

# PREPARING A BUSINESS PLAN

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## Why Prepare a Plan?

The Business Plan is a written summary of what you hope to accomplish by being in business and how you intend to organize your resources to meet your goals. It is the road map for operating your business and measuring progress along the way.

1. The Business Plan identifies the amount of financing or outside investment required and when it is needed.
2. First impressions are important. A well-organized plan is essential for a lender or investor to assess your financing proposal and to assess you as a business manager.
3. By committing your plans to paper, your overall ability to manage the business will improve. You will be able to concentrate your efforts on the deviations from plan before conditions become critical. You will also have time to look ahead and avoid problems before they arise.
4. It encourages realism.
5. It helps you to identify your customers, your market area, your pricing strategy and the competitive conditions under which you must operate to succeed. This process often leads to the discovery of a competitive advantage or new opportunity as well as deficiencies in your plan.
6. Three or four hours spent each month updating your plan will save you time and money in the long run and may even save your business. Resolve now to make planning a part of your management style.

## **EXECUTIVE SUMMARY**

The format should start with an executive summary describing the highlights of the business plan. Even though your entire business is well described later on, a crisp, one or two page introduction helps to capture the immediate attention of the potential investor or lender.

- Company name (include address and phone number)
- Contact person (presenter's name and phone number)
- Paragraph about company (nature of business and market area)
- Securities offered to investors (preferred shares, common shares, debentures, etc.)
- Business loans sought (term loan, operating line of credit)
- Highlights of Business Plan (your project, competitive advantage and "bottom line" in a nutshell—preferably one page maximum)
- This summary page is extremely important in capturing the reader's attention. Make sure it sells your idea so the reader will retain interest and continue reading

## **TABLE OF CONTENTS**

- Section titles and page numbers (for easy reference)

## **Business Concept**

The business concept identifies your market potential within your industry and outlines your action plan for the coming year. Make sure your stated business goals are compatible with your personal goals, your own management ability and family considerations.

The heart of the Business Concept is your monthly sales forecast for the coming year. It is your statement of confidence in your marketing strategy and forms the basis for your cash flow forecast and projected income statement.

The business concept contains an assessment of business risks and a contingency plan. We urge you to take the offensive and be your own devil's advocate. Being honest about your business risks and how you plan to deal with them is evidence of sound management.

## **DESCRIPTION OF THE INDUSTRY**

- Industry outlook and growth potential (industry trends, new products and developments. State your sources of information)
- Markets and customers (size of total market, new requirements and market trends)
- Competitive companies (market share, strengths and weaknesses, profitability)
- National and economic trends (population shifts, consumer trends, relevant economic indicators)

## **DESCRIPTION OF BUSINESS VENTURE**

- Product(s) or service (pictures, drawings, characteristics, quality)
- Product protection/exclusive rights (patents, copyrights, trade marks, franchise rights)
- Target market (typical customers identified by groups, present buying patterns and average purchase in dollars, wants and needs)
- Competitive advantage of your business concept (your market niche, uniqueness, estimated market share)
- Business location and size (location(s) relative to market, size of premises)
- Staff and equipment needed (overall requirement, capacity)
- Brief history (principals involved, development work done)

## **BUSINESS GOALS**

- One year (specific goals, such as gross sales, profit margins, share of market, opening new store, plant or office, introducing new product, etc.)
- Over the longer term (return on investment, business net worth, sale of business)

## **MARKETING PLAN**

- Sales strategy (commissioned sales staff, agents, sales objectives, target customers, sales tools, sales support)
- Distribution (direct to public, wholesale, retail, multiple outlets)
- Pricing (costing, mark-ups, margins, break-even)
- Promotion (media advertising, promotions, publicity-appropriate to reach target market)
- Guarantees (product guarantees, service warranties)
- Tracking methods (method for confirming who your customers are and how they heard about you)

## **SALES FORECAST**

- Assumptions (one never has all the necessary information, so state all the assumptions made in developing the forecast)
- Monthly forecast for coming year (sales volume in units and dollars)
- Annual forecast for following 2-4 years (sales volume in dollars)

Note: The sales forecast is the starting point for your projected income statement and cash flow forecast.

## **PRODUCTION PLAN**

(Manufacturing)

- Brief description of production process (don't be too technical)
- Physical plant requirements (building, utility requirements, expansion capability, layout)
- Machinery and equipment (new or used, lease or purchase, capacity)
- Raw materials (readily available, quality, sources)
- Inventory requirements (seasonal levels, turnover rates, method of control)
- Suppliers (volume discounts, multiple sources)
- Personnel required (full-time, part-time, skill level, availability, training required)
- Cost of facilities, equipment and materials (estimates and quotations)
- Capital estimates (one time start-up or expansion capital required)

## **PRODUCTION PLAN**

(Retail or Service)

- Purchasing plans (volume discounts, multiple sources, quality, price)
- Inventory system (seasonal variation, turnover rates, method of control)
- Space requirements (floor and office space, improvement required, expansion capability)
- Staff and equipment required (personnel by skill level, fixtures, office equipment)

## **CORPORATE STRUCTURE**

- Legal form (proprietorship, partnership, corporation)
- Share distribution (list of principal shareholders)
- List of contracts and agreements in force (management contract, shareholder or partnership agreement, franchiser service agreement, service contract)
- Directors and officers (names and addresses and role in company)
- Background of key management personnel (brief resumes of active owners and key employees)
- Contract professionals/consultants (possible outside assistance in specialized or deficient areas)
- Organization chart (identify reporting relationships)
- Duties and responsibilities of key personnel (brief job descriptions—who is responsible for what?)

