

Creating An Effective Business Plan

Welcome to the Small Business Exchange Business Plan Workshop!

This workshop will help you create a business plan to guide your business through the start-up or growth phase, a search for capital, or any other endeavor your small business undertakes. We've distilled the typical business plan into seven key elements listed below. For each and every element you will find a description, instructions for creation, for many, tips for avoiding common pitfalls. But reading about something isn't always enough, so we have also provided "Toolboxes" full of samples, worksheets, and glossaries that will clarify and walk you through the process.

To make sure you are ready to create the best possible plan for your business you can experiment on someone else's business! In the [Try It Yourself](#) section you have an opportunity to test your skills on a fictional business plan and be rated on how prepared you are to create your own. If at any time along the way you have questions, check the [FAQs](#) or post a question to our [Small Business Advisor](#).

- **Introductory Elements**
- **Business Description**
- **The Market**
- **Development & Production**
- **Sales & Marketing**
- **Management**
- **Financials**

I. Introductory Elements

The introductory elements of your business plan - your cover page, executive summary, and table of contents - determine what kind of first impression you make on readers. In many cases, the introductory elements, especially the executive summary, will determine whether readers read the rest of your plan at all. Moreover, your table of contents indicates how well you have organized the entire plan. For this reason, all of your introductory elements must be top-notch both in presentation and substance

A beautifully crafted plan that is unprofessionally put together will send a strong message to readers about your professionalism and your standards. Your cover page must have all pertinent information, your executive summary must convince readers that your entire business plan is worth looking at, and your table of contents must make it easy for readers to navigate through your plan. Read about each specific element to learn more:

- **Cover Page**
- **Executive Summary**
- **Table of Contents**

1.1 Cover Page

How complicated can a cover page of a business plan be? Well, you might be surprised at how many business owners leave crucial information off of cover pages. Lenders report that they frequently have to call directory assistance to locate an entrepreneur who forgot to include a phone number and other contact information on their business plan.

The purpose of a cover page is to tell the reader what he or she is about to read and how to reach the writer. Your cover page is also a way to get your business plan noticed. Lenders see dozens, if not more, business plans a week and something as simple as putting your cover page on quality stock paper, may catch their eye.

Your cover page should say the words "Business Plan," and should include your:

- name and business name
- company logo
- address
- telephone number
- fax number
- E-mail address

The date should also appear on your cover page. Use the **cover page worksheet** to make sure you remember to include everything:

Cover Page Worksheet

This worksheet will prompt you to assemble all of the information you will need to include on your business plan cover page in one place to insure nothing is left out.

The words “Business Plan”	
Your name	
Your title	
Business name	
Your logo	
Address	
Telephone #	
Fax #	
Email address	
Date	

1.2 Executive Summary

The executive summary is what most readers will go to first. If it is not good, it may be the last thing they read about your company. Lenders in particular read executive summaries before looking at the rest of a plan to determine whether or not they want to learn more about a business. Other readers will also go first to your executive summary to get a snapshot of your business and to gauge your professionalism and the viability of your business.

While your executive summary is the first part of your plan, write it last. As you create the other sections of your plan, designate sentences or sections for inclusion in your summary. You may not use these sections verbatim, but this exercise will remind you to include the essence of these sections in your summary. Your executive summary should be between one and three pages and should include your business concept, financial features, financial requirements, current state of your business, when it was formed, principal owners and key personnel, and major achievements. See the [worksheet](#) for details of each of these components.

Tips

- Create your executive summary after you have written the other sections of your plan so that you may cull a few sentences from important sections for inclusion in your executive summary
- Polish your executive summary. Have several people read it - both those who know your business and those who do not - to check for clarity and presentation
- Be sure to include business concept, financial features, financial requirements, current state of your business, when it was formed, principal owners and key personnel, and major achievements
- Use industry association statistics, market research from other sources, and other documenting information to back up statements you make in your executive summary
- Keep your executive summary short and make it interesting. This is your chance to entice readers to read your entire plan

Executive Summary Worksheet

This worksheet will prompt you for the information that should be included in your executive summary. Pull the information asked for below from the other sections of your plan and keep each answer to three sentences or less.

Business concept — the product, the market it will serve, and its competitive advantage.

Financial features — information from financial statements and forms that document the viability of your business and its soundness as an investment

Financial requirements — will you make equity available in return for an investment, what other sources of collateral does your business have.

Current state of the business. Is your business an S corp, a C corp, a partnership or some other form of business. When was it formed.

Owners, principals and key personnel

Major achievements including patents, prototypes, contracts, market research indicating that the business is viable.

1.3 Table of Contents

Your table of contents provides readers with a quick and easy way to find particular sections of the plan. All pages of your business plan should be numbered and the table of contents should include page numbers. After you assemble your plan and number your pages, go back to the table of contents and insert page numbers. Be sure to list headings for major sections as well as for important subsections.

1.4 Samples

Executive Summary – Established Business

The Quiet Spot Bed & Breakfast

The Quiet Spot Bed & Breakfast is an established business looking for money to expand and take advantage of new opportunities.

Every summer, the population of the area in and around ABC National Park in Any State swells by six million. By the year 2000, due to increased travel on the part of retirees and families with children wanting a convenient, affordable place to vacation, the Any State Chamber of Commerce estimates that 8 million people will visit the area each year.

The Quiet Spot Bed & Breakfast wants to build on its reputation and take advantage of this growth by renovating and expanding its current three-room, two-cottage inn. Ben and Sara Jones have been running Quiet Spot since 1988 and since then have been featured three times in the "Best of B&Bs" annual write-in contest for the country's three best B&Bs. Located on the ocean in ABC town with a view of the water and 2.5 acres of landscaped grounds, the inn creates a great getaway spot. Ben Jones' experience as a chef at the Triangle in the Square restaurant also attracts guests who are looking for good food. Occupancy in The Quiet Spot has risen at rates of 20 percent or more annually since 1988.

In addition to improving current accommodations, the renovation will add two rooms to the main house of the inn and one cottage to the grounds outside of the house. The renovation will take place over a six month period, from November 1996 to April 1997, the slowest months for the inn. A permit from the zoning department and three bids from local contractors have been procured. Renovations include refurbishing bathrooms to add overhead heatlamps, airtight windows, and larger sinks - amenities guests can find at other local B&Bs, and extras retirees want and expect. The bathroom amenities, along with fireplaces, will be added to some cottages because market data from the B&B Institutes Annual Survey indicates that guests will pay top of market prices for these features. Cottages will be remodeled to add room for a bedroom with twin beds to accompany the master (king size) bedroom, thereby making the cottages suitable for families. All renovations will enable the Jones' to raise room rates by 30 percent.

The business is structured as a sole proprietorship. The principals, Ben and Sara Jones, seek loans totaling \$300,000 to perform renovations and improvements. The Jones' will provide \$50,000 for the renovation.

Executive Summary – New Business

Business Consultant

Small Business, Inc. is a consulting firm specializing in issues affecting small businesses. Notice how they use their executive summary to spell out all the major parts of their business plan and entice the reader to want to learn more.

The Entrepreneurial Institute's 1995 report stated that by the year 2000, half of the nation's more than 20 million small businesses will need to adopt formal business practices in order to secure their future success.

Small Business Inc. plans to capitalize on this by providing consulting services to small business owners and managers nationwide, in businesses with 200 or fewer employees, that need assistance instituting marketing and product development business planning processes. Through seminars, workshops, and consulting, Small Business, Inc. will provide training to business owners and employees in such areas as development and writing of marketing and product development plans; assistance in managing product launch and roll-out; team management and development; human resources procedures including formal policy creation. As companies continue to flourish, Small Business, Inc. plans to provide the training they need to manage their growth. Videotape programs, booklets, and other materials will be added to the company's product repertoire in two years and will be sold at

Small Business, Inc.'s events as well as through direct mail and magazine ads.

Small Business, Inc. has competitors for its services, but none that offer an array of expertise as broad as that of Small Business, Inc. While each competitor specializes in a particular discipline, Small Business Inc. has brought together a team of recognized experts in each area of development to provide a full-service offering. Small Business Inc.'s management team, led by E.L. Winer, founder of ABC Computing, and nationally-recognized expert on business development, has assembled a staff of 12 other leading experts he has encountered in his 25 years in the field. Mr. Winer's high-visibility has already enabled the company to gain recognition. For example, Small Business Inc. has secured a relationship with two national trade groups that signed commitments to appoint Small Business Inc. as their official Small Business Guru in exchange for Mr. Winer speaking at their annual association meetings and providing annual on-line interviews gratis.

