Business Plan

OWNERS

Your Business Name
Street Address
Address 2
City, ST ZIP Code
Telephone
Fax
E-Mail

I. Table of Contents

I. Table of Contents 2

II. Executive Summary 3

III. General Company Description 4

IV. Products and Services 5

V. Marketing Plan 6

VI. Operational Plan 11

VII. Management and Organization 13

VIII. Personal Financial Statement 14

IX. Startup Expenses and Capitalization 15

X. Financial Plan 16

XI. Appendices 19

II. Executive Summary

Write this section last. It should be no more than two pages.

Explain the fundamentals of your agency model:

- What lines of businesses will you sell?
- Who will your customers be?
- Who are the owners and what key capabilities do they bring?
- How do you see the future of the industry and how does you vision for the agency fit in?

Make it enthusiastic, professional, complete, and concise.

III. General Agency Description

Purpose Statement: A brief statement, usually in 30 words or fewer, explaining your reason for being.

Vision: Vision is a destination—what you want your agency to look like if it fulfilled your ultimate expectations.

Values: What is important to you in business?

Goals and Objectives: Goals are long-term aspirations, usually in terms of volume, profitability, market share, etc. Objectives are interim markers on the way to goals.

To whom will you market your products: (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe the industry as you see it, changes you foresee in the industry, short term and long term? How will your agency be poised to take advantage of them?

Describe your most important business strengths and core competencies. What factors will make the agency succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

Legal form of ownership: Are you the sole proprietor of your agency, or is it a partnership, corporation, limited liability corporation (LLC)? Why have you selected this form?

IV. Products and Services

Describe in depth the lines of insurance products or services you will offer.

What after-sale services will you give? Some examples are service standards (returned calls,) annual reviews or stewardship reports.

What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique selling position.

Describe the commission or fee structures of your products or services.

Here are some examples with premium/commission estimates which will vary by risk characteristics, location etc.:

Average Standard Family

Auto policy with 2 vehicles and mature drivers: $3,000/$450

Home, $150,000: $1,000/$150

Small business: Restaurant

Business personal property/general liability package: $5,000/$750

Business auto 1 unit: $2,000/$300

Workers compensation: $10,000/$500

Excess $1,000,000 Umbrella Liability: $750/$75

V. Marketing Plan

Situation Analysis

Facts about your industry:

- What is the total size of your market?
- What percent share of the market will you have? (This is important only if you think you will be a major factor in the market.)
- Current demand in target market.
- Trends in target market—growth trends, trends in customer preferences, and trends in product (policy & services) development.
- Growth potential and opportunity for an agency of your size.
- What barriers to entry do you face in entering this market with your new agency? Some typical barriers are:
    - High capital costs
    - High labor costs
    - High marketing costs
    - Brand recognition
    - Training and skills
    - Unique technology
- And of course, how will you overcome the barriers?
- How could the following affect your agency?
    - Change in technology
    - Change in government regulations
    - Change in the economy
    - Change in your industry

Customers

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.

The description will vary depending on whether you plan to sell to other businesses or directly to consumers.

You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile. Consider the following factors:

- Age

- Gender
- Location
- Income level
- Social class and occupation
- Education
- Other (specific to your industry)

For business customers, the demographic factors might be:

- Industry
- Location
- Size of firm
- Quality, coverage, and price sensitivity
- Other

Competition

What agencies and companies will compete with you?

Describe your competitors:

- Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?
- How will your agency compare with the competition?

Use the following **Competitive Analysis** table to compare your agency with your two most important competitors. In the first column are key competitive factors. Since these vary from one industry to another, you may want to customize the list of factors.

In the column labeled **Me**, state how you honestly think you will stack up in customers' minds. Then check whether you think this factor will be a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, doing so can cause many business failures because efforts become scattered and diluted. You want an honest assessment of your firm's strong and weak points.

Now analyze each major competitor. In a few words, state how you think they compare.

In the final column, estimate the importance of each competitive factor to the customer. 1 = critical; 5 = not very important.

Table 1: Competitive Analysis

FACTOR	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Products						
Price						
Quality						
Selection						
Service						
Reliability						
Stability						
Expertise						
Company Reputation						
Location						
Appearance						
Sales Method						
Advertising						

Now, write a short paragraph stating your competitive advantages and disadvantages.

Unique Selling Position

Now that you have systematically analyzed your industry, your agency, your customers, and the competition, you should have a clear picture of where your agency fits into the world.

In one short paragraph, define your unique selling position that will allow you to be effective.

Strategy

Now outline a marketing strategy that is consistent with your unique selling position.

Promotion

How will you get the word out to customers?

Advertising: What media, why, and how often? Why this mix and not some other?

Have you identified low-cost methods to get the most out of your promotional budget?

Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?

What image do you want to project? How do you want customers to see you?

In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures, signage, and interior design (if customers come to your place of business).

Should you have a system to identify repeat customers and then systematically contact them?

