

Crafting a Winning Business Plan



The Business Plan: Two Essential Functions

- **Business plan – a written summary of:**
 - ◆ An entrepreneur's proposed business venture
 - ◆ Its operational and financial details
 - ◆ Its marketing opportunities and strategy
 - ◆ Its managers' skills and abilities
- **It serves two essential functions:**
 - ◆ Guiding the company by charting its future course and defining its strategy for following it
 - ◆ Attracting lenders and investors who will provide needed capital

Why Take the Time to Build a Business Plan?

- Although building a plan does not guarantee success, it does increase your chances of succeeding in business.
- A plan is like a road map that serves as a guide on a journey through unfamiliar, harsh, and dangerous territory. Don't attempt the trip without a map!



Start With an Executive Summary

- **Company name, address, phone**
- **Names, addresses, phones of key people**
- **Brief description of business**
- **Brief overview of market for product**
- **Brief overview of strategy**
- **Brief description of management team**
- **Brief statement of financial needs**

Key Elements of a Business Plan

(continued)

- **Industry Analysis**
- **Background of your Business**
- **Entrepreneurial Vision**
- **Strategic Analysis**
- **Market Analysis**
- **Loan or Investment Proposal**
- **Competitor Analysis**
- **Organization and Mgmt.**
- **Financial Plan**



Industry Analysis

- Industry background and overview
- Trends
- Growth rate
- Outlook for the future

Background of Your Business

- **Brief history of the business**
- **Current situation**

Entrepreneurial Vision

- Your company's mission statement
- Performance goals and objectives
- Your competitive advantages
- Control procedures for keeping on track

Strategic Analysis

- Core competencies
- Market positioning and image
- SWOT analysis
 - ◆ Strengths
 - ◆ Weaknesses
 - ◆ Opportunities
 - ◆ Threats

Marketing Plan

- Your company's target market
- Market size and potential sales
- Nature of the buying cycle
- Pricing strategies
- Advertising and promotion strategies
- Distribution strategy

Distribution Strategy

- Channels of distribution
- How to get product or svc. to customer
- Sales techniques and incentives

External Market Influences

- **Economic**
 - ◆ Inflation/recession
 - ◆ Unemployment levels
 - ◆ Interest rates
- **Social (demographics)**
- **Technological factors**
 - ◆ WWW
 - ◆ Hardware and software

Competitor Analysis

- Existing competitors
- Future competitors
- Strengths and weaknesses of competitors

Organization and Management

- **Proposed legal organization**
 - ◆ Sole proprietorship
 - ◆ Partnership
 - ◆ Corporation
- **Key people in organization**
 - ◆ Backgrounds
 - ◆ Resumes
- **Organizational chart**

Financial Plan

- Sources and uses of capital (initial and projected)
- Cash flow projections for three years
- Balance sheets for three years
- Profit and loss statements for three years
- Breakeven analysis

The Sources and Uses of Funds Worksheet

Source of Funds:

Debt:

Term loans \$ _____

Refinancing of old debt \$ _____

Lines of credit

Line 1 \$ _____

Line 2 \$ _____

Mortgage \$ _____

Equity:

Investment \$ _____ Total Sources: \$ _____

Uses of Funds:

Property \$ _____

Inventory \$ _____

Equipment (itemize) \$ _____

\$ _____

Working capital \$ _____

Cash reserve \$ _____

Total Uses: \$ _____

Balance Sheet (1 of 2)

	YEAR 1	YEAR 2	YEAR 3
Current Assets			
Cash	\$ _____	\$ _____	\$ _____
Accounts receivable	_____	_____	_____
Inventory	_____	_____	_____
Supplies	_____	_____	_____
Prepaid expenses	_____	_____	_____
Fixed Assets			
Real estate	_____	_____	_____
Equipment	_____	_____	_____
Fixtures and leasehold improvements	_____	_____	_____
Vehicles	_____	_____	_____
Other Assets			
License	_____	_____	_____
Goodwill	_____	_____	_____
TOTAL ASSETS	\$ _____	\$ _____	\$ _____

Balance Sheet (2 of 2)

	YEAR 1	YEAR 2	YEAR 3
Current Liabilities			
Accounts payable	\$ _____	\$ _____	\$ _____
Notes payable (due within 1 year)	_____	_____	_____
Accrued expenses	_____	_____	_____
Taxes owed	_____	_____	_____
Long-term Liabilities			
Notes payable (due after 1 year)	_____	_____	_____
Bank loans	_____	_____	_____
TOTAL LIABILITIES	\$ _____	\$ _____	\$ _____
NET WORTH (ASSETS MINUS LIABILITIES)	\$ _____	\$ _____	\$ _____

Profit and Loss Projection (1 of 2)