Other well-known consultants on the Small Business Inc. include its president, Carl Katz, a nationally-recognized human resources expert, and its executive vice president, Sally Powers, the 1994 winner of the National Association of Marketing Executives Excellence Award.

Small Business Inc. requests venture capital of \$750,000 for administration, overhead, marketing and to meet short-term working capital needs.

Small Business Inc. is a C corporation formed in 1996. The market for companies selling to the small business market is strong, and Small Business Inc. plans to build up a strong client base of repeat customers and a library of materials for sale to this market. Because of the interest in this market, the rapid growth that the founder's reputation will make possible, and the materials that will create a strong connection between customer and company, Small Business Inc. believes that the company will be a strong takeover candidate in five years.

Table of Contents

Your table of contents needs to be clear and easy to read. Here's how Clean As a Whistle Cleaning Services - which provides janitorial and office cleaning services to corporations - presented the contents of its business plan:

Clean As a Whistle Cleaning Services	
1. Executive Summary	Page 2-5
2. Business Description Page	Page 6-12
• Industry	6-7
• The Company	7-8
• Products	8
• Positioning	9-10
• Pricing	11-12
3. The Market	Page 13-23
• Customers	13-15
• Market Size/Trends	16-17
• Competition	17-19
• Estimated Market Share	20
• sales projections	21-23
4. Development/Production	Page 24-32
• Development Status	24-25
• Production Process	26
• Cost of Development	27
• Labor	28
• Expenses and Capital Requirements	29-32
-operating expenses	
-capital requirements	
-cost of goods	
5. Sales, Distribution & Marketing	Page 33-39
• Sales	33-35
• Distribution	35-37
• Marketing	37-39
6. Management Team	Page 39-43
• Management	39-41
• Ownership	41
• Board of Directors	42
• Support Services	43
7. Difficulties and Risks	Page 44
8. Financials	Page 45-54
• Cash Flow	45-47
• Balance Sheet	48-50
• Income Statement	50-52
• Capital Required/The Deal	53
• Exit Plan	54

II. Business Description

Whether you're looking for money or simply creating an internal document, you must be able to present a clear portrait of what your company does. Your business description is your corporate vision, and includes: who you are, what you will offer, what market needs you will address, and why your business idea is viable.

Too many business owners make the mistake of operating without a vision; a situation which hampers their business' ability to grow and prosper. A business owner without a vision will have difficulty describing his or her business and will provide a long, rambling description, a few stock phrases, or a collection of incomprehensible jargon when asked for one.

A concise, easy-to-understand description of your company will not only help your business plan, but will benefit you in any number of other day-to-day situations - from networking to making cold calls to approaching a newspaper for an interview. A typical business description section includes:

- **An overview of your industry**
- **A discussion of your company**
- **Descriptions of your products/services**
- **Your positioning**
- **Your pricing strategy**

2.1 An overview of your industry

Begin your business description with a brief overview of the industry you will be competing in. Ultimately, you want to demonstrate that you are in a "hot" industry with an excellent long-term outlook. You're also setting the stage for your company description by showing where you fit in the marketplace.

Discuss both the present situation in the industry, as well as future possibilities. You should also provide information about the various market segments within the industry, with a particular focus on their potential impact on your business. Be sure to include any new products or other developments that will benefit or possibly hurt your business. Are there new markets and/or customers for your company/companies such as yours? What about national trends or economic trends and factors that will impact your venture?

Tips

- Feel free to be dramatic. You can describe your industry like you're telling a story. Grab the reader's attention with strong, exciting language that will get them interested in your industry and your business.
- Answering "why" makes any description stronger. Saying "the market will grow at 25% annually" may sound impressive. But what caused that rate of growth? Adding "...because a growing number of baby boomers now entertain at home instead of going out" makes it stand out.
- This is not a discussion of your competition. That information will come later in the competitive analysis portion. Instead, you are providing an overview of the industry where you and other companies will compete.
- Many business plans make the mistake of basing their market observations on conjecture. Instead, you will want to research your industry and back up your observations with facts. Be sure to note all sources.
- Trade associations are excellent sources of information about trends in your industry. To find the trade association for your industry, consult the Gale Encyclopedia of Business and Professional Associations.
- General business newspapers and magazines (like the *Wall St. Journal* or *Business Week*) and trade newspapers and magazines (those covering a specific industry) often report industry-wide trends as well. Many research and university libraries carry various trade publications and newsletters. Look in Bacon's Media Directories for lists of publications, or use a database like Nexis to find references on specific subjects.

- Don't be afraid to include negative information about your industry. Discussing the possible roadblocks your company might face shows you have a realistic view of the market.
- If you cite information from specific newspaper or magazine articles or research reports, you might want to include a copy in your business plan appendix.

2.2 A discussion of your company

The discussion of your company should begin with your mission statement - a one or two sentence description of the purpose of your business and to whom your product or service is targeted. Not being clear in your mission statement indicates that you are not clear about the purpose of your company. If you need assistance or want to see some examples, check out the toolbox.

Describe Your Company

Once you have your **mission statement**, you can then discuss the more "technical" aspects of your company. Remember that you're telling your company's story, so even though there are specific areas you will need to cover, you will want to keep it lively and interesting. Some areas you should include are:

- What type of business is it? Wholesale? Retail? Manufacturing? Service?
- When was the company founded? Is it a start-up, or an established enterprise? What is the story behind the founding of the company?
- What is your business' legal structure? Sole proprietorship? Corporation? Partnership?
- Who are the company's principals and what pertinent experience do they bring?
- What market needs will you meet? Who will you sell to? How will your product(s) or service(s) be sold?
- What support systems will be utilized? Customer service? Advertising? Promotion?

Tips

- Your company's focus often depends on your market. A small town general store can sell groceries, hardware, newspapers, and gasoline because they may be the

only store that sells those items in the area. A larger market would require greater specialization to set yourself apart from the competition.

- Small business owners often get stuck using existing labels which don't accurately describe their companies. Ask yourself what business are you really in? What true benefits do you provide? For example, if you create corporate newsletters, are you just a "newsletter publisher" or do you "help large companies communicate important information to their clients and prospects."
- If you're an established company, give a brief history and cite prior sales and profit figures. If you've had losses or other setbacks, explain why, and discuss what is being done to correct them. Has company ownership changed hands? Be sure to talk about why it was sold.
- When discussing the company's principals, you don't need to run a complete resume - save that level of background for later in the plan. But don't be too brief, either. Don't just say "Ajax Financial Services is being founded by Jean Smith." Instead, it's stronger to write something like, "Founder and President Jean Smith, former Chief Financial Officer of Acme Industries, brings 25 years of experience in financial services to Ajax Financial Services."

Business Description Toolbox

How to Come up with a Mission Statement

A mission statement is your vision for the company. It must capture the essence of your business in one or two sentences, and should contain the purpose of your business as well as to whom your product or service is targeted. Not only that, it should make your business plan exciting and entice the reader to want to learn more about you.

It's surprising how many entrepreneurs and small business owners have difficulty articulating what their companies do. You've probably run into this at least once. You meet a person at a party or conference, and you ask them what they do. You end up with one of two responses - either a one or two-word answer which doesn't tell you anything about the business, or a long-winded, jargon-filled speech that causes your eyes to glaze over and sends you straight to the punchbowl.

A well-thought out, well-articulated statement can help you become a success with customers or anyone else. It will elicit additional questions and comments and get the ball rolling with prospects. It will show that you understand your business, are clear with its purpose, and know who your customers are.

Creating an effective mission statement is not easy. You will most likely have to write and rework it many times before hitting on the right description. This worksheet should help you through the process.

What is your vision for your company?

When you sit down by yourself in a quiet room and think about your company, what do you see? What type of company is it? What is the ideal business transaction for your business? Who are you selling to? Who works for you? How large is your staff? Is your company service oriented or volume oriented? What makes customers come to you instead of your competitors? What do customers and others think when your company is mentioned?

What is the purpose of your business? Every product or service solves a problem or fills a need. The purpose of your business should begin with an active verb - to cook, to help, to deliver, to solve, etc.