Promotional Budget

How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

Pricing

In the insurance business, pricing is set by insurance carriers and your access to various carriers will dictate how competitive you will be in any given situation. Does your access to carriers fit with what was revealed in your competitive analysis?

Compare your pricing with those of the competition. Are they higher, lower, the same? Why?

How important is price as a competitive factor? What do you intend to do to minimize process as the primary decision factor for your customers?

Proposed Location

Probably you do not have a precise location picked out yet. This is the time to think about what you want and need in a location. Many startups run successfully from home for a while.

You will describe other business needs in the *Operational Plan* section. Here, analyze your location criteria as they will affect your customers.

- Is your location important to your customers? If yes, how?
- If customers come to your place of business:
- Is it convenient? Parking? Interior spaces? Not out of the way?
- Is it consistent with your image?
- Is it what customers want and expect?
- Where is the competition located? Is it better for you to be near them (like car dealers or fast-food restaurants) or distant (like convenience-food stores)?

Distribution Channels
How do you sell your products or services?

- Store Front
- Web
- Outside employee producers
- Outside Independent contractor producers

Sales Forecast

Now that you have described your products, services, customers, markets, and marketing plans in detail, it's time to attach some numbers to your plan. Use a sales forecast spreadsheet to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.

You may want to do two forecasts: 1) a "best guess", which is what you really expect, and 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

VI. Operational Plan

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.

Processing

How and where are your products or services produced?

Explain your methods of:

- Open, track and close new business opportunities
- Quality and E&O Control
- Customer service

Location

What qualities do you need in a location? Describe the type of location you'll have.

Physical requirements:

- Amount of space
- Type of building
- Zoning
- Power and other utilities

Access:

- Is it important that your location be convenient to transportation?
- Do you need easy walk-in access?
- What are your requirements for parking and proximity to freeways?

Cost:

Estimate your occupation expenses, including rent, but also including maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.

What are your business hours?

Legal Environment

Describe the following:

- Licensing and bonding requirements
- Permits
- Health, workplace, or environmental regulations
- Special regulations covering your industry or profession
- Zoning or building code requirements
- Insurance coverage
- Trademarks

Personnel

- Number of employees
- Experience or expertise: entry level, years of experience, etc.
- Where and how will you find the right employees?
- Quality of existing staff
- Pay structure
- Training methods and requirements
- Who does which tasks?
- Do you have schedules and written procedures prepared?
- Job descriptions for employees
- For certain functions, will you use contract workers in addition to employees?
- Lead-time for ordering?

Carriers

Identify key carrier attributes for each line of business:

VII. Management and Organization

Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What special or distinctive competencies? Is there a plan for continuation of the business if this person is lost or incapacitated?

If you'll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Include position descriptions for key employees. If you are seeking loans or investors, include resumes of owners and key employees.

Professional and Advisory Support

List the following:

- Board of directors
- Management advisory board
- Attorney
- Accountant
- Insurance agent
- Banker
- Consultant or consultants
- Mentors and key advisors

VIII. Personal Financial Statement

Include personal financial statements for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the agency, and these statements will show what is available. Bankers and investors usually want this information as well.

IX. Startup Expenses and Capitalization

You will have many expenses before you even begin operating your agency. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them.

Even with the best of research, however, opening a new agency has a way of costing more than you anticipate. There are two ways to make allowances for surprise expenses. The first is to add a little "padding" to each item in the budget. The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item, called contingencies, to account for the unforeseeable. This is the approach we recommend.

We recommend a rule of thumb that contingencies should equal at least 20 percent of the total of all other start-up expenses.

Explain how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also explain in detail how much will be contributed by each investor and what percent ownership each will have.

X. Financial Plan

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

12-Month Profit and Loss Projection

Many business owners think of the 12-month profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your sales projections will come from a sales forecast in which you forecast sales, expenses, and profit month-by-month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate agency income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it's time to revise your plan.

Three-Year Profit Projection (Optional)

The 12-month projection is the heart of your financial plan. This section is for those who want to carry their forecasts beyond the first year.

Of course, keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.

Projected Cash Flow

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn't be taken by surprise.

There is no great trick to preparing it: The cash-flow projection is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases.

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When?

Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or equipment buildup, that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.

And of course, depreciation does not appear in the cash flow at all because you never write a check for it.

Opening Day Balance Sheet

A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows a company’s items of value (assets) and its debts (liabilities). When liabilities are subtracted from assets, the remainder is the owners’ equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal to investors.

Break-Even Analysis

A break-even analysis predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break-even is:

$$\text{Breakeven Sales} = \frac{\text{Fixed Costs}}{\text{1- Variable Costs}}$$

(Where fixed costs are expressed in dollars, but variable costs are expressed as a percent of total sales.)

Include all assumptions upon which your break-even calculation is based.

XI. Appendices

Include details and studies used in your business plan; for example:

- Brochures and advertising materials
- Industry studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan