Middletown Small Business Development Center

Writing your Business Plan with MSBDC Template Tools

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Table of Contents

Getting Started

> Alice was looking for directions and was startled to see the Cheshire cat sitting on the branch of a tree.
>
> "Cheshire cat," she said, "Would you tell me please, which way I ought to go from here?"
>
> "That depends a good deal on where you want to get to," said the cat.
>
> "I don't much care where," said Alice.
>
> "Then it doesn't matter which way you go," said the cat.
>
> - From *Alice's Adventure in Wonderland* by Lewis Carroll

A business must run by plan – a set of goals and budgets to guide decisions and strategy. Without that, the business has no direction, just like Alice, and will be overrun by the competition or simply run out of money through lack of plan.

Business plans may be classified as:

- Internal, only for the management of the company to keep them working towards the same goals, or
- External, to attract financing or investment or to report to lenders or investors.

The nature of business plans also changes through the lifecycle of the business. Plans developed before the business is launched (pre-venture) deal with feasibility and business design. During the growth stages, plans focus more on operations and strategy. At maturity, plans are concerned with transition or exit strategy.

This booklet is written to assist the pre-venture client create an external plan to secure financing, but there are common elements to any business plan, internal or external and at every business lifecycle stage. A business plan is simply a commitment to a certain course of action – goals and budgets.. It has three components"

- **The Narrative** – written business description, goals and how that business is going to reach those goals.

- **The Financial Projections** – those goals and how they are achieved put in numbers that become the budget for the business.
- **Supporting Exhibits** – some are required, but anything that supports the plan should be included.

All three components must be developed at the same time because they support each other and must agree. Although the templates are discussed separately, remember to work on them together. You will discover opportunities or threats while doing one that will require changes in the other.

A note on Computers

You do not need a computer to be in business. You do not need to know anything about computers to be in business. That being said, those that do have computers and know how to use them will have a huge advantage over those that do not.

Likewise, you can do your business plan and financial projections by hand, without a computer. It will have a huge disadvantage against those written on a computer when being considered by lenders and investors. Business plans generated on a computer are much easier to revise and improve. The end product is always more compelling.

We provide templates to assist our clients to organize and create their business plan. A Business Plan Template in Microsoft Word®, which includes the narrative and exhibits, and a Financials Template in Microsoft Excel®. These require some computer skills. While computer operation instructions are included here, remember that we teach business, not computers and the best way to learn computer skills are by doing. Use the manuals and help screens. Do not call your Small Business development Center for computer training.

These templates are powerful tools that you can use only if you have a computer that can work with these files. That means it must run Microsoft Excel and Word in versions from 1998 or more recent.

If you do not have such a computer, you can use one in your local public library.

The financials file is almost twice the capacity of a floppy disk, so it is given to clients on CD-R disk.

It is important that you copy your files to your "C" drive, in the "My Documents" folder before you work with them. The first thing you must do is renaming your working files. If you send them back to us under their original name, we cannot open them, as that would overwrite our originals. You must rename them:

Rename the Excel file Financials Template for Distribution to the name of your company (“Jones General Store”, for example).

Rename the file Business Plan Template for Distribution to the name of your company and the words “Business Plan” (“Jones general Store Business Plan”, for example).

To rename a file, open explorer by right clicking on the Start button. Select the directory and file and slowly double click it with the left mouse button. Enter the new name.

No matter how you received the files, before you open any of our files for the first time, check to see that the Read-only attribute is not checked. Right click the file in explorer, left click on Properties. If the Read-Only box is checked, uncheck it and press Apply, then Close. Do this for both files. You need not worry about the file named Client Instructions for Business Plan Templates.

If the above instructions seem like foreign language to you, you need computer instructions. We recommend you seek computer instructions from:

- Local educational institutions, such as Adult Education, Public Schools or Community Colleges
- Your municipal social services or recreation departments
- Friends and family

The Narrative

The cover page provides places to select and replace with the required information – name of the business, name of the owner, etc. The table of contents in your template is a field set that will automatically update before the document is printed. To update it manually, select any line in the table and press the <F9> key. If a dialog box appears, select update entire table and hit the return key. **Do not attempt to make any changes in the table other than this update.**

What follows is one version of many reasonable versions of business planning. It is not intended to supplant other variations. Instead, it is a format that has proven to be quite effective in helping the entrepreneur define his or her business, in guiding strategy during the life of the business, in helping secure start-up and ongoing funding and in attracting investors.

Some sections may not apply and can be deleted. For example, job descriptions in a business operated by only one person may not be necessary. Special situations may require the addition of a new section. If you are familiar with Word styles, you can select the correct heading style for your new section title. If not, your counselor can help you. The goal at the beginning is to get your thoughts organized and typed in. Editing and eyewash come later.

Executive Summary

The executive summary is potentially the most important section of your business plan, yet it is the very last thing that the writer does. Skip this section until you plan is nearly complete.

Ready then?

The Executive Summary is the high points you make in the body of the presentation, without any proof or substantiation. This is the “coming attractions” or teaser. A little salesmanship here goes a long way. Keep it short and keep the details out – remember this is only a summary.

The summary should start by stating what resources the plan needs (loans or investment), and make a conclusive case for the reader to agree that allocation of such resources is warranted. The summary should tell the reader why the money is needed and how and when they can expect to be paid back!

A good executive summary is essentially a condensed but powerful summary of the entire business plan. It creates a first impression in the reader's mind of both you and your business. It should also provide a short description of key management team members – no more than two sentences each.

It is the first section of the business plan that investors will read, and could be the last if it is poorly written. An executive summary should briefly describe the company, the product or service, and the unique opportunity your company is offering.

Use clear and concise language - although this applies to the entire business plan, it is especially important in the executive summary. Use words that command attention, and that get the reader excited about the opportunity being presented.

The following excerpt is from David Gumprt's book, "How to Really Create a Successful Business Plan". His insight clarifies the importance of a powerfully written executive summary:

> Certainly the most significant part of any business plan is its executive summary. What is an executive summary? Probably the best way to begin defining it is to explain what it isn't.
>
> - The executive summary is not an abstract of the business plan.
> - The executive summary is not an introduction to the business plan.
> - The executive summary is not a preface.
> - The executive summary is not a random collection of highlights.
> - Rather, the executive summary is the business plan in miniature

The executive summary should stand alone, almost as a kind of business plan within the business plan. It should be logical, clear, interesting - and exciting. The reader should be able to read through it four or five minutes and understand how the business will operate and why it is a good idea. After reading the executive summary, a reader should be prompted to say, "So that's what those people are up to."

The executive summary should:

- Provide a clear, concise and compelling summary of the business
- Outline unique advantages for achieving success
- Demonstrate why the business concept will work
- Simply and clearly demonstrate management's objectives
- Incorporate powerful key sentences from other parts of the plan
- Be written in a positive and confident tone
- Be brief - able to be read in less than 5 minutes
- Stand alone as a type of "mini" business plan within the business plan

A successful executive summary presents the highlights of the basic business concept and opportunity. Which highlights should be included? A good executive summary should demonstrate:

- A business concept that makes sense
- A clear plan for success
- A capable management team
- A clear, specific, and definable market
- Significant competitive advantages
- A solid and believable summary of the financial projections
- An excellent chance for investors/lenders to receive a healthy return

The format and organization of your executive summary will vary based upon which issues are most important for their particular business. But regardless of the format, every executive summary should include the following areas or subsections:

Executive Summary: Mistakes to Avoid

- Lacking a specific focus
- Too long and wordy, and failing to get to the point
- Trying to be all inclusive (it should be a powerful summary)
- Failing to demonstrate a special or unique opportunity

- Failing to outline the terms of the investment sought
- Failing to generate enthusiasm in the reader

Suggestions to combat these problems:

- Limit the executive summary to no more than one page. This is a good exercise for any entrepreneur. Warren Buffet, one of the most successful investors of our age once said "If you can not convey the business concept to an eight-year-old in a few minutes, then it is not a good concept."
- Focus on the opportunity being presented to the investor and explain why it is worthy of his or her attention
- Make certain that the opinions and claims in the executive summary are fully supported in the other sections of the business plan, but do not repeat the details in the Executive Summary
- Attempt to use only concrete facts and figures that explain the business concept, market niche and financial projections, but omit details
- Include the specifics of the investment and projected return, but, again, leave the details for later.
- Keep the reader in mind - why are they reading the plan and what response/action does your client hope to generate? The executive summary should have a purpose.