What benefits do you provide? What benefits do your customers get from purchasing your product or service. Does it make their lives easier? Are they richer for the experience? Does it improve upon something they already do?

Who are your customers? Anyone who buys your product or service is not an acceptable answer. Write down a full portrait of your target customer. Think in specific terms. Instead of "people" use something like "parents," "Yuppies," "teenagers," "busy couples," or those "who want to entertain at home" or those "who decorate their own homes." The same holds true if your selling into the corporate marketplace.

Now write your mission statement. Use the space below to write your mission statement.

Is it longer than two sentences? Write it again. If you can't describe your business in two sentences, or if you need more than 25-30 words, then you haven't gotten down to the essence of your business. Try writing it again with these guidelines.

Go take a walk. You've been working hard on this statement, and you may be getting a little frustrated. Don't worry, it happens to everyone. Chances are you're getting too close to it and it's getting hard to focus. It helps to take a break and step back for a little bit. By the way, remember that this is how you're describing your business to someone who knows nothing about what you do.

Read it over again and rewrite it. Can you be more descriptive? Can you be more active? If you've used any jargon, get rid of it. If you put in any \$10 words, change them to terms anyone will understand.

Now that you're done, try it out on a friend or colleague. Once you think you've come up with a winning mission statement, it's time to audition it before a live audience. Call up a friend, relative, colleague or anyone else who doesn't know exactly what your business does. Read them the statement you've created and ask them what they now think you do. Their answer will tell you whether your statement works or if you need to go back and hone it further. Write down their comments below.

Sample Mission Statements

Some sample missions statements; see if you understand the purpose of each business and can identify their target customer.

An accounting software developer:

To develop, sell, and install easy-to-use, customized, full-featured accounting software for small and medium-sized businesses whose current off-the-shelf systems do not meet their needs.

Business consultant:

To provide strategic planning services that improve the performance and efficiency of start-up small businesses and increase their chances of finding suitable financing.

A new restaurant/diner:

To serve fresh, healthful home-cooked food in a friendly, old-fashioned neighborhood cafe to families, tourists, and business people in thriving downtown Smallville.

An educational toy maker:

To create, manufacture, and market high quality educational toys and games that children will find enjoyable and challenging, and will be a good value for the purchaser.

2.3 Descriptions of your products/services

Describe each of your products or services with a particular focus on how it will be used. Go into as much detail as necessary for the reader to get a real flavor for what you are selling. What are the applications and the end uses? Underscore the specific features or variations that your products have.

Stress Your USP

Be sure to emphasize your USP - Unique Selling Proposition. Your USP is the proprietary information that sets your product or service apart from your competition. If you are using your business plan to solicit funds, this is what your reader will want to see. If it is an internal document, your USP will be critical to your sales and marketing strategies. Without a USP, your product or service will appear drab and there will be no compelling reason for people to buy it.

What would some USPs be? For a food product, it could be a proprietary recipe (like Kentucky Fried Chicken's secret recipe) or a special way the food is served (like Boston Market's hand-carved turkey). OXO Good Grips, a maker of kitchen gadgets, set itself apart by using ergonomically designed grips and handles on all its products. Tower Records' USP would be its broad selection of all types of music and its knowledgeable floor staff. Take a look at the **Sample Product Description** for more details.

Tips

- Focus on your success factors. In other words, think about how you are going to turn a buck. Why will your products or services be successful in the marketplace? There are any number of reasons you can use - it's a well-organized business, we use state-of-the-art equipment, our location is exceptional, the market is ready for our product, its a great product at a fair price, etc.

- If you are selling a product, you may want to include full specifications. If available, include a quality photograph as well.
- One of your challenges will be to keep the "unique" in your USP. If there is a chance your competition will begin offering products or services that also have your unique features, then you should also discuss how you plan to remain ahead of the pack.
- Be specific in describing your competitive edge. Don't just say something like "we intend to provide better service." Explain how you will do so, and why that sets you apart from your competitors.

Sample Product Description - Service Compan

No Place Like Home Page is a temporary personnel agency specializing in Internet and World Wide Web programmers, designers and content providers. Even a service company like this has to create a detailed "product" section for its business plan. Here's what No Place Like Home Page wrote:

No Place Like Home Page will use only experienced programmers, designers, and content providers who have already worked on World Wide Web sites and other Internet-related development. The company is the only temp agency in the region with this specialty. Each person that No Place Like Home Page represents will go through a detailed screening process. They will be interviewed, their portfolios will be reviewed, and their references will be checked. In order to register with our service, they will be required to sign an exclusive contract with No Place Like Home Page. Other agencies in the area allow people to register with only a cursory interview, and they may register with multiple agencies.

No Place Like Home Page will provide three different services for companies that want to hire our Internet programming temps:

Development in a Box® - For the company that is looking to put together a Web Site, but has no internal programming or development staff, we will provide a complete Internet development team. Through Development in a Box®, the customer will get all the personnel they need to create and execute a successful web site. All members of the D-i-a-B team will have worked together on previous efforts. Other temp agencies can provide individual programmers and content providers. No one else provides this type of experienced development SWAT team.

Project temps - For companies that need help on a specific project, No Place Like Home Page will provide temporary personnel on a per-project basis. The temp will go to the company at the outset of the project, and finish the day it is completed. Because No Place Like Home Page temps are experienced in their Internet specialties, the customer can be guaranteed that he/she will fit seamlessly into the development team.

Short-term temps - Customers will be able to hire No Place Like Home Page temps on a daily basis. This is how most other temp agencies work. While our per diem costs will be higher, the client will be assured that the person they get will have the experience they need. If the temp does not work out, or

does not have the skills necessary to complete the requested job, No Place Like Home Page will refund 110% of our fee.

2.4 Your positioning

Position is your identity in the marketplace: how you want the market and your competitors to perceive your product or service. While your USP is based on features of your product or service, your positioning is based on your customers and competition.

Federal Express positioned itself as a reliable and dependable overnight delivery service for businesses. MTV and VH1 play many of the same music videos, but MTV is positioned as the choice for young, hip viewers, while VH1 is considered the station for more mature viewers.

If you run a dry cleaning business you can be the fastest, the most dependable, the cheapest, or the business providing the best service. A mail-order gift business can emphasize price, convenience, a flexible returns policy, unique products, or some combination of these. A hairdresser may be positioned as hip, traditional, pampering, inexpensive, or convenient. You may think that positioning is based on image. Develop your position by answering the following questions with brief, direct statements:

- What is unique about your product or service?
- What customer needs does your product fulfill?
- How do you want people to view your products or services?
- How do your competitors position themselves?

Tips

- Research your competitors by shopping their stores or calling them to see what they offer and what they charge for it.
- To create a list of your competitors strengths and weaknesses, look at areas such as distribution, pricing, value, service, timeliness. If you were undertaking market research, for example, you would look at depth of research price, frequency of survey, add-on services, reputation in the marketplace. A dry cleaner would look at pricing, location, services such as delivery, hours of operation, quality of their cleaning, whether or not they are computerized and if they provide services such as tailoring and mending.
- If appropriate, research your competitors in trade magazines to unearth their strengths and weaknesses.
- In order to position yourself in the market you will need to understand standard industry practices, such as pricing, billing, distribution. This information is usually available from trade organizations. Call the reference librarian or visit

the reference section of your library to find the appropriate association in a book called the Gale Encyclopedia of Business and Professional Associations.

2.5 Your pricing strategy

You have several different pricing methods available to you. Each has its advantages and disadvantages, and choosing the right technique can be crucial to maximizing your profits. Here are brief descriptions of each method.

Cost-plus pricing

This pricing method is designed to assure that fixed and variable costs are covered and that profit is built in. To use cost-plus pricing add direct and indirect costs to profit to arrive at your price. It is crucial that you calculate all costs when using this method to set pricing because an omission will lead to a reduction in profit.

Competitive pricing

If the market you are entering has an established price and differentiation between products is difficult, you may need to use competitive pricing. If you choose to set a different price in an industry with established pricing for products that are difficult to differentiate between, be sure you can defend the prices you are setting and that an awareness of price among your target market does not make this out of the question.

Markup pricing

Usually used by retailers, it is calculated by adding a specific amount to the cost of a product.

Demand Pricing

If you sell products to a variety of entities who purchase very different volumes of goods from you, you may want to use demand pricing. For example, a manufacturer who sells to retailers and wholesalers will give a better deal to wholesalers for purchasing in greater quantity. Keep in mind that according to the Robinson-Patman Act of 1939 you must charge the same price to all customers for identical products. If you want to offer different prices, you must establish pricing discounts available to any customer who can buy in volume.

