance													
Telephone													
Taxes-Payroll													
Taxes-Other													
Travel													
Utilities													
Other:													
Total Expenses													
Pre-Tax Profit (Loss)													

Cash Flow Assumptions

Revenue Collection:

% Collected Same Month ________________

% Collected 2nd Month ________________

% Collected 3rd Month ________________

Payment of Inventory Purchases:

% Paid Same Month ________________

% Paid 2nd Month ________________

% Paid 3rd Month ________________

Payment of SG&A Expenses:

% Paid Same Month ________________

% Paid 2nd Month ________________

% Paid 3rd Month ________________

Average Days Sales
in Inventory ________________

A. (Cont.) Optional Method to Calculate Needed Capital

Using a personal computer makes financial projections much easier, but many businesses can get a reasonable picture of their financial future by using the following formula:

Total Required Capital =
Six Months of Fixed Expenses + Asset Purchases + Start-up Expenses

	Column 1		Column 2
Monthly Fixed Expenses			
Salaries (include owner)	___________		
Payroll Taxes at 12%	___________		
Rent	___________		
Marketing and Advertising	___________		
Supplies	___________		
Telephone & Utilities	___________		
Insurance	___________		
Maintenance	___________		
Legal and Accounting	___________		
Miscellaneous	___________		
(Other)__________________	___________		
Monthly Fixed Expense Sub-total	__________	**x 6 =**	__________
Asset Purchases			
Purchase of Land and Building	____________		
Decorating and Remodeling	____________		
Fixtures and Equipment (plus installation)	____________		
Deposits on Rental Property and Utilities	____________		
Beginning Inventory	____________		
Asset Purchase Sub-Total			___________
Start-up Expense You Pay Once			
Legal and Accounting Organization Costs	____________		
Licenses and Permits	____________		
Initial Advertising and Promotion	____________		
(Other)________________________________	____________		
Start-up Expense Sub-total			___________
Total Estimated Cash Needed to Start (Add Column 2)			___________

B. Break Even Analysis

Break even (B/E) analysis is a simple, but very effective financial feasibility test. B/E is used to find the amount of sales necessary to pay all fixed costs (and have zero income.) In your business plan, it represents a minimum acceptable performance. Follow these steps to calculate:

1) **Determine Contribution Margin Percent.** Contribution Margin (CM) equals Sales minus Variable Expenses. CM% equals CM dollars divided by Sales. Note: The biggest variable expense is usually Cost of Goods Sold (CGS), which is the direct material and labor necessary to make an item ready for sale.

2) **List and total all Fixed Expenses for a specific time period (usually one month.)** Expenses which do not rise or fall with sales volume -rent, insurance, utilities, etc.

3) **Break Even Sales is Fixed Expenses divided by Contribution Margin %.** (See Example)

Unit sales price:	$10
less Cost of Goods Sold:	
Material & Labor	3
less Other Variable Exp:	
Commissions	1

Unit Contribution Margin = $6
($10 - $3 - $1)

CM % ($6 ÷ $10)= 60%

Monthly Fixed Expenses:

Rent	2000
Util	1000
Salary	3000
Other	4000
Total Fixed Exp.	**$10,000**

B/E = Fixed Expense ÷ CM %

B/E = $10,000 ÷ .6

Monthly B/E Sales = $16,667

C. Sources and Uses of Funds

The Sources and Uses of Funds is a statement of where the money for the business will come from and where it will be used. By definition, sources must equal uses. The following is an example of a typical format.

Sources:

Term Loan __________

Line of Credit __________

Personal Equity __________

Outside Equity __________

Other __________

Total Sources ____________

Uses:

Purchase Building __________

Purchase Equipment __________

Renovations __________

Inventory __________

Working Capital __________

Cash Reserve __________

Other __________

Total Uses: ____________