## **RISK ASSESSMENT**

- Competitors' reaction (will competitors try to squeeze you out?)
- What if . . . list of critical external factors (identify effects of strikes, recession, new technology, weather, new competition, supplier problems, shifts in consumer demand)
- What if . . . list of critical internal factors (sales off by 30%, sales double, key manager quits, workers unionize)
- Dealing with risks (contingency plan to handle the most significant risks)

## **ACTION PLAN**

- Steps to accomplish this year's goals (flow chart by month or by quarter of specific action to be taken and by whom)
- Checkpoints for measuring results (identify significant dates, sales levels, production levels as decision points)

## **Financial Plan**

The financial plan outlines the level of present financing and identifies the financing sought. This section should be kept concise with supporting material supplied only when requested.

The Financial Plan contains pro-forma financial forecasts. In carrying out your action plan for the coming year, these operating forecasts are your guide to business survival and profitability. Resolve now to refer to them often and, if circumstances dictate, re-work them as necessary. Before presenting your Business Plan to a lender or investor, review your financial statements with your accountant. This familiarity will increase your credibility and at the same time provide you with a good understanding of what the financial statements reveal about the viability of your business.

## **FINANCIAL STATEMENTS**

- Previous years' balance sheets and income statements (include past 2-3 years if applicable)

## **FINANCIAL FORECASTS**

- Opening balance sheet (for a new business only)
- Projected income statements (detailed operating forecast for next year of operation and less detailed forecast for following two years. Use sales forecast as starting point)
- Cash flow forecast (budget of cash inflow and outflow on a monthly basis for next year of operation)

For further guidance in this area, refer to "Preparing a Cash Flow".

## **FINANCING AND CAPITALIZATION**

- Term loan applied for (amount, term, when required)
- Purpose of term loan (attach detailed description of assets to be financed with cost quotations)
- Owners' equity (your level of commitment to the program)
- Summary of term loan requirements (for a particular project or for business as a whole)
- If the purpose of the Business Plan is to attract a new investor, further details would be given here concerning share participation, role in company,

## **OPERATING LOAN**

- Line of credit applied for (new or increase, security offered)
- Maximum operating cash requirement (amount, timing—refer to cash flow forecast)

### **Present Financing (If Applicable)**

- Term loans outstanding (balance owing, repayment terms, purpose, security held)
- Current operating line of credit (amount, security held)

## **REFERENCES**

- Name of present lending institution (branch, type of accounts)
- Lawyer's name (include address and phone number)
- Accountant's name (include address and phone number)

## **APPENDIX**

The following documents may be requested by your banker or potential investor.

- Personal net worth statement (including personal property values, investments, cash, bank loans, charge accounts, mortgages, other liabilities. This will substantiate the value of your personal guarantee if required for security.)
- Letters of intent (potential orders, customer commitments, letters of support)
- List of inventory (type, age, value)
- List of leasehold improvements (description, when made)
- List of fixed assets (description, age, serial numbers)
- Price lists (to support cost estimates)
- Description of insurance coverage (insurance policies, amount of coverage)
- Accounts receivable summary (include aging schedule)
- Accounts payable summary (include schedule of payments)
- Copies of legal agreements (contracts, lease, franchise agreement, mortgage, debenture)
- Appraisals (property, equipment)
- Financial statements for associated companies (where appropriate)

Finally. . .

Preparing a business plan will generate a lot of thought and a lot of paper! Keep in mind, however, that the final document is a summary of your planning process. You can always refer to your working papers later on to substantiate a particular point.

Have your key employees and two or three impartial outsiders review the finished plan in detail. There may be something you overlooked or underemphasized. Also a critical review will be good preparation for your presentation to potential investors and lenders.

## Approaching Lenders

When approaching any financial institution, you are effectively selling the merits of your business proposal. As in all sales, consider the needs of the other party:

- Ability to service the debt with sufficient surplus to cover contingencies (carry interest charges, eventually repay in full—cash flow forecast and projected income statement will show this)
- Track record/integrity (personal credit history, management ability as demonstrated in your Business Plan, company results)
- Your level of commitment (your equity in the business or cash investment in the particular asset being purchased)
- Secondary source of repayment (this includes security in the event of default and other sources of income—discuss this subject with your lawyer before submitting your proposal)
- Lead time (lender needs a reasonable time to assess your proposal—also, the loan may have to be referred to another level within the financial institution)
- Don't overdo it (be sensible with the amount of documentation you provide initially—for example, the Introductory Page, Summary and Financial Plan sections provide a good basic loan submission if the amount requested is small)

## Attracting Investors

Start first by approaching people you know, i.e. friends, bank, credit union or trust company manager, lawyer, accountant, doctor. They, in turn, may know of possible investors. If your business concept exhibits high growth potential, a second alternative is to approach a venture capital company. Either way, take a moment to consider the investor's needs which may differ from a lender's needs:

- Your level of commitment (to be sure that you are sharing the risk)
- Share participation (investors may demand more equity than you are willing to give)
- Rate of return (investors are willing to take a high risk but expect a high rate of return, i.e. to double their money in 2-3 years)
- Involvement in key decisions (possibly as a Director or even an Officer of the company)
- Regular financial reporting (investors usually want to see tight financial controls in place and prompt financial reporting)