Pricing a Service Business Sample

Pricing a service business is different than pricing a product. You need to consider what your rate is per “billable hour” - each hour that you dedicate specifically to your client’s business. Very often, service providers will underprice themselves, forgetting that they also need to cover their expenses.

This worksheet should help you determine what your target hourly billable should be.

To Calculate Your Hourly Rate:

- Estimate your target annual salary
- Estimate your annual expenses (see list below)
- Use the three steps below to calculate billable hours
 - 1) Add annual salary goals to annual expenses and divide by 12. This will provide a monthly gross income figure.
 - 2) Calculate your anticipated number of monthly billable hours. Keep in mind that your billable hour figure will be significantly smaller than your total hours figure. Billable hours do not include administrative or business development time.
 - 3) Divide salary plus expenses by anticipated monthly billable hours to calculate your billable hourly rate. Expenses (examples included here)
 - Accountant
 - Equipment leases
 - Insurance
 - Legal costs
 - Marketing
 - Postage
 - Rent or lease payment
 - Stationary
 - Telephone
 - Travel
 - Utilities
 - Other services

III. The Market

This section is designed to provide enough facts to convince an investor, potential partner or other reader that your business has enough customers in a growing industry, and can garner sales despite the competition.

It is one of the most important parts of the plan, taking into account current market size and trends, and may require extensive research. Many of the sections that follow - from manufacturing to marketing to the amount of money you need - will be based on the sales estimates you create here.

Look in the **toolbox** for samples and worksheets that will help you create what you need.

- **Customers**
- **Market Size and Trends**
- **Competition**
- **Estimated Sales**

3.1 Customers

It is important to be thorough and specific when creating a description of the target customer for your product or service. This description defines the characteristics of the people you want to sell to and should indicate, among other things, whether your customers are cost or quality conscious, under what circumstances they buy, and what types of concerns they have. If you have an existing business, list your current customers and the trend in your sales to them.

To create a customer definition, describe your target customers in terms of common identifiable characteristics. For example, a catering company could target professional couples in the metro Chicago area who need to hire caterers for their kids' parties. Or it could target corporate event planners in Massachusetts responsible for procuring caterers for internal meetings. A windshield wiper blade business can sell directly to automobile manufacturers, or to aftermarket parts distributors.

Tips

- Narrow the field by briefly describing customers you don't want to reach. High-end general contracting services would not have people who buy on price as customers. An association management consulting service might not be interested in selling to associations with 1,000 or more members.

- A common mistake is to describe customers in general terms, such as all "people who want to buy a bicycle," or "anyone who needs a resume created." To avoid this stumbling block, use the **Customer Profile Worksheet** to make a list of the characteristics of the people or companies that will buy your product or service.
- Be sure to include details of what geographic region you plan to sell to. Is your market national, regional, international, or local?
- Do not use industry jargon or regional slang that may confuse readers. If you must, define the terms in your business plan.

Customer Profile Worksheet

Create a Customer Profile

Use this worksheet to help you come up with common, identifiable characteristics for your customer base. This is by no means a complete list, so you may need to add other characteristics specific to your business.

General:

My customer is:

- a corporation
- a consumer

My customers are located:

- in my town or city and neighboring towns (local)
- in my state and surrounding states (regional)
- anywhere in the United States (national)
- anywhere in the world (international)

Buying decisions are based primarily on:

- price
- quality
- service
- convenience
- other _____

How often do they buy your product:

- daily
- weekly
- monthly
- quarterly
- annually
- on-demand

What need does your product fill for your customers?

How is that need currently filled?

Consumer:

Age

- Child
- Teenager
- College Student/Recent Grad
- 25-35
- Baby Boomer
- 50+
- Senior Citizen

Gender

- male
- female

Disposable Income

- limited
- moderate
- abundant

Lifestyle

- Yuppie
- Workaholic
- Generation X
- Family-oriented
- Retired
- Other _____

Corporate

The job title and department of the person making the buying decision are:

His/her responsibilities (relevant to purchasing your product or service) include:

What specific industry/industries are you targeting?

Is the buying decision for your product or service made by:

- an individual
- a department
- a team
- other _____

My corporate customers typically buy this product:

- directly
- through wholesalers
- through distributors
- through retailers
- other _____

Size of Business

- Small Business
- Mid-sized firm
- Corporation
- Multinational

3.2 Market Size

This section defines the total market size as well as the slice of the market your business will target. Use numbers as well as trend information to make a case for a viable current market and its growth potential.

After you define the total market, create a description of your target market by using geography, company size, business organization, lifestyle, sex, age, occupation, and other characteristics to describe the companies or consumers likely to buy your product or service. The **Market Size Example** provided might help.

Tips

- When discussing any market size, be sure to talk about factors affecting market growth - industry trends, socioeconomic trends, government policy, population shifts, and the like. Show how these trends will have a positive or negative impact on your specific business.
- Remember to cite all sources for your data. This will prove that you've done your homework, and will assure the reader of your plan that your information comes from a reliable source. Also, state the credentials of the people providing this data. It is stronger to say "According to Acme Corp's market research study of the widget market..." than "A market researcher says..."

Sample Market Size Statement

H-O Designs, an office designer targeting home-based workers in the Philadelphia area, did extensive research on the number of people in its region that work from home. Here's how it described its market size and trends in its business plan:

The home based business market is the fastest growing segment of the U.S. economy. There are currently 40 million people who work full or part-time or after hours from their homes according to XYZ Consulting. Fewer corporate opportunities, advances in communications technology, the desire to spend more time with one's family, are forecasted to increase that number to 60 million by the year 2000.

In Philadelphia and its environs, 145,000 home-based businesses were started last year alone, according to Quaker State Business Journal. In addition, several large employers, most notably ABC Pharmaceuticals and ZZZ Computers, instituted telecommuting programs, giving 20,000 employees the chance to work at least part-time from home.

3.3 Competition

The competition section indicates where your products or services fit in the competitive environment. Presenting your business in the landscape of its competitors proves that you understand your industry and may be prepared to cope with some of the barriers to your company's success.

Present a short discussion of each of your primary competitors. If possible, include their annual sales and their market share. Each assessment should include why these companies do or do not meet their customers' needs. You should then explain why you think you can capture a share of their business.

Strengths and weaknesses can fall into a number of different categories. Sales, quality, distribution, price, production capabilities, image, and breadth of products/services are all ways companies differentiate themselves. Ask yourself: Who is the price leader? Who is the quality leader? Who has the largest market share? Why have certain companies recently entered or withdrawn from the market? These factors are critical to a successful competitive analysis.

Tips

- Never say "we have no competition." Lenders won't believe you. Even if your product or service is truly innovative, you need to look at what else your customers could buy instead. Remember, the first personal computer competed with calculators and typewriters; the first calculator competed with slide rules.
- Your competitors won't always be immediately evident, since they don't necessarily provide the exact same product or service as you do. If you sell gourmet salsas, you will be competing with other salsa makers, and you also might compete with makers of gourmet ketchup, mustards, and other condiments. List these as "indirect competitors."
- Many business plans fail to give a realistic view of their true competitive universe by defining the competitive field too narrowly. Think as broadly as possible when devising a list of competitors by characterizing competitors as any business customers may patronize for similar products or services. A local florist obviously competes with other flower shops, but must also contend with delivery services such as 800-FLOWERS and supermarkets that carry flowers and plants.
- To determine your competitors' strengths and weaknesses, evaluate why customers buy from them. Is it price? Value? Service? Convenience? Reputation? Very often, it's "perceived" strengths rather than "actual" strengths that you will be evaluating.
- A table can be a good way to present your competitive analysis, since it will allow your competition to be evaluated at a glance. Columns should include the

name of your competitor, market share or position, annual sales (if available), strengths, weaknesses, and comments.

- Consider describing who is not your competitor. The person reading your plan may have an inaccurate picture of who your competition is. If this is the case, you will have to dispel those preconceptions by explaining why these businesses are not your competitors. For example, people may think that a company that hires out freelance technical writers competes with temporary personnel agencies or clerical agencies. This company might want to stress that it is not a clerical agency, but rather a writing consultant.