	LOW	MOST LIKELY	HIGH
SALES:			
Product/service line 1	_____	_____	_____
Product/service line 2	_____	_____	_____
Product/service line 3	_____	_____	_____
Product/service line 4	_____	_____	_____
TOTAL SALES REVENUE	_____	_____	_____
Cost of Goods Sold:			
Product/service line 1	_____	_____	_____
Product/service line 2	_____	_____	_____
Product/service line 3	_____	_____	_____
Product/service line 4	_____	_____	_____
TOTAL COST OF GOODS SOLD	_____	_____	_____
GROSS PROFIT	_____	_____	_____

Profit and Loss Projection (2 of 2)

	LOW	MOST LIKELY	HIGH
EXPENSES:			
Variable:	_____	_____	_____
Payroll	_____	_____	_____
Sales commission	_____	_____	_____
Freight and delivery	_____	_____	_____
Travel and entertainment	_____	_____	_____
Semivariable:	_____	_____	_____
Advertising/promotion	_____	_____	_____
FICA/payroll tax	_____	_____	_____
Supplies	_____	_____	_____
Telephone	_____	_____	_____
Fixed:	_____	_____	_____
Rent	_____	_____	_____
Utilities	_____	_____	_____
Property taxes	_____	_____	_____
Dues and subscriptions	_____	_____	_____
TOTAL EXPENSES	_____	_____	_____
Profit before depreciation	_____	_____	_____
Depreciation	_____	_____	_____
NET PROFIT	_____	_____	_____

Breakeven Analysis

- | | |
|---|----------|
| 1. Total sales | \$ _____ |
| 2. Fixed costs | \$ _____ |
| 3. Gross margin | \$ _____ |
| 4. Gross margin as a percent of sales
(line 3 / line 1) | _____ % |
| 5. Breakeven sales
(line 2 / line 4) | \$ _____ |
| 6. Profit goal | \$ _____ |
| 7. Sales required to achieve profit goal
[(line 2 + line 6) / line 4] | \$ _____ |

Manufacturing and Operations Plan

- Geographic Location
 - ◆ describe the planned location
- Facilities
 - ◆ what is needed?
- Make or Buy Policy
 - ◆ what will be produced and what will be purchased as components?
- Control Systems
 - ◆ what is the approach to controlling quality, inventory, and production?
- Labor Force
 - ◆ is there a sufficient quantity of skilled people in the local labor force?

Guidelines for Writing a Business Plan

- Consider your audience.
 - ◆ Show the benefit of your business to your reader.
- Keep it brief.
 - ◆ Just long enough to cover all major issues facing the business.
- Point of view.
 - ◆ Try to write your business plan in the third person.
- Create a professional image.
 - ◆ The overall appearance should be professional and attractive but not extravagant.

Guidelines for Preparing a Business Plan

- Remember: No one can create your plan *for* you.
- Potential lenders want to see financial projections, but they are more interested in the *strategies* for reaching those projections.
- Show how you plan to set your business apart from competitors; don't fall into the “me too” trap.
- Identify your target market, and offer evidence that customers for your product or service exist.

Tips on Preparing a Business Plan

(continued)

- **Make sure your plan has an attractive cover. (First impressions are crucial.)**
- **Rid your plan of all spelling and grammatical errors.**
- **Make your plan visually appealing.**
- **Include a table of contents to allow readers to navigate your plan easily.**
- **Make it interesting.**

Tips on Preparing a Business Plan

(continued)

- Your plan must prove that the business will make money (not necessarily immediately, but eventually).
- Use spreadsheets to generate financial forecasts.
- *Always* include cash flow projections.
- Keep your plan “crisp” – between 25 and 50 pages long.
- Tell the truth – *always*.

A Plan Must Pass Three Tests

- *The Reality Test* - proving that:
 - ◆ a market really does exist for your product or service.
 - ◆ you can actually build or provide it for the cost estimates in the plan.
- *The Competitive Test* - evaluates:
 - ◆ a company's position relative to its customers.
 - ◆ management's ability to create a company that will gain an edge over its rivals.
- *The Value Test* – proving that:
 - ◆ a venture offers investors or lenders an attractive rate of return or a high probability of repayment.

Presenting the Plan

- Demonstrate enthusiasm, but don't be overemotional.
- Know your audience thoroughly.
- “Hook” investors quickly with an up-front explanation of the venture, its opportunities, and its benefits to them.
- Hit the highlights; focus on the details later.
- Keep your presentation simple – 2 or 3 major points.

Presenting the Plan

(continued)

- **Avoid overloading your audience with technological jargon.**
- **Use visual aids.**
- **Close by reinforcing the nature of the opportunity.**
- **Be prepared (with details) for potential investors' questions.**
- **Follow up with every investor to whom you make your presentation.**