Mission & Vision

The mission and vision statements set the tone for not only the business plan, but also for your company. They define the path the company will follow and act as a guiding principle by which the company functions.

The mission and vision statements tell the reader what you and your client's business are all about - what the company stands for, what you believe in, and what you intend to achieve. Economy of words is critical. This doesn't necessarily mean that you should be short at the expense of effectiveness, but that each word should be powerful and meaningful. Be clear and concise and make it obvious what the company is attempting to do.

Is there a difference between a mission and vision statement? Yes, the differences are:

VISION defines a long-term dream and it should not be easily achievable. That may sound ridiculous, but the objective is for the vision to always be just slightly out of reach. It's what you constantly strive to attain, and it becomes the business' reason for being.

The MISSION is what you intend to become or accomplish. It should be challenging but achievable. A well-written mission statement demonstrates that the writer understands their business, has defined a unique focus, and can articulate objectives concisely to your client and to others.

Mission & Vision: Mistakes to Avoid

- Putting in just another description of your business
- Boring philosophy that reads well, but has no application to the business at hand
- Lengthily dissertations – this must be two simple statements
- Faked emotion it will be transparent

Suggestions to combat these problems:

- Write only what you truly believe
- Keep it to your true intentions
- Get the input of everyone on your team.

Company Description

The company description section of the business plan should outline the company's basic background information and business concept. What is the company identity and what exactly does it do? Keep the description to the company as a whole at this point. Descriptions of the qualifications of individual team members come later. Consider covering the following in the company description section:

Legal Description

Where and when the company was formed, what its legal form is (sole proprietorship, partnership, corporation or LLC) and a very brief description of what business you are in. If the legal form has not yet been constituted, describe what form is intended and where you are in the process of formation.

History of The Company

If there is a history….

Provide a general overview of the history of the business, emphasizing achievements and significant milestones. Include summary historical data on sales, profits, units sold, number of employees, and other important facts to build a case for the business.

Who founded the company, when and how? What was the motivation and inspiration? This should agree and tie into the founder(s) bio(s) in the Management Team section.

Current Status

Provide a snapshot of where the company is today: location, employees, capitalization and sales. Point out the current strengths, but also honestly and frankly address the weaknesses.

Investors know all businesses have weak points. You demonstrate business maturity by acknowledging your weaknesses and outlining steps to combat them. After all, if you did not need outside capital, you would not be writing this section.

Future Goals

This section gives the reader an idea of where the company is heading. What are you looking to accomplish over the next 1, 3, 5 and 10 years? Relate these goals to the investment you seek so an investor understands why you need their money and what you intend to do with it.

Explain the overall approach for reaching growth and profit goals in optimistic language, but make sure it's realistic. It's easy to make rosy projections about the future of the company, but it's much harder to make it believable.

Company Description: Mistakes to Avoid

- Including far too much detailed information about the business
- Providing information that an investor would consider "personal opinion"
- Appearing as though there is no business history or business purpose

- Leaving out important business and legal particulars
- Writing the section in an unorganized or confusing manner

Suggestions to combat these problems:

The company description should clearly explain the company and the product or services you offer. This section could be considered the who, what, why, where, when and how of the company, with the focus on significant highlights of the business.

Stick with the facts and leave the dream out. That will help you design a successful business in addition to a good business plan.

Product & Service Description

Note that, if you are selling either products or services but not both, you may delete the unnecessary words in this title.

The product/service section is one of the most important parts of the business plan. It's the chance to clearly explain your products/services, identify their features and benefits, and discuss what needs or problems they address in the market. You do not need to give a detailed description of familiar products or services. If it is a fairly new or unfamiliar concept, then you must explain what it does. This section also includes an explanation of any patents, copyrights, trademarks, trade secrets, and contracts.

Product Overview

If you are selling a product, the reader will want to know what it is, what it does, and its features and benefits. Consider including pictures if they would help the reader get a better understanding of the product.

Discuss its size, shape, color, cost, design, quality, capabilities, technological life span and patent protection. You may also wish to explain how it is produced, the materials required, and the type of labor needed.

Service Overview

If you offer your customers a service, explain what that service(s) are, how they work, and what need they address in the marketplace.

- Where will you operate? What are the days and hours of operation?
- What makes the service different?
- What materials or equipment is needed?

- Explain the steps in the service process and the benefits offered to clients.

Write this section with enough information to satisfy an outsider's need to understand the service without boring them with trivial details.

Product & Service Description: Mistakes to Avoid

- Failing to identify the benefits of the product or service (focusing instead on the features)
- Describing the product/service in language that is too technical, with too many industry specific words or phrases
- Omitting the specific problem the product/service addresses and how that problem is solved. You must provide a compelling reason why your products or services will be attractive to the market you intend to serve.
- Assuming an improved product/service will "sell itself"
- Describing the product/service in terms that are too broad. You must have it specifically defined by now.
- Failing to include a third-party evaluation or analysis of the product
- Underestimating the importance of legally protecting the product/service

Industry Analysis

Every business operates within the larger classification of an industry. The business plan must address the forces at work in the industry, the basic trends and growth over time, and where the company fits in.

Demonstrating to outsiders that you understand and have anticipated the important factors of your industry builds a case for your company's success. Think of the industry as those companies providing products and services similar to yours.

This includes those companies selling similar products and services, as well as complementary or supplementary products or services. Any business that falls between the supplier of raw materials to the end of the distribution channel for the type of product or service is part of the industry.

In the industry section of the business plan, provide answers to the following types of questions:

- What is the size of the industry by both revenue and number of firms?
- Discuss the characteristics of this industry such as growth trends, units sold, or employment.
- What factors are influencing growth or decline in the industry?
- What have been the trends in previous years?
- What trends are expected in the coming years? (include supporting research)
- What are the barriers of entry for the industry? What is your plan to penetrate them?
- How much competition is expected to enter the industry in the timeline of your plan?
- What government regulations affect the industry and the business?
- Provide a general explanation of the distribution system for products and services in the industry.
- Is it difficult to gain a supply chain in the industry? Explain.

Industry Analysis: Mistakes to Avoid

- Not demonstrating a solid understanding of how the industry functions.
- Appearing unaware about the companies that form the industry. You cannot be a player if you do not know who the other players are.
- Lacking understanding as to where the business fits into the distribution channel of the industry.
- Omitting growth trends, revenue size, and significant statistics for the industry.

Target Market

The target market section of the business plan must clearly identify the current and prospective buyers of the Company's products and/or services. The goal in preparing the target market section is to demonstrate to readers that you clearly understand who your customers are and how your products/services directly meet the needs of the marketplace. Properly identifying the potential customer base is essential to justify the overall marketing and sales strategies that you will include in other sections of your business plan.

The demographic traits of customers often vary based on whether you are focused on serving the consumer or business markets:

- Consumer - Income, Occupation, Gender, Single/Married, Ethnic Group, Education
- Business - Industry, Product/Service, Years in Business, Revenue, Employee Size, Private/Public

Nevertheless, there are common criteria in defining your target market:

Geographic

This is the basic question you begin with when you define your target market: Where are the customers located? While technology has made location less of an issue for many companies, it doesn't mean you should overlook the importance of defining the geographic location of your customers. It will define your sales strategy.

Economic

This is another basic characteristic of any target market. It is usually expressed as household income for consumer products and by size for business markets. Simply put, where is your product or service on the spectrum? Premium, average or bargain pricing? This determines what segment of the geographical market you appeal to.

Other Characteristics

These are the characteristics that define your market in more detail.

A critical question posed to business owners and entrepreneurs by lenders and investors is "Who is your customer?" It's such a simple question, yet the inability to answer it has possibly caused more 'going out of business' sales than any other.

Many business owners place too much emphasis on their products and services, and too little on what the customer truly wants and needs. They may have a great product, with more neat gadgets, features, and benefits than their competition offers, but does the customer care? That cannot be answered unless one knows exactly who the customer is.

It is absolutely essential that the entrepreneur step outside of the business and see it from the customer's viewpoint. That is not easy, because most entrepreneurs are intensely focused on their products or services. Once you get that customer perspective, you will see their actual needs and wants. That will lead to the subtle changes in the products and services you offer that will be the keys to your success.

The target market is defined as the group of the population sharing a common set of traits, which distinguish them from everyone else. For example, a children's clothing store located in the mall might have a customer profile like this:

> Parents of children between the ages of 3 to 8 years old, 65% female and 35% male, located within 10 miles of the mall, with a household income over $40,000 a year.

These characteristics define a target market - and a central set of characteristics for potential customers for children's clothing. If you're in the start-up phase, your target market may be just a bit more loosely defined than the target market for a company with years of operational history and customer history, but a target market is always exclusive, rather than inclusive. An entrepreneur who believes his target market is "everyone" believes in a fantasy that will be his or her downfall.

Understanding your target market not only helps you better fill their needs, but gives you a strategy on how to convey that to them via your promotions. You cannot communicate to them if you don't know who they are. **Defining the target market is the essential first step in marketing.**

1. It helps design products and services that fill the needs of the target market.
2. It reveals ways to communicate with your target market. You must first know whom to know how.

When you understand who your customer is, you can determine with more accuracy which marketing mediums and channels will be most effective in reaching the customer. The more narrowly you can define their customer, the more focused marketing efforts become, and the more your marketing dollars will work for you. For example, if you want to sell print shop owners a product, then advertising in a print industry magazine is a far more effective use of marketing dollars than placing an ad in USA Today or Time. This doesn't mean that your customer won't read USA Today or TIME, just that you won't be advertising to all the millions of people who clearly have no interest in your product.

Define your target market not by what you do (people who need printed matter), but by the demographics of potential customers. Demographic characteristics are specific, objective, and observable characteristics that target customers share, including:

For consumers:

- Age or age range
- Gender
- Income Level
- Family Life Cycle
- Occupation
- Education
- Race/Ethnic Group
- Religion

For business customers (B to B):

- Industry
- Product/Service Sold or purchased
- Years in Business
- Revenues
- Size (sales, number of employees, building or land area, etc.

For all customers:

- Geographic area you plan to sell to (be reasonable, nobody is going to travel fifty miles for an ice cream cone)
- Other geographic characteristics, for example characteristics and the products that may require them are: urban (hip-hop clothes, messenger service), rural (cattle feed, horse tack), climate (snow blowers, air conditioners), shoreline (swim suits, boats), tourist

destination (souvenirs, bed & breakfast), population density (Meal delivery service, health club)

The very first step in defining the target market is the geographic service area. From there, consider household income. Are your products or services premium or bargain? Then go down the demographic list to see what traits your target market has in common.

Psychographic characteristics, though less tangible, are still important to identify and understand. These traits have more to do with a person's psychological characteristics such as attitudes, beliefs, hopes, fears, prejudices, needs or desires, and are highly dependent on customers' self-image and their perceptions of an industry or product.

These traits are essential in developing the message you send to your target market. Psychographic traits include such things as:

- Social Class
- Lifestyle
- Leader / Follower
- Extrovert / Introvert
- Independent / Dependent
- Conservative / Liberal
- Traditional / Experimental
- Socially conscious / Self-centered

Consumer / Behavioral characteristics are those relating to the purchasing and usage traits of customers. How are they now satisfying the needs and wants you intend to address? You must to know this to offer them a better deal. If you cannot offer a compelling reason for your target market to change their behavior, a Unique Selling Point (USP), do not expect sales to happen at all. Consider these consumer / behavioral traits for a target customer:

- Usage Ratio
- Benefits Sought
- Method of Usage
- Frequency of Usage
- Frequency of Purchase

Defining your target market is just the beginning. Now you have to get close to them. Thinking you know customer behavior fom a distant vantage point is foolish.

- Invest time and resources in primary market research. Actually talking to potential customers is the best way to develop an effective marketing strategy, but is, so sadly, rarely done.
- Conduct simple surveys or focus groups.
- Do test marketing: offer the product or service in limited distribution and pay attention to what happens without prejudicial expectations.
- Pay attention to the industry research from trade associations and public statistics, but <u>do not use this as your primary market research resource</u>.

Target Market: Mistakes to Avoid

- Don’t define your market by what you do (people who like ice cream), define them by who they are (people between the ages of 10 and 60, with a household income of at least $25,000, who live within five miles of my ice cream stand).
- Don't assume that everyone is a buyer of your product/service. “If we build it, they will come” is pure fantasy, without substantiation.
- Don't be unclear about the characteristics that define who the target customers are.
- Don't assume a "huge" target market is a must have - a well-defined target market that your company can serve is far better.
- Don't jump to conclusions about why your target market needs what you offer - instead do the research to discover how you will meet customer needs.
- Don't underestimate the value of focus - sell a specific product/service to a specific group.
- Don't try to attack too many markets at once - particularly if you are a startup or early-stage company.
- Never expect a third party, especially government agencies, to replace your own market surveys – yes, up close and personal.

Market Size

Once you determine who their customer is, it's important to identify the size of their customer base. Honestly assess if it is too large – can you really address the needs of all of them? If not, you will get a reputation as an unreliable source from the start. Consider narrowing the target down and focusing on a particular niche.

Trying to reach and sell a large target market is difficult and costly, especially if well-financed competitors will force you to incur significant costs to achieve a sizable market share.

If your target market too small, you will not be able to capture enough customers to make a sufficient profit, however it is rare that the entrepreneur targets too small a market but common that he or she thinks she is. Remember that it is so much nicer to grow than to downsize and the risks of starting small are few.

Market Trends

Once you define your customer, and determine the total customer numbers in the population, it's a good idea for you to research the trends of their market. Over the next few years, what growth rate can be expected for their target market? What changes are taking place in the makeup of their market, and how will it change in the future? How are, and how will, customers change their use of your product or service? Better to know up front if you are entering a decaying market.

How do you find all this information? First, talk to as many of the people in your target market as possible. See how important it is to know your target market? Conduct surveys. Discover what customers like and dislike, and what they want and need. Entrepreneurs neglect this powerful tool, market surveys, because they can't step out of the business.

Do meaningful research, be it in surveys or focus groups

- Know enough basics about the market so you do not ask obvious (stupid) questions
- Never ask leading questions. If you want a certain result that much, don't bother - keep your day job
- Keep it to the point and do not outreach the attention span.
- Beware of adding prejudice: everyone likes free samples; family and friends hesitate to bring up objections.

- Stay away from multiple choice: get their opinion rather than forcing them to pick one of yours. Do the work of examining subjective answers
- Remember the most frequently given answer is the popular response, not the average answer.

Don't forget the local library. It's rich with books, magazines, research journals, reference guides, and computer databases to help you find the information you need. Ask the librarian or research assistant for help. This is no substitute for actually meeting potential customers, but it is a great start in developing a meaningful survey.

Lastly, you should use your own eyes and ears to discover valuable details about their target market and customer buying habits. Visit your competitors disguised as a consumer. Hang out in a store related to the product or service they sell and take it all in.

Request annual reports and marketing information to find out about the financial, operational, and marketing factors that are important in their industry. Essentially, look around, collect information, get organized, and narrow your focus on whom their target customer is, and how you will reach them effectively.

Marketing Plan

Every good marketing plan starts with a definition of the client’s target market, which you should have solidly identified in the previous section. In this section, you should describe the characteristics that make your product or service right for the target market.

Thoroughly discuss the ways in which the product or service would have appeal for the target market. Do so in terms of their needs, wants and preferences, not your high regard for what you propose to offer. Avoid promoting the product to the reader, but show that it is right for the niche that is your target market.

Pricing

Discuss how your pricing structure appeals to the target market. Here again, you must step outside the business and see your products or services from the customers’ point of view. For example, premium prices are commanded by premium products marketed to a target market that wants and can afford them.

During the initial design of your business, you probably came up with pricing based on mark-up. When you go into business, prices will be set by supply and demand. If your price is too high, you will not sell sufficient units and be forced to discount down to the point where demand meets your supply. If your price is too low, you will sell out long before your customers are satisfied.

Pricing analysis starts with the examination of pricing on similar existing products or services. You need to assess, not just the prices, but the volume of sales at those prices, to understand the forces of supply and demand in the marketplace.

