

BUSINESS PLAN OUTLINE

Cover Sheet

Statement of Purpose

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1. The Cover Sheet

A simple cover for the proposal identifies:

- ∞ Name and address of the business,
- ∞ Name, address, and telephone of the owners,
- ∞ Date of the proposal or loan request,
- ∞ Identification of the owner, or who prepared the plan.

2. Statement of Purpose

The statement of purpose spells out the purpose of this proposal or what the reason is for preparing the request. It should include a very brief summary of the business as an introduction, then the basic points of the financial proposal. This section is frequently written last, after the main business plan has been prepared, and could be modified for different presentations. The statement is sometimes called an executive summary and should include:

1. What is the business? What are the objectives?
2. How is the business structured/organized?
3. Who are the principals involved?
4. What is the total amount of funding needed to implement the plans?
5. How will the funds be used and benefit the business?
6. How much of the funds are being requested from this funding source? At what terms?
7. What other sources of funding are being considered?
8. How will the funds be repaid?
9. Why does the loan or investment make sense?

I. The Business

A. Description of the Business

The description of the business should enable a reader to become familiar with the business and gain a detailed understanding of the product or service that will be provided. Remember to explain what the product or service does for customers, as successful businesses are customer-driven.

The goals and objectives of the enterprise should be indicated, and a summary of the history of an existing business (when, how, who started the business, major developments or milestones) can be included.

Some of the key questions that need to be addressed are:

1. What type of business is this enterprise (retail or wholesale merchandising, service, or manufacturing, etc.)? What are the industry trends and expectations?
2. Is the business a start-up, an ongoing concern, or a take-over (acquisition) of an existing business?
3. What is the business' legal structure (proprietorship, partnership, or corporation)? Summarize the ownership of the business and any previous capitalization (outstanding shares, management's investment of cash/property).
4. When did (will) the business open? What is the schedule of operation (hours/days of week store will be open, production schedule, special seasonal considerations)?
5. Describe materials and supply sources, methods of production, merchandising strategy, or how orders are received.
6. What will be special/unique about your business?

For a new business, or new owners of a business:

1. What experience do you have in this industry?
2. What do you know about the business, and what is the source of your knowledge?

In a take-over situation, additional questions must be answered:

1. Why is the owner selling the business?
2. How was the purchase price established?
3. What has been the sales trend? How can you make sales more profitable?

B. Market Information and Strategy

This section summarizes the results of your market research, providing the basis for why you believe there is a market niche for your enterprise. You should describe the people who need your service or product—who is your target market, the customers most likely to patronize your store or purchase your products or service. This section should also deal with how you are going to sell your product—your marketing strategy. How have you identified potential customers, how will you contact them, and how will you make a sale?

Some of the questions that should be covered are:

1. Who is your market—primary and secondary customers?
2. Define the market area you have targeted. What is the growth potential?
3. What share of the market is your objective?
4. How will you attract this market?
Your market strategy, addressing:
 - Product—packaging, style, design.
 - Place—channels of distribution/delivery.
 - Promotion—media used to generate awareness.What is your advertising plan (include the costs to produce, media placements and frequency)?
5. What are the planned SALES METHODS, PRICING POLICY, TERMS OF SALE, METHOD OF DISTRIBUTION, and CUSTOMER SERVICE considerations?
6. Is your market seasonal or cyclical? Are there other factors or influences affecting sales?
7. Are there unique market considerations, and how will you address these concerns?

For both the MARKET and the COMPETITION sections, you should be able to provide enough detail to convince the reader that you really know the business and your strategy is reasonable to achieve the level of sales you are anticipating in the related financial projections.

C. Competition

Competition should be recognized and analyzed to understand their strengths and weaknesses and determine how this may affect your share of the market. Most small businesses will not create additional demand for a particular good or service, rather obtain sales by attracting customers from existing businesses in the same market. Be honest in your analysis, and do not neglect consideration of indirect competition—alternative uses of the customers' limited dollars. You should clarify why you believe “there are compelling reasons why potential customers would choose to spend their money at your business instead of elsewhere.”