Toolbox

The competition for high-end camera sales comes mainly from other independent photo equipment dealers. Several larger general merchandise chains also offer 35-mm cameras, but we do not see them as our direct competitors, since they provide neither the expertise, service, nor complete product selection that East End Camera and other specialty retailers can. The competition for film developing is much broader, and includes: other photography stores, 60-minute photo processing franchises, mass merchants, drug stores, variety stores, news stands, and supermarkets.

East End Camera, A Photography Store

East End Camera is a new photography store opening in the burgeoning East End section of Anytown. It will offer a full range of amateur and professional camera equipment and accessories, have an extensive photo finishing department, and offer digital imaging services. This is its analysis of other camera stores and photo finishers in the Anytown region.

There are 17 "photographic equipment and supplies" dealers and 78 "photo finishing" companies listed in the Anytown Yellow Pages, which covers downtown and 14 surrounding towns. Approximately 15 percent of these shops are located within a 5-mile radius of East End Camera. The closest competitors to East End Camera are Williams Photo, a camera dealer, and Zyplex 60-Minute Film Developing, a while-you-wait photo finishing franchise, each located less than 1/4 mile from East End Camera. Neither offers the combination of quality, service, broad product line, and affordable prices that East End Camera will.

We also will be the only photography store in our region to provide full digital imaging workstations that can be rented by the hour, although we understand Arnold's Camera in the University District (10 miles away) plans a similar set-up.

In terms of photo finishing, we had a professional photographer take several rolls of color film to area stores and evaluate the quality of their prints. Here is a brief synopsis of the results:

- Zyplex 60-Minute Film Developing - Photos were done in under 1 hour. Film can be dropped off and picked up from drive-through window. Color matching was weak and colors looked washed out. Several photos were cut incorrectly. Does not use name-brand paper.

- Williams Photo - Film developing took overnight. Prices and quality comparable to East End Camera's custom labs. \$3 charge for a second set of prints.
- Pridetown Drugs - Film dropped off by 10 a.m. available after 3 p.m. Offers lowest prices, but quality of prints is poor - colors are muddy. Only 3.5" x 5" prints available.
- Bigelow Photo & Copy - Uses automated film developing system similar to Zyplex. Prints promised in 60 minutes were not ready 2 hours later. Quality is good, but does not use name-brand paper. Lost film of customer ahead of us on line.

East End Camera intends to offer same-day or overnight service for all film developing through our in-house custom lab. We will use only Kodak paper and chemicals. While our prices will be slightly higher than film developing franchises, we will provide both higher quality and a free second set of prints. Plus, we intend to offer an unconditional money-back guarantee for any print that does not satisfy the customer.

The photo equipment market in Anytown is fragmented. Each camera store operates in isolation, and no single shop has enough market share, resources, or influence to react strongly to new entrants.

There is a certain amount of price competition at the low end of the market, driven by Wil-Shoot Photo's heavy advertising campaign. East End Camera sees this segment of the market as a loss leader, and we plan to meet our competitors' advertised prices in order to create long-term, loyal customers. Moreover, Wil-Shoot does not offer higher-end equipment that requires greater service (and has higher margins); this will be East End Camera's "bread-and-butter."

Other high-end camera dealers include:

- Williams Camera - The 40-year old store recently changed owners and is no longer operated by the Williams family. Customers report that the new management is particularly weak in the area of customer service, and the store seems to be shifting its emphasis from high-end to high-volume sales. In fact, Williams Camera recently lost its authorization to sell certain professional-level cameras.
- The Shutterbug - Probably the most complete camera store in the Anytown region, The Shutterbug caters to both professionals and amateur photo enthusiasts alike. In fact, East End's partners modeled their concept on The Shutterbug's mix of quality, selection, and competitive price. Since this store is located in Anytown's West End region, it does not draw many customers from the developing East End. We believe East End Photo will fill this need in this neighborhood.

3.4 Estimated Sales

Estimated sales for your business are based on your assessment of: the advantages of your product or service, your customers, the size of your market, and your competition. This should include sales in units and dollars for the next three years, with the first year broken down by quarter if that's appropriate for your industry. These numbers will be crucial to other financial documents you present later in the plan.

Use a one-paragraph summary to justify your projections. Be sure to use a succinct statement of what sets apart your product or service from other companies in the marketplace. Include a brief discussion of any customer commitments. Also state why you envision your customer base growing, and indicate how you will garner this business. See samples in the **toolbox**.

Tips

- If you derive your average sale per customer from trade association information, research, or interviews with business owners in similar endeavors, cite those sources in this section to provide credibility to the numbers on which you base your sales projections.
- Do not use the word "conservative" when describing your sales projections. Lenders are used to seeing this term preceding projections that are usually anything but conservative.
- Do not make outlandish projections. They will ruin your credibility as a reputable business person. A common mistake is assuming your business will have a few modest years and then a dramatic increase in sales when "the market takes off."
- Use "best case," "worst case," and "likely" scenarios to create a spectrum of sales projections.

Toolbox

Acme PR's extensive contacts and high-tech experience will enable the company to win business in this competitive marketplace. We currently have commitments from two Fortune 500 computer and software companies to run press conferences in Q2 1997, and we have a two year contract with a leading Internet software firm to provide ongoing publicity. By the end of this year, we anticipate adding two new full service clients - at a minimum monthly retainer of \$5,000 - with at least one press conference or special project per quarter. An aggressive marketing campaign in the fall should cause a substantial growth in our client base. That growth will continue over the following two years, fueled by continued marketing, the performance of the venture, and our ongoing development efforts.

IV. Development and Production

In this section you will describe the current state of your product or service and your plan for completing its development. This is also where you familiarize your reader with how your product is created or your service delivered.

This section must include details of development costs, location and labor requirements. After furnishing this information, you will be asked to generate some financial forms, including operating expenses, cost of goods, and cash flow.

- **Development Status**
- **Production Process**
- **Cost of Development**
- **Labor Requirements**
- **Expenses and Capital Requirements**

4.1 Development Status

Describe the current status of your product or service and what remains to be done to make your product or service ready to be marketed. Include a schedule detailing when this work will be completed. Consider using a traditional outline to create a product development schedule, or modify the launch plan you have created for internal use and provide a simplified version here. Readers of your plan, especially potential investors, will scrutinize your development plan to determine if you have thoroughly thought through all facets of the development of your product or service.

Tips

- Include obtaining a patent/trademark/or copyright, or other steps that are important to the development of your business.
- If your business plan is for a service company, there is still a strong need for a development status section. Service companies have to set up offices, make plans for fielding calls, get stationary and business cards, conduct market research, gather references, and do a sample mailing of sales pieces, among other things.
- Venture capitalists and other lenders often focus on a few industries and will be well acquainted with the development procedure for a product or service like yours. For this reason, be sure to create a high-quality, detailed plan.

- Turn to an industry association for help with the development process of a product or service like yours if you are early in the development cycle and are not confident that you are familiar with all stages.
- Look in the library for books of sample business plans and check your development status section against the ones in these books.

4.2 Production Process

An investor will only provide money for a business he or she understands, so walk the reader through the stages of product production from the inception of the idea to when it can be sold. With a service company, describe the process of delivering the service. A company that helps its customers determine Web strategy, for example, would describe the process of finding out about client objectives, researching current offerings on the Web, and presenting a solution. If you are starting a winery, your production process section would describe the harvesting, fermenting, and bottling processes.

Make or Buy

Part of your production process discussion will be a justification of the make or buy strategy for production components. Make or buy strategy focuses on whether you will create all components necessary for the production of your product or service in-house, or buy a service or a product to add to yours. If you are starting a consulting business, you might state in your plan that paying for the services of an administrative assistant (buy), will increase profits by enabling the company principals to spend more time on money-generating activities. A pillow production company, would discuss spikes in production and the cost savings incurred in subcontracting sewing (buy) rather than keeping the sewing (make) in-house.

Location, Location, Location

Also discuss geographic location for the production of your product or service. Justify this decision as well, by talking about savings in rent or lease, convenience to suppliers, labor, or materials, or other factors important to your business.

Tips

- Be sure to justify your make or buy strategy by explaining why your approach will lead your business to greater profits.
- Avoid the common mistake of skipping the make or buy section and justification simply because you are starting or running a service business. If you are starting

a consulting business, make a case for why assistants and other support staff will increase profits.