Having a lower price than the market is not necessarily better. Your product could be perceived as inferior just based on its low price. Pricing should be set to create a high-perceived value, not a bargain.

Location

Every marketing plan has a location – where the target market can find the business and/or its products or services. If you do not operate out of a fixed geographic location, you still will have a location, be it a means of distribution or market "presence". You can change the title of this section as it is appropriate.

Like the product and its price, your location must be right for your target market. Where would those you intend to sell to expect to find a means to fill that need you propose to satisfy? Some things to consider:

- Where is the target market?
- How far will they travel to fill their needs?
- Do you need high visibility for impulse purchase or are you a destination for planned buying?
- Is convenience important to your target market? What do they expect in terms of access, parking, availability of public transportation, online services, and telephone services?
- How can they find your business? How will they know what it sells?
- What is the level of competition you can overcome?

Your location is a mix of things from physical presence to virtual. Many businesses operate successfully from a basement with a strong telephone or web presence. Some absolutely require a premier storefront.

Finally, the occupancy cost of your location has to fit the economics of your business. Many businesses fail because the owner insists on more location than he needs or can afford.

Promotion

This is usually the first thing entrepreneurs think of when they think of marketing, but it is the last step in the process. Only after you define the target market can determine specifically how to reach them. Only when the product or service, pricing and location are designed for that market do you have anything to promote.

In this section, you need to outline the details and steps necessary to reach potential customers and convert them from prospects to paying customers. It is important to demonstrate to investors that you have identified specific marketing avenues and procedures to effectively sell their product or service.

Promotion, be it for a global business or corner store, is always the same three-step process:

1. Define the target market – you had to do that as a first step in the marketing process
2. Reach them with your message – you know who they are, and that tells how to reach them.
3. Your message - What differentiates your business? What is your Unique selling Point?

Your target customers are satisfying their needs somehow before you open your business. You must give them a compelling reason to change their behavior. “Me too” advertising, which simply states who you are and what you do is not an effective message.

This section of your business plan should give your specific plans regarding the mix of message vehicles you plan to use:

- Media, such as radio, newspaper, TV
- Brochures, flyers, business cards, posters
- Press releases
- Public presentation, event sponsorship.
- Direct mail, telephone, in-person sales calls

- Stunts such as blimps, cartoon character or celebrity visit, pie throwing or contests

The opportunities to promote are nearly endless but the resources are limited. You have to show cost/benefit - time and money well spent. Remember, like the rest of marketing, promotion has to be designed with the target market in mind. If your message does not reach your target market, you are wasting your resources.

Marketing & Sales: Mistakes to Avoid

- Defining a target market too widely, and assuming success will result from simply capturing a "small portion" of this enormous market. Two percent sounds so very achievable, but zero is more likely.
- Unclear definition of your target market.
- Attempting to attack an entire market instead of a narrow niche.
- Making assumptions about their target market without research or concrete support.
- Not specifically identifying the mediums they will use to advertise and promote their product.
- Not justifying the cost in terms of dollars and cents per target customer reached.
- Omitting details such as when, where, why and how you will reach your target customer - along with costs.
- Making the assumption that offering a lower price will lead to increased sales.
- Underestimating the importance of packaging, brand name, and reputation.
- Attempting to immediately fill several lucrative but unrelated markets.
- Lacking clarity about how future changes might effect your market

Competitive Analysis

The competitive analysis section of your business plan is an objective overview and comparison between your company and your competitors. You should begin by identifying your direct and indirect competitors, what and how much these competitors sell (in units and sales dollars), the number of years they have been in business, and their specific market niche.

Outline the strengths and weaknesses of each of your client's competitors from an unbiased perspective. Do not knock or "bad mouth" the competition. That is unprofessional and will be regarded as questionable in fact by the reader. Stick with the facts and take the high road: tell what you do better, not want they do worse.

- What is the perceived value of their product?
- Is the image or name brand a factor?
- Where are they located?
- What are their credit policies and delivery terms?
- How does their customer service stack up?
- How solid is their access to suppliers, wholesalers, distributors and retailers?
- Do they have any strategic partnerships or patents, which could cause problems for your client's company?
- Do they have economies of scale in a place that makes it difficult for your company and others to compete?

Provide a breakdown of your competitors by percentage of the market. If possible, try to analyze and present this information from both revenue received and units sold perspective.

This gives you insight into the market, who the big players are, and where you can fit in and begin to take market share from. From whom you intend to capture your share? Consider preparing a five-year analysis showing how market share has changed and shifted over time.

Your company's ability to focus on a market niche can help you gain market share. You need to pick a niche and make it their own. It can establish your products and reputation, and will help you gain loyal customers and market share as the company grows.

More than anything else, it is important to be straightforward and honest about competitors and their strengths and weaknesses. Many first time business plan writers don't realize that investors want to see that other businesses are profitable and successful in your chosen market.

If you fail to present your competitors, or claim they have no competition, why should investors assume that a market even exists for their product or service? Instead, present comprehensive information and point out how your unique strengths and tight market niche will result in their success.

There might be a planet somewhere in the universe where your business has no competition, but not here. Many entrepreneurs make a critical mistake in their business plans - they claim they have no competitors. Your target market was satisfying its needs before you arrived on the scene. That is your competition.

But competition isn't necessarily bad. The value of competition is that it forces you to analyze who you're up against and what it takes to achieve success in their industry, market, and business.

Competitors actually help clarify your selling position and determine how to best distinguish themselves from the crowd. Nike makes billions and so does Reebok. But, everyday they wake up with the desire to compete against each other and win.

Keep in mind that most investors ARE investors because they successfully dealt with business competition in the past. With that in mind, never even imply that your offering to the market is so different and unique that you have no competition". Their reader will disagree, and wonder why you can't see that you operate in a competitive environment, and assume you're a business dunce.

How do you identify your competitors? Who else is attempting to satisfy the needs of your product market that you seek to fulfill?

If you intend to open a donut shop, then all the other donut shops within perhaps a 10-mile radius are considered competition, including supermarkets that serve donuts and bakeries that sell donuts and other baked goods.

These are pretty obvious, and most people would consider them when starting a company and writing a business plan. Remember bagel shops; while they don't serve donuts, they still compete for the same breakfast dollar, as do coffee shops and the Starbucks of the world?

Barriers to Entry

Think about the factors that make it difficult for you to enter and compete against established companies - the barriers to entry. If any apply, the following list of barriers should be addressed in your business plan, considering both the positive and negative issues related to your business and industry.

- Patents/Proprietary product differences
- High-start-up costs/Capital requirements
- Substantial expertise required
- Manufacturing or engineering difficulties
- Market saturation – no room within market for new competitors
- Economies of Scale
- Brand Identity
- Access to distribution
- Government policy

Competitive Analysis: Mistakes to Avoid

- Assuming you have no competition!
- Failing to identify both direct and indirect competitors.
- Underestimating the power and strength of competitors.
- Not presenting specific competitive advantages you hold over their competition.
- Demonstrating a lack of knowledge or strategy to combat changing competitive conditions.
- Failing to define and clarify your position, strength, and market niche focus.

Management and Organization

You have defined your business, its products and/or services and your plan to market them. In this section, you should show how the business will be organized and operate. You should make it clear that it has the resources to accomplish the mission.

Management Team

Many lenders and investors base their entire investment decision on the management team behind a venture. Investors expect a capable, well-rounded team of professionals with experience in every function critical to the business.

Your management section should clearly demonstrate whom each person is, why he or she is on their team, and what each person will do. You should limit the discussion of your management team to no more than five people. Clearly demonstrate who will be responsible for the following functions and what they are qualified to do so:

For all businesses:

- Overall management – the Chief executive Officer
- Financial and Accounting – the Chief Financial Officer
- Marketing

And:

- For manufacturing, management of the production of the product
- For service businesses, who will provide the services?
- If there are employees, human resources management
- If there is technology or research, who does the science?

Restrict your management team discussion to the leaders of these functions. Everyone else involved in day-to-day operations is considered either an employee. The functions and duties of the employees are discussed in the Operations section.

Key people who will contribute to the management of the business may include a formal Board of Directors, an informal network of advisors and professionals, such as lawyers, accountants, engineers and consultants. Who they are and their role in the business should be discussed in the Advisory Resources section.