Some key questions that should be asked are:

1. Who are the five closest competitors?
Where are they located in relation to you?
Are there potential new competitors?
2. How is their business: Steady? Increasing? Decreasing?
3. What are their strengths/weaknesses and resources?
How do you compare to them on these same factors?
4. What have you learned from their operation?
5. What are the critical competitive characteristics, and how does your product compare in the following factors: price, service, and quality?

D. Business Facilities and Operations

For a retail store, the location can be critical to the success of the business. Other ventures may not need to be in high traffic areas, but there are still key considerations that should be addressed in a business plan:

1. What is the address (not just mailing but actual location) of your business? Why was this location selected? What are the advantages and recognized disadvantages? What are the zoning and deed restrictions?
2. What are the physical features (including age, condition, type of construction) of the building? Do you plan any improvements or renovations? What will this cost (based on actual quotes from contractors)? How does this building affect your operating costs (insurance costs, heating/AC, shipping or parking costs, etc.)? Are there opportunities to expand?
3. Will you own or lease the building? State the terms and conditions.
4. What kinds of businesses are in the area? Will they help the business?

Retail business must consider--

The IMAGE from the area (complements or conflicts), traffic count, and demographics.

Manufacturing enterprises should address--

The production capacity of the site vs. planned sales.

Safety and environmental considerations.

Equipment—was leasing considered, what technology was involved?

Subcontracting—how close, what arrangements were made?

Suppliers—delivery schedules, back-ups, terms.

Timing factors for material, inventory build-up, sales, delivery, and payments.

Shipping cost considerations/access.

E. Management and Personnel

If this plan is to be used to obtain financing from a bank or outside investors, the description of management may be the most important section of the proposal. It is imperative to show that the people planning to operate the business have the specific skills and competence needed to make the business a success. You should demonstrate that you have a clear understanding of all the skills/expertise needed to operate this business. If you are weak in particular areas, you can show the steps taken to acquire the necessary expertise. Areas that need to be covered in the management section are:

1. Management Expertise—personal history of the principals, stressing any related work experience or training (resumes of key personnel can be attached).
2. Key Personnel—with duties and responsibilities listed to show understanding of what is involved in managing this business, and then who is to be responsible.

If a corporation, include the organization of the board of directors and officers (organization chart).

Show that you have the expertise, or can acquire by learning or hiring, all required skills.

3. Salaries and employment agreements for key staff to assure that you have a team that is on hand and qualified to implement the plan.
4. Other resources available to the business (consultants).

Beside management staff, it is important to indicate the personnel needed to operate the business, related to the planned level of production or hours of operation. Questions to be addressed are:

1. Present and future manpower requirements (number of employees by job title).
2. What skills are needed, and are qualified workers readily available?
3. Plans for recruiting, hiring, and training, if appropriate.
4. Hours (full or part-time) and wages/compensation plan.

II. Financial Section

The financial data section of the business plan should clearly demonstrate:

The funds needed for the planned business start-up, the proposed expansion, or the new effort.

The sources for the needed financing, indicating the amount and terms for each.

The specific uses of these funds, including equipment lists, estimates for construction and/or installation, inventory to be purchased, or start-up or operating costs to be incurred before sufficient income to pay.

Historic records—typically the income (profit and loss) statements and balance sheet for the past 3 years.

Pro Forma (projected) monthly cash flow, income statement, and balance sheets for 3 years. These should show where the money will come from to repay the loan or satisfy the return on investment.

The collateral available to secure the loan and the financial strength of the principals. Even for a corporation, owners must provide personal financial statements (assets and liabilities) to the bank.

Careful preparation of these financial reports will provide the owners with potential sources of financing a clear perspective of the financial feasibility of the venture. Clear and concise assumptions must accompany the cash flow projections.