- Do not forget to justify your choice of location. Some commonly-overlooked location benefits include proximity to transportation, and availability of skilled, affordable labor.
- If you choose to locate your business in a home office, discuss the cost-savings of this choice of office. Also assure readers that a home office location will not be negatively perceived in your industry.

4.3 Cost of Development

Present and discuss a design and development budget. This budget should include the cost of the design of a prototype as well as the expense to take it into production. Be sure to include labor, materials, consulting fees, and the cost of professionals such as attorneys. While the cost of production section may be more readily apparent to product companies, this section is important for all businesses. Service businesses have expenses such as consulting services, training for principals, and preparation of materials, among many other things.

Tips

- Design and development costs are often underestimated. Contact a trade group to find out about average industry costs for developing products similar to yours.
- When charting costs, provide a contingency plan for what will happen to costs if problems such as delays, a failure to meet industry standards, mistakes, etc. occur.
- Be sure to include the cost of patents and other elements necessary to the production of your product or service.

4.4 Labor Requirements

Your management team is outlined in the management section. This section provides details of other labor you will need to start up and run your business. Address how many people you require and what skills they need to possess. Be sure to cover the following issues:

- Is there sufficient local labor? If not, how will you recruit.
- Is labor trained? If not, how will you train them.
- Cost of labor, current and future.
- Plans for ongoing training.

Sample Labor Requirements Description

Food Service Sheet is a proposed monthly newsletter that will be delivered to food service companies serving institutions, as opposed to businesses. An example of its labor section is below:

Food Service Sheet will require the services of freelance writers, desktop publishers, and graphic artists.

Freelance writers will need to have experience reporting on the food service industry. Two trade publications, Food Service News and Service Suppliers Monthly, which focus on food service industry as a whole, generate a good crop of writers with this experience, many of whom are looking for freelance work. The going rate for freelance writers in this arena is between fifty cents and seventy-five cents per word. Writers hired to work for Food Service Sheet will be educated on the industrial side of the business through printed materials provided by management. In keeping with industry practices, writers will not be paid for their training time.

Management has contacts, from its experience in the publishing field with desktop publishers and graphic artists who have newsletter design and production expertise. This labor does not require training in these areas. Two candidates are available to work on the project. These professionals will be paid on a project basis. Details of the cost for graphic artists work and production of the newsletter are contained in the Cost of Goods form. Two college students will be hired at minimum wage to do the mailings for Food Service Sheet.

4.5 Expenses and Capital Requirements

You must also create three financial forms that will build a foundation for the Financials section of your plan: operating expenses, capital requirements, and cost of goods. Generate spreadsheets for the year in which you establish your business as well as projections for two years after. You may require the help of an accountant or someone familiar with the cost of doing business in your industry and chosen business.

- **Operating Expenses**

By creating a financial form called Operating Expenses, you pull together the expenses incurred in running your business. Expense categories include: marketing, sales, and overhead. Overhead includes fixed expenses such as administrative costs and other expenses that remain constant regardless of how much business your company does. Overhead also includes variable expenses, such as travel, equipment leases, and supplies.

- **Capital Requirements**

This form details the amount of money you will need to procure the equipment used to start up and continue operations of your business. Capital Requirements also includes depreciation details of all purchased equipment. To determine your capital requirements, think about anything in your business that will require

capital. For a diaper delivery service this might be a van, washing machines and dryers, irons and ironing boards, and supplies. Manufacturing companies obviously require more equipment for production. This equipment can fall into three categories: testing, assembly, and packaging.

- **Cost of Goods**

For a manufacturing company, the cost of goods is the cost incurred in the manufacturing of the product. For a retail or wholesale business, the cost of goods (sometimes called the cost of sales) is the purchase of inventory. To generate a Cost of Goods table, you need to know the total number of units you will sell for a year as well as what other inventory you have on hand, and at what stage of production those units exist. For a manufacturing company, the cost of goods table will include materials, labor, and overhead related specifically to product manufacturing.

V. *Sales and Marketing*

This section of your business plan describes both the strategy and tactics you will use to get customers to buy your products or services.

Sales and marketing is the weak link in many business plans, so take your time with this section. A strong sales and marketing section can serve as a roadmap for you, or as assurance to potential investors that you have a workable plan and the resources for promoting and selling your products and services.

The three components of your sales and marketing section include:

- **Strategy**
- **Method of Sales**
- **Advertising and Promotion**

5.1 Strategy

In previous sections, you've been asked to define your product, positioning, pricing, target customer, market, and competition. Now you need to wrap up all those assumptions into a cogent sales and marketing strategy. Think of this statement as an action plan for how you will get customers to buy your products. It will support the tactics you describe later on in this section.

Your strategy may be only a few sentences in length, or it can be a couple of paragraphs. Important elements for a sales and marketing strategy include who you are targeting with your initial push and what customers you have designated for follow-up phases. Other elements of a sales and marketing strategy are:

- How will you find your prospects, and once you find them, how you plan to educate them about your product. For instance, if you are using direct mail, you might want to talk about what kinds of mailing lists you plan to purchase.
- What features of your product or service you emphasize to get customers to notice your product.
- Any sort of innovative marketing or sales techniques you will employ. For example, you may sell your product by mail order when your competitors use only traditional retail channels. Or you may be the first in your industry to offer leasing.
- Will you focus your efforts locally, regionally, nationally or internationally? Do you plan to extend your efforts beyond your initial region? Why?

5.2 Method of Sales

Describe available distribution channels and how you plan to use them.

Many entrepreneurs fail to give adequate thought to method of sales. How you get the products to the end user - your method of distribution and sales - is one of the most important elements of your plan. In this section you demonstrate the ability and knowledge to get your products into the hands of your target customers.

Will you be selling directly to your customers? Will you be using sales representatives, distributors, or brokers? Do you plan to have a direct sales force in place? See the list of definitions for some help in determining what method of sales to use.

You must also elucidate your plan for reaching your distribution channels. Will you be selling directly to your customers? Will you be using sales representatives, distributors, or brokers? Do you plan to have a direct sales force in place? See the list of definitions for some help in determining what method of sales to use. Will you use a "ground service" like UPS? Will you use a next-day delivery service? Parcel post? A trucking company? Make sure to include these costs when you calculate your financials later in the plan.

Tips

- Don't make the mistake of confusing sales with marketing. Sales focuses on how you get your products into the hands of your customers. Marketing is concerned with how you educate your potential customers about your product.
- If you're using an outside or indirect sales force - like sales reps or distributors - be sure to describe the companies that will be carrying your products. What are the benefits of using these specific firms? What unique talents do they bring to the table?
- Many small businesses assume that a sales effort can be set up with minimal timing, effort and expense. This is not the case. It can take as long as a year for a sales person to become acquainted with a product and territory. Even if you use sales reps who are intimate with a territory and market, expect there to be ramp-up time.
- Don't assume a distribution network will give your products or services equal sales time. You may need to create an incentive structure that will encourage your network to push your products/services

5.3 Advertising and Promotion

Your advertising and promotion campaign is how you communicate information about your product or service.

This section should include a description of all advertising vehicles you plan to use - newspapers, magazines, radio & TV, Yellow Pages, etc. - as well as your public relations program, sales/promotional materials (such as brochures and product sheets), package design, trade show efforts, and the like. If you're using an advertising and/or a PR agency, be sure to discuss their talents and what efforts they are contracted to make on your behalf.

Tips

- Make sure that your advertising and promotion tactics support your sales tactics. For example, if you use sales reps, you will probably need to discuss with them what kinds of promotional materials you will supply. If you use direct mail sales, what kind of direct mail packages will you be producing?
- Think about using examples or samples to support your discussion of promotional tactics. If you have a copy of an ad you've run, or a mock-up of an ad you plan on running in the future, include it in your business plan. You can place these samples in a separate "Exhibits" section at the end of the plan.
- Unique product packaging is also a key promotional tactic. You probably will want to discuss the benefits of your package design, and include a sample in your business plan.
- If you have a public relations plan in place, include a copy of your press kit, and a list of targeted media in your business plan. This will further demonstrate that you know exactly how you plan to reach your target audience.
- If trade shows will be an integral part of your marketing strategy, be sure to include a trade show schedule outlining at which expos you'll be exhibiting. And don't forget to explain why you've chosen those shows.
- If you are providing a business-to-business service, some areas to cover in this section include: trade shows, trade magazine advertising, publicity, direct mailings, product sheets, and other promotional materials. For consumer products, you should also discuss the types of advertising and promotion you will do to introduce the product and what kinds of sales aids will be provided to dealers.
- If advertising or promotion is a critical expense, you should include an exhibit showing how and when these costs will be incurred.

VI. Management

A good management team can take even a mediocre idea and make it fly. In fact, strong entrepreneurial teams have been known to move from business idea to business idea, repeatedly creating and running thriving companies.

Conversely, weak management often cannot build a strong business out of even the best idea. For this reason, the management section of your business plan must demonstrate that the team you have assembled, or will assemble, is a winner.

Each member of management must of course be talented and have experience relevant to your business, but it is also important that the people on your team have complementary skills.

- **Description**
- **Ownership**
- **Board of Directors/Board of Advisors**
- **Support Services**

6.1 Description

Use this section to describe company management including the responsibilities and expertise of each person. Many lenders and venture capitalists base their investment decisions on the strength of the company's principals. Demonstrating that your management team possesses, or will possess, an array of complementary skills will help convince investors that your business has a bright future.

For positions you have yet to fill, detail who you will need to hire to achieve the goals set out in the product development schedule. Describe the talents this person needs to possess and how the addition of that person will help the company meet its objectives.

Tips

- Be sure to have major categories of business management covered such as marketing, sales (including customer relations and service), production and quality assurance, research, and administration. You do not have to have personnel devoted to each of these areas, but you should have people who will be able to assume these responsibilities as needed.
- Include relevant details in your management description, but save complete resumes as attachments to your plan. This will enable readers to quickly

skim your management section and evaluate the strength of your team. If they are interested, they can delve deeper into management's background by reviewing their resumes.

- Emphasize people who have already committed to working with your business.
- Always put backgrounds in reverse chronological order - lead with your most impressive piece of experience. Some people make the mistake of leading with graduating college and ending with their recent history.
- For important positions left unfilled at the time your business plan is assembled, describe necessary skills and job experience.
- If you are young and do not have work experience, or have experience unrelated to the business you are undertaking, see the **Managements Description worksheet** created here to help you assemble a strong description of your skills.

Management Description Worksheet

If you or your management staff do not possess experience in the business you are undertaking, you can still create strong a management section that will help you sell your business concept to the reader. Many skills sets can be transferred from unrelated work quite successfully. It is often simply a matter of realizing the skills you possess so that you can highlight them. This worksheet will prompt you to create a list of relevant skills and experience that may not currently be apparent to you. Use the skills you list here to create your Management Description.

1. List all of the responsibilities you had in your last work experience, whether it was another entrepreneurial venture or a job working for someone else. When you are making this list, do not only enumerate the tasks that were part of your job title, think about what responsibilities you assume because they came naturally to you. These may be things as simple as the ability to crystallize ideas in meetings or manage project teams.

2. For each responsibility, determine how those skills can be applied to your business. Once you have this information, you can create a description of your skills for your business plan.

Responsibility	Application to Business
<hr/>	<hr/>
<hr/>	<hr/>

3. If you are young and do not have much work experience, turn to life experiences to generate a list of skills that will help you run your business. Maybe you are the leader in your family who always planned the family vacation, or the one at school who everyone always turned to for the most efficient way to organize things. Generate examples that demonstrate others'

recognition of these skills, such as awards, positions held in student societies, family responsibilities, etc.

List of skills

4. Now, determine how these skills will help you run your business. Use these conclusions to create a description of yourself for your business plan.

Skill	Application to Business
_____	_____
_____	_____
_____	_____
_____	_____

6.2 Ownership

A short section on who owns and controls your company will help readers derive a better understanding of who will be making decisions. Potential lenders, many of whom will require a significant stake in the company in exchange for funds, will also be interested in what portion of the company's equity is available. To see what your statement should look like, see the sample in the **toolbox**.

Toolbox

ABC company was formed as a C corporation in New York State on June 2, 1996. Ninety percent of the company's shares are owned by its president, John Smith. The company vice president and director of sales and marketing each hold five percent.

6.3 Board of Directors/Board of Advisors

A strong board of directors or board of advisors is an asset to a business. It can add credibility to your management team and increase your likelihood of success. In this section, outline who is on your board, listing their names, employment, training, education, and expertise. Highlight each board members' experiences and how they will help your business thrive.

Many small business owners use the skills of board members to provide expertise and assistance they currently cannot afford to hire. If this is the case in your business, use this section of your business plan to play up the fact that your company has acquired

this expertise by having a board. If the board members have industry connections, good reputations, or potential to raise capital for your business, be sure to include these facts.

Tips

- Use your board of directors descriptions as an opportunity to demonstrate your good business judgment by making it clear how each member will positively impact the company.
- Create a board that complements existing management. If, for example, you own a small technology company but don't have any marketing experience, for example, search for board members who can provide that help. Create a chart to determine the kind of talent needed to move your company ahead. List the skills your management possesses. You can then make a list of the skills you need to acquire and the people who possess those skills.
- Avoid the common mistake of creating a board of directors made up of friends. Make a list of your needs first and then slot friends and colleagues in as appropriate, not the other way around.
- If you have not formed a board of directors or advisors yet, use this section to discuss the kind of talent and experience you plan to assemble for your board

6.4 Support Services

Strong support services - including attorneys, accountants, advertising agencies, as well as industry-specific services - help indicate others' faith in your business as well as your ability to attract talent to your business. Having support services in place also indicates to readers of your plan that you have thought through all of the support you will need for the business to thrive. In your description of each support service, describe what strengths the company or individual possesses, as well as what experience or contacts they bring to your company.

Tips

- Ask industry peers for the name of the best support services for your industry.
- Read trade magazines to find the names of "hot" firms that will add clout to your business plan.
- Start-up firms will often take on other start-ups. If you can find a start-up support services company founded by high flyers, this will add cachet to your business.
- Be sure to mention education when it will carry the most clout. For example, business and law degrees are evaluated heavily based on the institution from which they were earned, so if you are bringing in lawyers or MBAs, mention their Alma Maters.

VII. Financials

Financials are used to document, justify, and convince. This is the section in which you make your case in words and back up what you say with financial statements and forms that document the viability of your business and its soundness as an investment. It's also where you indicate that you have evaluated the risks associated with your venture. If you are writing a plan for investors, include the following sections:

- **Risks**
- **Cash Flow Statement**
- **Balance Sheet**
- **Income Statement**
- **Funding Request and Return**

Even if your plan will be used only as a road map for your business development, you still should create a cash flow statement and an income statement so you have figures by which you can gauge your company's performance.

7.1 Risks

No business is without risks. Your ability to identify and discuss them demonstrates your skills as a manager and increases your credibility with potential investors. You will show that you've taken the initiative to confront these issues and are capable of handling them. The opposite is also true. Should a potential investor discover any unstated negative factors, it will undermine the credibility of your plan and endanger your chances of gaining financing or other support.

The following list of problems is by no means complete, but should give you an idea of some possibilities.

- Your competitors cut their prices
- A key customer cancels a contract
- The industry's growth rate drops
- Design or manufacturing costs exceed your projections
- Your sales projections are not achieved
- An important ad campaign flounders
- Important subcontractors fail to make deliveries
- Your competitors up-the-ante by releasing a new, better product or service

- Public opinion of your product or service changes
- You can't find trained labor

Tips

- Evaluate your risks honestly. Put yourself in a "what if" situation. What if my competition meets my Unique Selling Proposition...what sets my product apart? What if I can't find the right employees?
- Instead of putting your risks in a separate section, you can incorporate them into the various parts of your plan. For instance, you could discuss possible long lead times for subcontracted parts in the "manufacturing process" section of the plan, or the impact of a lower than anticipated response rate to a direct mail campaign in the "sales tactics" section.
- In many industries, small companies innovate and large companies copy and take the credit. This is always a risk you need to consider. Think of ways you can stay ahead of your competition and retain your Unique Selling Proposition.
- To generate a complete list of risks, examine all of your assumptions about how your business will develop. The flipside of many of them may be risks.
- Consider some commonly-made small business mistakes as potential risks. Some of the biggies include: paying employees too much; hiring friends rather than the most qualified candidates to fill positions; underestimating costs; underestimating the sales cycle; overlooking competition; trying to be all things to all customers.