You need to stick to the facts on your management team bios, making it evident why each person is experienced; why they hold their position and the benefits they provide your company. A bio is a narrative description for each team member, clarifying his or her backgrounds and intended contributions.

This is different from a resume[1], which is a dry chronological listing of educational and work experience. Bios should be much more interesting. In

[1] Resumes should be included as exhibits to the business plan and must be factually in agreement with the bios.

a bio, you can include such things as volunteer experience, philosophy, style, reputation and military service. Often volunteer experience is the closest thing to supervisory experience that younger team members have. Bios should include:

- Title, Duties and responsibilities of the position - what will they be doing, which functions will they be responsible for, who do they supervise, who they report to, etc.
- Previous industry and related experience - should be those that relate directly to this new position. Who have they worked for, what were they doing, for how long did they do it, etc.
- Previous Successes – the career highlights in any field - what did they accomplish, what successful teams or projects did they spearhead, did they grow a company or a division, were they responsible for a turnaround or some new breakthrough idea.
- Education and volunteer experience - keep these descriptions brief, unless there is a critical point to be made.
- Personality Profile – philosophy and style. This should also be brief, but including it humanizes the bio.

Given the choice between an excellent business concept with second-rate managers and a mediocre business concept with top-notch managers, investors typically prefer the latter. Why? Products, marketing strategies, and operations are important, but it is the experience, knowledge, and ability of the management team that makes a business thrive because strong management can make up for weaknesses in those other areas, but not the other way around. Bottom line - investors invest in people, not business plans, so make sure you demonstrate that your management team is up to the task.

Naturally, each business is different and requires a management team that matches the particular circumstance. Industry, niche, and the loftiness of your goals lead investors to assumptions and expectations about the quality of management that the business requires.

The experience and depth of your managers must meet or exceed these investor expectations, or must clearly explain how your client intends to fill these positions in the future. Two basic themes that readers of a business plan will look for throughout the entire management section include team and balance.

Team

Investors normally expect to see a minimum of three to six experienced executives on a management team (start-ups have some variations, see below). When investors and venture capitalists state the importance of a top-notch management team, the word "team" should not be underestimated. They normally view one-person operations as limited in terms of time, experience, and core business skills necessary to launch and grow a serious business.

Balance

Although investors are looking for a group, they are not looking for a group of clones. They seek balance and a collection of skills that meet the needs for a particular venture. A diverse team increases the chance that each business function (marketing, sales, operations, finance, manufacturing, engineering, etc.) is tended to by an expert with experience.

You should avoid the tendency to staff the management team with people just like you. It might feel nice to work with friends, family, and others that share your background, but investors will see a management team unprepared for the inevitable challenges that lie ahead.

What if you are a startup company and they don't have a team?

Early-stage management teams are often limited to a lead entrepreneur or a pair of company founders. If this is the reality for your business, don't try to avoid that fact, don’t try to convince the reader that the one founder has all the diverse skills and knowledge necessary, and don’t claim that staff employees or friends are actually part of the management team.

Instead, focus on the strengths of your current management. You may also have outside resources, in the form of advisors or consultants, to make up any deficiency in skills, but this can only bridge the gap temporarily. You should outline specific (and realistic) plans for adding management capability in the future – either through adding officers or acquiring the necessary skills. You must have a balanced team, or plans to build one as you grow.

Management Team: Mistakes to Avoid

- Depending on unqualified friends or family in key management positions.
- Assuming that previous unrelated success applies to your current industry.
- Presenting a "one-man-team" management philosophy. Investors know it's difficult to wear every hat and successfully run and grow a company.
- Attempting to attract top managers without sharing ownership.
- Lacking non-compete agreements for critical management staff.
- Failing to attract and assemble a knowledgeable board of advisors

Advisory Network

Whether you are planning a one-man/woman business or you have a seasoned management team, you will need to have the resource of outside expertise. Even General Electric has outside accountants, lawyers, engineers and consultants to draw on. There are several forms this outside resource may take:

- A formal board of directors, which is required for corporations. Members of this board should be chosen for their ability to contribute to the growth of the business, not on how likely they will “rubber stamp” the owner’s positions.
- An informal advisory committee that meets periodically. It resembles a board of directors, but does not have actual power over management.
- A network of advisors to be consulted with individually as the need arises. This group includes unpaid business associates and paid professionals.

You should briefly describe who is on your board or will serve as an outside advisor, and what role they play within the company. Essential members of your group of advisors are individuals with expertise and insight in your particular industry. The best source for these is a trade association.

Briefly list the names, backgrounds, and contributions that will be made by each of the advisory team members. Include the outside professionals you will work with as your company grows. A typical list of consultants would include accountants, attorneys, bankers, insurance agents, and experts such as technology advisors, web developers, and payroll specialists.

Remember that to get, you have to give. If there are group meetings, there should be compensation, at least a free meal. If you call on business associates for advise, you must be willing return the favor when they call upon you for information or suggestions.

Operations

This is the operational plan, dealing specifically with the internal operations and equipment necessary to produce your product or service. The first thing is the physical plant, if there is one.

There is the location, now from an operations point of view. It was chosen for the target market, now how is it going to work? Discuss the resources of the facility and what the capacity is. Include a layout plan and equipment listing.

What does the equipment do, how do the pieces function together, and how much can be produced? Will you purchase or lease the equipment? Why and from whom? Be sure to include manufacturing equipment, vehicles, computers, and office equipment.

How many employees will the company need? Full-time? Part-time? Break them out by function, number of hours worked, and hourly pay. Describe the skill sets needed. Will you run multiple shifts? What are the hours of operation? What training will be needed and how will it be provided?

Salaries and wages will be detailed in the financials and must be consistent with the responsibility, skills and duties required of each position described in this section. Other compensation, benefits such as medical insurance, must be described in the human resources part of the following section.

Business Systems

The day-to day operations of any business are run by procedures and policy – business systems. That frees management to handle exceptions and growth. Exceptions are events or situations out of the norm.

Your business will have systems and policy, whether you plan it or make it up as you go. Plan is always better and will be required by lenders or investors.

Accounting

If you have a business, you will have an accounting system. If it is a haphazard system, it will take a lot of work and yield little useful information. An organized system yields useful information on the relative profitability of product lines, expense trends and indications as to the benefits or consequences of alternative strategies.

Lenders and investors are particularly interested in the capability of your accounting system and the person who runs it. You must have a system that records all transactions and is capable of generating meaningful reports on the business activity.

In this section, describe how you intend to get that done. There are many valid manual and computerized alternatives and no one best way. Your SBDC Counselor can help you with this decision and the best solution depends on you – your capability and time constraints. An over sophisticated system that you will not be able to operate will do no good.

Human Resources

If you have employees, you will have a human resources system, policies and procedures that deal with:

- Compensation structure – wages and benefits
- Workplace rules
- Disciplinary procedures
- Vacation and holiday policy

Before you hire your first employee, you should have the details of these policies and procedures in writing. Trying to address these issues as they arise will drain you of time. In this section, you should outline these policies and procedures and who will be responsible for administering them. This section can be deleted if it is not to be any employees.

Supply Chain

List major suppliers and what arrangements have been or will be made to secure the goods and services the business needs. Contracts, quotes or letters of intent are helpful exhibits.

- Outline the purchasing process, and unique purchasing requirements.
- How will you keep track of inventory? Provide specific procedures and equipment used.
- How will you maintain quality control? What are the procedures to ensure that you are providing the top quality product or service?

If you are in manufacturing, walk the reader through your client's manufacturing and service process from raw material through finished product.

- Where will you obtain and store raw materials?
- Where will finished goods be stored, and what is the associated space and cost?
- How will finished goods (or services) be distributed?
- What is the lead-time for the entire process?
- How will quality be measured, controlled, and improved?
- Explain the technology requirements for the manufacturing process.

Insurance Plan

What type of insurance does the business need? Discuss the legal liability issues of the business and the unique risks of your industry. Explain how and when you will secure policy coverage.

For this section, a discussion with an insurance agent is necessary and that actually will make this one of the easiest sections to complete. Your SBDC Counselor can provide you with a list of qualified business insurance agents.

Compliance Plan

What type of licensing does the business need? What special regulatory and reporting requirements are there? In this section, briefly state these requirements and your plan to fulfill them. This section can be deleted if there are no such requirements.

Operations: Mistakes to Avoid

- For manufacturers, failing to clearly outline the process by which you manufacture, distribute and sells your product or service and/or to account for all production costs (direct and indirect).
- Failing to explain the operation clearly, giving the reader the impression that you are not sure how to do it. Keep it simple and connect the dots.
- Failing to identify all machinery and equipment needed.
- Failing to properly plan the physical layout of the business. It is impossible to plan operations without a clear picture of the space where it happens
- Failing to properly outline personnel management, scheduling, and hiring practices.
- Failing to properly plan for contingencies to meet production and staffing challenges.
- Failing to plan for long-term facility and equipment changes.

Risk Analysis

It is a sad fact that most lenders and investors who read your business plan are reading it to reject it. They have many choices as to where to put their money and need to get the number of options down to a "selection set" for the final decision.

A well-done risk analysis is your last opportunity to get into that selection set. It should accomplish tow things:

1. Show the reader that you do not think the plan can't fail. Say that in any way and the plan is rejected. Anything can fail.
2. Show the reader that you have the skill and capability to address contingencies and modify the plan if necessary.

It may be difficult at this point to take the passion you believe in with all your heart and examine it from a critical point of view, but that is exactly what you must do. That is what the banker is going to do, so make this a pre-emptive strike.

Among the situations that you should consider are:

- What if sales failed to materialize as planned?
- What if new competition entered the market?
- What if you were delayed in opening?
- What if a major supplier went out of business or otherwise was unavailable?
- What impact adverse weather can have on this plan?
- What if your license was revoked or you ran into regulatory problems?
- What if your critical advisor or partner died?

Your list will vary from the above. With the exception of sales not materializing, no two businesses face the same threats. Use the list as a starting point and develop your own risks.

For all the risks on your list, assess the likelihood and impact, then describe what you would do to address the situation. Finally, detail the likely outcome for the business under those circumstances.

Risk Analysis: Mistakes to Avoid

- Sticking with the easy risks rather than the obvious threats
- Making the solutions too easy
- Projecting outcomes that have no basis in likely fact
- Dismissing a threat as completely unlikely
- Avoiding the bad news. Every business has a potential fatal threat.
- Substituting your passion for workable plans ("I know I can do it")

Exit Strategy

In most cases, an investor may be interested in the exit strategy, while a lender is generally not. Exit strategy is how the chips are cashed in at the end of the game. There are several alternatives, all requiring a strategy:

- Initial Public Offering (an extremely rare event for most startups)
- Merger/Acquisition
- Buyout by partner in business
- Franchise the business
- Hand down the business to another family member

Exit Strategy: Mistakes to Avoid

- Assuming you have a business with the potential to go public.
- Failing to explain how your investor will specifically recoup their investment and a sufficient return.
- Failing to take their personal goals into account when planning an exit strategy.
- Completely ignoring this aspect of the planning process, or having no exit strategy at all.

Pen the business plan, search for investors, build the business, and figure out how the investor will cash out later - right? Well, not exactly. Investors are interested in the growth of your business, but ultimately their commitment of capital hinges upon their ability to recoup their initial investment and a healthy profit.

The lack of a solid and realistic exit strategy demonstrating how investors can accomplish this goal can immediately turn off many sources of capital. Your chances of cashing in with an investor are seriously reduced without a clear definition of how they will cash out their investment.

Entrepreneurs rarely place the same level of importance on the exit strategy in a business plan that an investor would. Business owners are focused on raising the capital needed to launch and expand their venture. Solid business plans with thorough marketing, sales, operations, management, and concept analysis can, and will, fall short when little consideration is given to the exit plan.

Entrepreneurs and business owners often list "going public with an IPO in five years" as their intended exit strategy. Although this is an optimistic and hopeful goal, this outcome normally remains just that - a hope.

Providing realistic exit strategies will result in increased credibility and helps reassure investors concerned with receiving a significant return. The book "Finding Your Wings" by Benjamin & Margulis addresses the IPO misconception, noting that; "Acquisition or buyout is the predominant method for achieving liquidity for small company shareholders.

The primary method of achieving liquidity is not IPO - far from it. But the misconception remains. Too often, entrepreneurs and their business plans say they will take their company public in five years.

The odds are that such and event will not occur. So entrepreneurs need to consider how that investor is going to achieve liquidity." The following is an outline of the most common exit strategies for your client to consider along with brief advantages and disadvantages of each.

Initial Public Offering

Description: Sell the shares of the company to the public to be traded on a stock exchange.

Advantages: Conversion to cash for investors, major shareholders usually maintain control, high potential return.

Disadvantages: Company must have tremendous growth potential to receive IPO, the process is costly and the outcome uncertain. Major shareholders may be limited to how much, when, and how they can sell stock.

Acquisition

Description: Business bought outright by another existing company.

Advantages: Receive cash or stock; often purchased by strategic partner, management contract can be negotiated.

Disadvantages: Fit must be appropriate, potential management changes, corporate identity may disappear

Sale of Company

Description: Business bought by other individuals or entities.

Advantages: Receive cash immediately.

Disadvantages: Must find willing buyer, normally results in new management.

Merger

Description: Join with and existing company.

Advantages: May receive stock and some cash, where resources are combined and current management staying on.

Disadvantages: New partners or bosses, less control, may receive little or no cash.

Buy-Out

Description: One or more stockholders buy out the others.

Advantages: Seller receives cash; other owners remain in control of the company.

Disadvantages: Seller must be willing; buyers must have sufficient cash to buy others.

Franchise

Description: Sell business concept to others to replicate.

Advantages: Receive cash; retain current management, opportunity for large-scale growth.

Disadvantages: Concept must be appropriate for franchising and have solid, time-tested systems in place, legally complex.

Because each business is different, a realistic exit plan should take into account your particular industry, business life cycle, competitive environment, management needs, and more. It is also important for you to consider your personal and financial goals, and how they relate to the future of the business.

Do you value privacy and autonomy? Then an IPO, with its heavy public disclosure and extensive outsider demands, may be an unsuitable fit for you and your venture.

Does building your business from the ground up excite you, but the prospect of managing it over the long haul turns you off? Exiting with a sale of your business may be the best bet, freeing you to pursue other entrepreneurial projects and allowing new owners to manage the day-to-day operations in the future.

Ultimately, the most effective exit plans will take into account business, personal, and investor goals. Keep in mind that the business plan is the road map for their company and a well thought out exit strategy simply clarifies a future destination when their investor can expect to reach liquidity.

Incorporating a variety of well thought-out exit strategies is typically the best approach to build investor confidence and increase your chances of successfully raising capital.

If you are not soliciting investors, you need not include this in your external business plan, but remember that you will not live forever. You and your business will part some day, so plan accordingly.

Notes to Financial Projections

Your financial plan will be highly scrutinized by their business plan reader. All the ideas, concepts and strategies discussed throughout the entire business plan form the basis for, and should flow into, their financial statements and projections in some manner.

Fundamentally, the reader wants to know if and when you will make money and become profitable. Financial statements and projections should follow Generally Accepted Accounting Standards (GAAP) and must (at a minimum) include properly prepared balance sheets, income statements and cash flow statements.

Bankers and investors are familiar with the correct content, organization and presentation of financial statements, and expect to see them in the business plan. You should not cut corners or attempt to devise their own method of financial and pro forma statement presentation. In most cases, capital sources expect financial projections for a three to five year period, and historical statements for the past three years (or since inception if operating period is less than three years).

The Notes to the Financial Statements are critical to properly convey the "reasons behind the numbers" for outsiders reviewing your financial projections. In this section, you should explain how you arrived at those numbers and anything that is not obvious from the numbers themselves.

You should be able to explain how you calculated the numbers they used in the financial statements. Costs and expenses must always come from hard fact and the sources of these should be mentioned in these notes, for example:

> Insurance expense was provided by quotation from Jones Insurance Agency. The utility companies quoted utility deposits. Equipment purchase prices were taken from manufacturer’s on-line catalogs.

You may not be able to get a quote on your projected sales, but the estimates cannot come out of your imagination. Industry averages, market surveys and actual sales from similar operations are possible sources of factual sales estimates that can be adjusted for your specific operation. Always tell how you arrived at your sales estimates.

Financial Projections: Mistakes to Avoid

- Failing to include the "Big 3" statements and projections (income statement, balance sheet, cash flow).
- Presenting sales and profit projections that are unrealistic and unfounded.
- Omitting financial assumptions to explain where the "numbers" originated.
- Presenting "creative" rather than "accepted" financial statements.
- Underestimating expenses and not budgeting for unexpected costs.
- Lack of financial investment on the part of the founders.
- Including excessive salaries and office expenses at start-up.
- Offering a lower percentage of ownership than the investment requirement demands.
- Offering a return on investment that is out of line for your industry.
- Absence of contingencies and projections for worst-case scenarios.
- Financial statements that are not prepared or reviewed by a qualified financial professional.

Exhibits

Including every piece of information you have collected in the main sections of their business plan only results in information overload for the reader, and make it difficult to determine if reading the entire plan is worth the effort. Instead, you should include detailed research, sources, and other related information about their business and your business plan separate from the plan, although they may share a single binder.

You may add or delete items from this list as they apply. You should change any item on the list below to the actual title of supporting documents any articles or data included.

Required:

- Resumes of all principals (owners and directors)

- Personal tax returns (3 years) of all principals
- Personal Financial Statement of all principals

Required if Applicable:

- Business tax returns (for existing businesses - 3 years)
- Leases
- Contracts
- Patents
- Agreements
- Business real estate appraisals or independent valuation
- Legal (any judgments, liabilities, pending litigation)
- Commitments: subcontractors, distributors, leases, suppliers, etc.
- Franchise: all documentation, legal and financial obligations

Optional to support the plan:

- Independent articles on the industry, local market, etc.
- Supporting statistics from any independent, reliable source
- List of Distributors
- Policies and Procedures
- Information about Competitors
- Photos of your selected site
- Cosigners' income and assets
- Listing of personal assets
- Copy of form of organization document
- Licenses, permits, registrations
- Inventory list and method
- Equipment: serial numbers, purchase dates, and accumulated depreciation
- Listing of aging accounts receivables/payables
- Just about anything that credibly supports the plan

The Financials

The financials template is a powerful mathematical tool that will get your numbers organized. Some basic instructions:

- Make entries only in colored cells.
- Enter numbers in all applicable yellow cells. Do not omit entering any yellow cell unless you are absolutely sure that it does not apply to your situation.
- Change blue cells only if you are absolutely sure you should. This is explained in detail in the sections that follow.
- All other cells are locked. It is a violation of the license to unprotect locked cells. Do not attempt to change formulas in protected cells. If you change even one formula, you will have to enter your data all over again on a protected spreadsheet. Your Counselor cannot stand behind your work if the formulas in this spreadsheet have been corrupted.
- All cells with red upper right corners have instructions embedded in them. To see the instructions, place the cursor over the cell.
- This spreadsheet is copyrighted and licensed to SBDC clients for use during their professional engagement with their Counselor. It is a violation of that license to permit anyone outside of your business to use the spreadsheet. Other conditions of this license appear below.
- It is recommended that you initially do the entries in the sequence of the sections below, which correspond with the pages of the spreadsheet. This will develop the most meaningful results. You should then go back through the spreadsheet, in any order you chose, to make adjustments and corrections as you discover more accurate data. One of the greatest values of this spreadsheet is the ability to play "what if…"

Sources & Uses

Start with the uses. Uses of funds are all the expenses you need to pay to get your business going. **Do not estimate any of these!** You should call the power company to get the actual deposit you need to give them, etc.

Capital items are listed on the Capital Page. These are things you need to start your business that last over a year – equipment, computers, furniture, machinery, vehicles, land, buildings, etc. The entries to that page are discussed in the next section.

When entering the expenses necessary to start your business, do not change the blue labels unless you are absolutely sure you will not need to spend any money for that item and you need the space for other expenses. There are plenty of yellow other lines you should use for expenses not listed before you change any blue cells.

Organizational Expenses is a special category of start-up expenses. These cannot be expenses as they occur, but are amortized over the first five years of the business. Because that has adverse tax consequences, we categorize only the minimal expense of creation of a separate business entity (corporation or LLC) in this class of start-up expense.

After you get your expenses entered, leave this sheet and enter your capital needs on the Capital page. After that, return and enter your sources. When you enter your sources, everything you do not provide for otherwise will be shown as Business Installment Loan. You will not be able to borrow more than 80% of your total uses and a warning message will appear if you exceed that.

You will not be able to finish this page until all of the other pages are complete because it is not until then that you can accurately assess your need for working capital. That is the amount of cash on hand that you need at the beginning to get to break even. You will find out what that is by placing numbers into that cell and seeing what the result is on the Cash Flow page. The right amount of working capital will cause the ending cash flow figures on that page to never go below what you think is an absolute minimum safe amount.

What is the minimum cash you should plan to have on hand? In the words of Dirty Harry, Do you feel lucky? The minimum safe cash balance has to do with the stability of the industry you plan to enter, the strength of the economy, the accuracy of the numbers in your financial projections (especially sales estimates) and your tolerance for risk.

A special procedure takes place on the Sources and Uses page if you include mortgageable capital –land and buildings - in your start-up. You may borrow up to 90% of the value of land and buildings, plus the “soft” or closing costs (appraisal, SBA fees, points, attorneys, filings, conveyance tax, etc.). Like any other expenses, these closing costs must not be estimated. Get the actual fees from the bank.

Once you enter the land, building and closing costs, enter the amount you plan to mortgage on the top line of the Sources and Uses page, the Asset Based Mortgage line. If you exceed 90% of value a warning will appear. Whatever you do not put towards the mortgage will be reserved from the other sources on the Allocation to Mortgage Loan line. If you have not provided for it otherwise, it will go into the Business Installment Loan, which cannot happen – you cannot borrow the down payment. That will make the business installment loan over 80% of needs and will cause a warning to appear. You must have additional sources of start-up funding.

From the above discussion of the Sources and Uses page, it should be clear that you can not complete the page at any one time, but rather move from page to page to develop your plan. Do not be bothered by this; it is the nature of entrepreneurship to be addressing many business issues at the same time.

Capital

The second page to tackle is Capital. You are still entering the expenses you need to make to start your business, but these are one time purchased items that last, as opposed to expenses that are ongoing.

If you are purchasing land and buildings, enter those first in the Mortgagable Capital section at the top of the sheet. Actual amounts are crucial; do not estimate. What if you have not chosen a site? Enter the actual asking price for a site that meets your needs. Pick one above average, if you have prices on more than one. This will be sufficient to assess the feasibility of your plan, but true and actual numbers for a specific site will be required here before it can go to the bank.

Next, enter all of your fixture and equipment needs in the New Capital Investment section. If you are renting a place for your business and have to spend money to fix it up, those expenses go in the Leasehold Improvements section. These are expensed, such as carpeting, wiring and plumbing that go into the building and cannot be removed, or would be worthless if removed, if you leave the premises. Fixtures that are attached, but easily removed, such as a chandelier or dishwasher, do not belong in this section.

Removable fixtures, machinery and other capital equipment that you need to purchase to start your business should be listed in the New Fixtures and Equipment section, below leasehold improvements. There are limited lines here, so you should group similar items here. For example “computer equipment” could include all computers, monitors, printers and related hardware, however detailed lists with actual itemized prices (no guestimates!), should be included as exhibits to the plan.

If you already own equipment and fixtures, paid for with personal funds, you can list them in the Prepaid or Existing Capital section. These become part of the owners’ contribution on the Sources and Uses page and go towards the 20% (or 10% for land and buildings) that you must contribute to the business. Not all contributions need be cash.

Depreciation on all capital items at start-up will begin the month operations begin. The program detects the first month with sales and begins to apply the expense then. This is another reason, you should not enter insignificant pre-opening sales, such as test marketing, on the Sales page. That will cause the operation to appear to be incurring huge losses when it is, in fact, not yet operating.

If, and only if, your plan calls for the acquisition of capital items after start-up, they are entered in the Future Capital Investment section on the bottom of the page. Use today’s prices for these items, unless you know the actual future price based on announcements from the vendor. Enter the date you plan to make the purchase in the In Service Date cell for each capital item to be purchased after start-up. These must be entered as the first of the month. The outlay will be deducted from available cash from that month and the depreciation expensed will change from that month on.