Specific Financial Reports

A. Source and Application of Funds

Summary chart of the sources of all funds required for the start-up or expansion planned. Identify source, amount of funds from each source, terms or conditions, and status of commitment.

B. Capital Equipment List

A listing of the specific equipment to be purchased, including the model or other description, cost per unit, source or supplier, whether new or used, anticipated useful life if not common knowledge, and other information to justify expense and need for funds.

C. Balance Sheet

Traditionally for the end of each fiscal year. Compare Assets (current and fixed) to Liabilities (current and long-term) to provide understanding of changes in net worth of the business. For existing businesses, include a current (not more than 45 days old) balance sheet.

D. Pro Forma Cash Flow Projection

Monthly chart of revenues received and other cash available (loans and investments) compared to payment of expenses. Obviously, “Happiness is a Positive Cash Flow” and the enterprise cannot operate long with a negative cash position.

E. Income (Profit and Loss) Statements

Similar to the cash flow but adjusts for tax considerations, depreciation, and interest on loans. For existing businesses, also include the last three years’ income statements.

***Note that the information provided by the balance sheet, cash flow projections, and income statement are interrelated and provide the basis for calculation of the ratios used to assess the worthiness of a loan request or investment opportunity.*

F. Break-Even Analysis

Summarizes the variable costs (cost of goods sold), the resulting “contribution margin,” the fixed costs to be covered, and the sales per year (month, day) necessary to “break even” or just cover expenses.

G. Explanation of Assumptions Used in Preparing the Projections

Explains assumptions in sufficient detail so that the reader can understand where the numbers in the Pro Forma were derived from and can assess the reasonableness of the estimated revenues and expenses.

III. Other Supporting Documents

The following list suggests some of the documents that might be included in a loan request or investor proposal:

1. Resumes of key personnel
2. Credit information for existing businesses
3. Quotes or estimates for equipment or construction
4. Letters of intent/contracts from potential customers
5. Lease or purchase agreements
6. Maps showing location and market information
7. Photographs of products, equipment, or buildings
8. Charts and graphs to support marketing data
9. Articles/reports to support industry trends data
10. Other legal agreements (patents, license to manufacture, employment contracts, etc.)

MISTAKES TO AVOID IN DRAFTING A PLAN

The following are errors in business plan preparation that almost certainly will result in denial of a loan application by a bank:

- ∞ Submitting a “rough copy,” perhaps with coffee stains on the pages and crossed-out words in the text, tells the banker that the owner doesn’t take his/her idea seriously.
- ∞ Outdated historical financial information or industry comparisons will leave doubts about the entrepreneur’s planning abilities.
- ∞ Unsubstantiated assumptions can hurt a business plan; the business owner must be prepared to explain the “why’s” of every point in the plan.
- ∞ Too much “blue sky”—a failure to consider prospective pitfalls—will lead the banker to conclude that the idea is not realistic.
- ∞ A lack of understanding of the financial information is a drawback. Even if an outside source is used to prepare the projections, the owner must fully comprehend the information.
- ∞ Absence of any consideration of outside influences is a gap in a business plan. The owner needs to discuss the potential impact of competitive factors as well as the economic environment prevalent at the time of the request.
- ∞ No indication that the owner has anything at stake in the venture is a particular problem. The lender will expect the entrepreneur to have up to 30 percent equity capital invested in the business.
- ∞ Unwillingness to personally guarantee any loans raises a question: If the business owner isn’t willing to stand behind his or her company, then why should the bank?
- ∞ Introducing the plan with a demand for unrealistic loan terms is a mistake. The lender wants to find out about the viability of the business before discussing the loan terms.
- ∞ Too much focus on collateral is a problem in a business plan. Even for a cash-secured loan, the banker is looking toward projected profits for repayment of the loan. The emphasis should be on cash flow.