7.2 Cash Flow Statement

A cash flow statement shows readers of your business plan how much money you will need, when you will need it, and where the money will come from. In general terms, the cash flow statement looks at cash and sources of revenue minus expenses and capital requirements to derive a net cash flow figure. A cash flow statement provides a glimpse of how much money a business has at any given time and when it is likely to need more cash. Analyze the results of the cash flow statement briefly and include this analysis in your business plan. See the glossary of terms in the **toolbox**.

Tips

- As with all financial documents, have your cash flow statement prepared or at least reviewed by a reputable accountant.
- Avoid an unrealistically quick ramp-up of sales. Most companies experience a gradual increase in sales, even on a monthly basis. A sudden unexplained spike will stand-out and not look like an honest appraisal of your business.

- Include effects of seasonality and business cycles in all projections. For example, if you are in the gift business, you would need to show the Christmas buying season or the Wedding season. If you're a consultant, you might experience higher sales late in the year when companies are trying to use up their annual funds, or at the beginning of the year after budgets are approved.
- Do not fall in to the common trap of underestimating cash flow needs. This can lead to undercapitalization, which means your funds will prove inadequate for meeting your obligations.
- Do not include "projections" that include dates and events already in the past. Old projections are more tolerable if your projections were right than wrong.
- Avoid large income or expense categories that are lumped together without backup information about the components.

Toolbox

	Y1	Y2	Y3	Y4	Y5
Cash sales					
Receivables					
Other income					
Total income					
Material					
Direct labor					
Overhead					
Marketing and sales					
R&D					
General & Administrative					
Taxes					
Capital					
Loan payments					
Total expenses					
Cash flow					
Cumulative cash flow					

7.3 Balance Sheet

Unlike other financial statements a balance sheet is created only once a year to calculate the net worth of a business. If your business plan is for a start-up business, you will need to include a personal balance sheet summarizing your personal assets and liabilities. If your business exists already, include past years' balance sheets up to the balance sheet from your last reporting period. Analyze the results of the balance sheet briefly and include this analysis in your business plan.

Tips

- As with all financial documents, have your balance sheet prepared or at least reviewed by a reputable accountant.

- Do not include "projections" that include dates and events already in the past. Old projections are more tolerable if your projections were right than wrong.
- Avoid large income or expense categories that are lumped together without backup information about the components.

	Y1	Y2	Y3	Y4	Y5
Cash					
Accounts receivable					
Inventory					
<i>Total current assets</i>					
Capital/plant					
Investment					
Miscellaneous assets					
<i>Total long-term assets</i>					
Accounts payable					
Accrued liabilities					
Taxes					
<i>Total current liabilities</i>					
Bonds payable					
Mortgage payable					
Notes payable					
<i>Total long-term liabilities</i>					

7.4 Income Statement

The income statement is where you make a case for your business' potential to generate cash. This document is where you record revenue, expenses, capital, and cost of goods. The outcome of the combination of these elements demonstrates how much money your business made or will make, or lost or will lose, during the year. An income statement and a cash flow statement differ in that an income statement does not include details of when revenue was collected or expenses paid.

An income statement for a business plan should be broken out by month the first year. The second year can be broken down quarterly, and annually for each year after. Analyze the results of the income statement briefly and include this analysis in your business plan. If your business already exists, include income statements for previous years.

Tips

- As with all financial documents, have your income statement prepared or at least reviewed by a reputable accountant.
- Avoid insufficiently documented assumptions about your company's growth. In other words, if you say you expect your firm to grow by 30% in the first year and 50% in the second, you need to document why those numbers are attainable. It can be because similar companies have had this growth path; because the industry is growing at this rate (site the source for this data); or because of projections from a specific market researcher, industry association, or other source.
- Include effects of seasonality and business cycles in all projections. For example, if you are in the gift business, you would need to show the Christmas buying season or the Wedding season. If you're a consultant, you might experience higher sales late in the year when companies are trying to use up their annual funds, or at the beginning of the year after budgets are approved.
- Do not include "projections" that include dates and events already in the past. Old projections are more tolerable if your projections were right than wrong.
- Avoid large income or expense categories that are lumped together without backup information about the components.

	Y1	Y2	Y3	Y4	Y5
Income					
Sales					
Cost of goods/sales					
Gross income					
Expenses					
Marketing					
Sales					
Administrative					
R&D					
Other operating exp					
Other revenues					
Depreciation					
Profit					
Taxes					
Net Profit					

7.5 Funding Request and Return

State the amount of funding and the type (debt or equity) of investment you seek. It is important here to provide a breakdown of how the money will be applied. Discuss what effect the capital will have on the business' potential to grow and profit, when the money is needed, and what investment has already been made in the company.

Investors will also want to know what they will receive in return for their capital. Be as clear as you can in this section both about the potential upside and the potential downside of investing in your business. A common mistake in a business plan is to be unclear in this section, which turns potential investors away. If the company founders have invested in the company, include this in your plan. Some investors are encouraged by founders putting their own money on the line.

Finally, create an exit plan that describes how investors will get their money out of your company. One common investor worry is that even if a business is profitable, it may be difficult for them to get a good price for their shares. A cash-out option in five years or assurance that the company will become a strong candidate for a purchase or an IPO (Initial Public Offering) are what many venture capitalists and lenders will insist upon. See the sample exit plan in the toolbox.

Tips

- Include the following elements as appropriate: minimum amount to participate; how this capital and future investment will dilute current and subsequent ownership; payback period and return on investment; why the investment is sound; collateral being offered; current investors; access to additional funding sources; what percent, if any, an investor could recoup via tax benefits, liquidation or other means if the business goes sour.
- Include future financing needs. In other words, don't just look at what you need today, but give an idea of what financing you will need in the future to take your company to the next step toward success.
- Be sure to document how investors will make money and what return they will get. This can't be stressed enough. If you're asking for money, you can't just say something like "you'll make lots of money from this." You need to show how much money they should expect to make from their investment.
- Avoid unrealistic company valuation.
- Don't be penny-wise and pound-foolish by asking for less money than you think you'll need because you think it will help you get the money. It may be better to ask for more than to have to go back to your financial resources when you've run out of cash.

Toolbox

Sample Funding Request and Return Statement

Use the following funding request and return from a start-up retail operation as a model for creating your own.

International News

International News is a new magazine store/newsstand that will set itself apart from other newsstands in the University City area by offering a broad range of domestic magazines, international magazines, specialized periodicals and journals, fan-zines, and other "zines" not available elsewhere in the region. This magazine "superstore" will also offer a variety of candies, snacks and high-end tobacco products (imported cigarettes, cigars, etc.). Its target customers are a mix of upscale shoppers and college students.

We have established that the following are our financial needs:

Capital/Equipment Needs	\$37,127
Leasehold Improvements	\$29,250
Start-up Inventory	\$77,434
Prepaid Expense & Deposits	\$4,489
Loan & Lease Fees	\$5,812
Miscellaneous Start-Up Costs	\$9,000
Cash Reserve	\$42,697
Total	\$205,809

We believe that the initial funding of \$205,809 will be sufficient to carry International News through to initial profitability. These financial needs will be met through a blend of bank loans, equipment leases and personal cash investment. At present, we anticipate that we will meet our capital/equipment needs by leasing \$48,590 of equipment and fixtures. We will seek a start-up capital loan in the amount of \$96,500.

The loans and leases will be secured by the value of the capital equipment purchased, the value of the inventory. In addition, Jake Sims, one of the three partners, will continue in his present position as vice-president of ZiTek, thus providing a personal guarantee of payment. The remainder of the funds will come from a personal cash investment of \$60,000.

We anticipate that we will be able to sustain minimum gross margins of 39%. We will seek to increase this level through management of our inventory and sourcing. We further anticipate that, after our initial year of operation, we will be able to sustain a net return of sales of 16%-17% - higher than current industry averages.

Furthermore, with this level of performance, we anticipate expanding our presence outside the University City region to other "college towns" after 3 years. Should this concept take off as anticipated, we see "International News" as an ideal candidate for a public stock offering.

Sample Exit Plan

XYZ company created this exit plan for the funding request portion of its business plan. Use this sample as a guideline for creating your exit plan.

The market for human resources automation software is strong, evidenced by sales of HRPro software so far, and, XYZ is two years ahead of potential competitors in the development cycle. Because of this situation and the anticipated continuation of rapid sales growth, XYZ believes that the company will be a strong takeover candidate in five years.