The useful life for the capital items on this page varies by type of capital item. The figures provided may have to be changed, but that should be done in discussions with your SBDC Counselor.

Sales

The next page to work on is the Sales page. This is the most dangerous page. All other numbers, you can be found exactly – costs and expenses can be found in catalogs, price sheets or by simply calling vendors for quotes.

The sales for a company that does not yet exist cannot be estimated with such accuracy. The danger of corrupting the feasibility study on this page is huge. If you overestimate sales, then you are about to commit to a business that will fail and leave you in serious debt. Underestimate sales and you may forgo a great opportunity.

There must be a basis for your sales estimates and it begins with the target market and competitive strengths in your narrative plan. You cannot, however, assume that you can capture an arbitrary market share without a basis in fact. Sources of fact-based sales estimates are:

- Existing competitors' sales
- Industry averages
- Surveys and test marketing with your target market.
- Your own experience in the business.

For any of these fact-based sales numbers, you must make adjustments to reflect your situation relative to the basis and the fact that you are a start-up. For the latter, develop sales forecasts for your business at maturity, when sales growth levels off, and back it down over the time needed to reach that level – usually at least three years.

On the Sales page, there are two ways to develop a sales estimate - by unit sales or aggregate sales. Developing your sales forecast from unit sales is preferable for start-ups as it shown exactly how the estimate was generated. The nature of the business will determine which method is best and some businesses use both methods. A driving range may use unit forecasts for buckets of balls and cans of soda, but lump apparel, equipment and souvenirs into aggregate product lines.

Sales by unit starts at the top of the page. Enter the name of each product or service you intend to offer in the left column. From the month you intend to open your business on, enter the number of units, not dollars, you expect to sell for each product.

Move down to the Sales Prices section and enter the intended selling price of each of the products. The name is carried down from the Units section. Once you enter a price, it will carry forward through the timeline of the spreadsheet, up to seven years. You may enter planned price changes, such as the end of an introductory price, but do not attempt to factor in inflation. Express everything in today's dollars.

Move down to the Cost of Goods section and enter the cost of each of the items. The cost is materials only. Labor will be done on the Staffing page. Once again, enter known changes, not inflation factors.

Remember that cost is an amount that is the same for each unit sold. Some things, such as consulting services and haircuts, do not have a cost. The expenses are all overhead. Other things, such as a can of peas or a hair coloring, have a cost that is much the same for each unit sold. Each hair coloring requires a bottle of hair color.

Sales by Line are at the bottom of the sheet. Enter the name off each line on the left. A line is a group of similar goods or services that have a similar cost profile. Product lines for a restaurant, for example, may be breakfast, lunch, dinner, beverage and dessert.

From the month you open for business, put the sales forecast for each line in each month. You can see how much more dangerous this method is over the unit sales method – there is no way to see what the make-up of these sales is. Nevertheless, there must be a basis for these numbers.

In the Cost of Line section, you need only put the percent cost for each line in column B. If you intend the cost to change, such as after an introductory period, put the permanent cost percent here, and express opening discounts as a marketing expense on the Advertising line in the Cash Flow page.

Cash Flow

At this time, you should enter your expenses, overhead, on the Cash Flow page. Enter the amount you need to spend in the yellow fields for each month you operate and before. If you need time to build-out your place of business, some expenses, like rent, may actually begin before sales does.

These expenses must be accurate and factual. The sales numbers show on the top of this page. Your expenses must be appropriate to support the sales. If there is a planned change in the expense, such as a rent increase under your lease, you may change the figures, but do not try to estimate the effect of inflation.

Enter expenses as they are expected to occur, not an average each month. For example, property taxes are paid in July and January and insurance may be paid up front or on a down payment and monthly installment plan. You are developing a cash flow forecast to prevent running out of cash. Actual outlays are absolutely necessary.

Change the blue labels only if you run out of spaces for your expenses and you are absolutely sure you will not have the labeled expense. Your counselor will hide unused lines later.

Staffing

Even if you do not have employees, you need to make entries on this page. You need to provide for yourself. If the business does not, why would you want to do it?

First, develop a personal needs assessment. What do you need to live on? Add your weekly expenses for food, etc, and then average your monthly and annual expenses by week. This page, and only this page is done by week, because that is the way payroll is planned.

As an owner, you can take your income from the business as a pre-tax draw, and pay taxes quarterly, or, if your business is an employer and it is not an LLC, you can be an employee and have taxes taken out of each paycheck. The best way has a lot to do with taxes and personal preference. Your SBDC Counselor can explain the alternatives, but the choice is yours.

Place each owner's name and the percent of their ownership in the business in the left columns. The ownership percent is used to figure the taxes and they must add to 100%.

Put your weekly draw or salary for each owner for month. The sales and cash flow numbers show at the top of the page to show the effect of your decisions. Weekly payroll is converted to monthly, and is based on what day you select as payday at the top of this page (some months have five Wednesdays, etc.).

Provision for salaried non-owners is made below. Owners' salaries are always shown separately on financial statements. Always list the name or title; however the position is referred to in the narrative, in the left column.

For hourly employees, list the name or title in the left column, then the hours they will be schedules weekly for each month in the Scheduled Hours/Week section. Remember, everything on this page is by the week. Then insert their hourly wage in the Hourly Wage section. Change the wage for planned raises only, do not try to figure inflation.

The second column, used at the top for ownership percent, is used for the workers compensation rate for all employees. Those rates can have a big effect on the feasibility of the plan and must be actual quotes from an insurance agent.

This page calculates all monthly labor costs, salaries, wages and employer taxes, and places them in the Cash Flow page. You are now almost finished, but not quite.

Adjustments

Some businesses buy things on credit and pay at a later time. Some have to buy inventory many days before they sell it. Some bill their customers for goods and/or services and wait for payment. All of these have an effect on cash flow and cash is critical. You can have a profitable business that runs out of cash.

First on the Adjustments page is your Sales practices. If you accept credit cards, you will incur fees. The credit card fees based on the factors will be calculated as expenses for your Cash Flow page.

The difficulty here is estimating what percent of your sales will be on credit cards. A trade association will be your best source for this, but it should be considered and adjusted to your particular situation. If in doubt, overestimate.

If you plan to do sales on house credit, that is you bill customers and wait for payment, you need to put your practices in the next section. Note that this has nothing to do with credit card sales, unless your customers pay their bills by credit card.

Your credit and collection policy and practice will profoundly affect your cash flow. We have had clients who are subcontractors in construction trades with industry standard 60-day terms. They could have very successful businesses that run out of money of they do not properly estimate their cash needs at start-up.

Next below is your purchases policy. This applies only if you maintain an inventory of goods for sale. First put the average lead-time for your inventory. If you get weekly deliveries, for example, it is 7. If you place orders as you need them, it is the shipping time.

The Additional Starting Inventory is the stock you need on hand at start-up. Generally this is for retailers who must fill their shelves.

The final section is on your own Accounts Payable policy. The time you take to pay your bills may help your cash flow, but there is a cost. Vendors give the best service, prices and terms to those who pay them quickest.

Tax

The final adjustment is to put the tax factors for the owners on this page. There are only a few options, such as filing status. These factors are used to generate quarterly tax payments for cash flow forecasting. They should not be used for tax planning or determining the amount for quarterly estimated taxes. For one thing, state and federal taxes are lumped together.

Finishing the Plan

You should consult with your Counselor as you develop the plan and financial numbers but all words and numbers have to come from you. The Counselor will only demonstrate the templates and is not allowed to complete it.

Your Counselor will edit, challenge and make suggestions as to how to improve your business plan. SBDC Counselors have worked on hundreds of plans and they know what makes a good plan in general and what each banker likes to see in a plan that may be a little different from the others.

Do not take your plan to the bank until your Counselor tells you it is ready. One of the final steps to preparing the financials is to hide all unused rows and format it for printing as an attractive and comprehensive financial package. Only your Counselor can do that.

It is a violation of the license for clients to unlock the protection on the spreadsheets. If you do that, there is no assurance that the formulas have not been changed and your Counselor will require you to re-enter your numbers on a new spreadsheet. There are embedded detectors to determine if an attempt to unprotect the sheet has been made, so don’t try it.