

Writing a Successful Business Plan

PURPOSE OF A BUSINESS PLAN

ELEMENTS OF A SUCCESSFUL BUSINESS PLAN

TWELVE STEPS TO A SUCCESSFUL BUSINESS PLAN

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Purpose of a Business Plan

A business plan has three primary functions:

1. To serve as an Action Plan
2. To serve as a Road Map
3. To serve as a Sales Tool

Action Plan. A business plan can help to move you to action. You may have been thinking for years about starting a business or engaging in some venture, but the process may seem too daunting, too large and too complicated. A business plan will help you to pull apart the pieces of starting a business and examine each piece by itself. So instead of one large problem, you have a sequence of smaller problems. And by solving the small problems, the large problem is automatically solved. So writing a business plan can help to move you to action by breaking down a seemingly insurmountable task (starting a business) into many smaller, less intimidating tasks.

Road Map. Once you have started your business, a business plan can be an invaluable tool to help keep you on track and moving in the direction you want to go. In the hurley-burley of daily business, it is very easy to lose sight of your objectives and goals -- a business plan can help to keep you focused. A business plan can also serve to help others to understand your vision, including suppliers, customers, employees, friends, and family.

Sales Tool. Perhaps most importantly, a business plan can serve as a sales tool. You will probably need outside financing to start your business, and a business plan is the tool you need to convince investors to come on board. You may also want and need concessions from suppliers or customers -- a business plan can help you get them. Finally you may need to convince family members, or even yourself, that your ideas will bear fruit. A well-written business plan can serve to sell people close to you on the benefits of proceeding with your concept.

Elements of a Successful Business Plan

Table of Contents (1 page)

Executive Summary (1 page)

Company Overview (1 page)

Products and Services (1 page)

Industry and Market Analysis (~3 pages)

Marketing Plan (~4 pages)

Operations Plan (~2 pages)

Development Plan (~2 pages)

Management Plan (~1 page)

Financial Plan (~3 pages)

Offering (1 page)

Appendices (no more than 15 pages)

Table of Contents

Executive Summary (1 page)

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- Solution
- Competitive Advantage
- Process
- Positioning
- Financials
- Management

Company Overview (~1 page)

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- History and Current Status
- Market and Products
- Objectives

Product or Service Description (~1 page)

- Description
- Market Comparison
- Proprietary Rights
- Stage of Development

Industry and Marketplace Analysis (~2 pages)

- Industry Analysis
- Marketplace Analysis
- Customer Analysis
- Competitor Analysis

Marketing Plan (~4 pages)

- Target Market Strategy
- Product/Service Strategy
- Pricing Strategy
- Distribution Strategy
- Advertising and Promotion Strategy
- Sales Strategy
- Marketing and Sales Forecasts

Operations Plan (~2 pages)

- Operations Strategy
- Scope of Operations
- Ongoing Operations
- Operations Costs

Development Plan (~2 pages)

- Development Strategy
- Development Timeline
- Development Expenses

Management (~1 page)

- Company Organization
- Management Team
- Administrative Expenses

Financial Plan (~3 pages)

- Financial Statements
- Financial Comparables
- Financial Summary
- Financial Assumptions
- Funding Requirements
- Sources and Uses of Funds
- Business Risks

Offering (~1 page)

- Investment Requirements
- Valuation of Business
- Offer
- Exit Strategy

Appendices (15 pages max)

Required

- Key financial assumptions
- 5 year Income Statement
- 5 year Balance Sheet
- 5 year Cash Flow
- Monthly & Quarterly Cash Flow Statements
- Ratio Analysis
- Resumes of founders and principals

Optional

- Surveys and survey results
- Development timeline
- Operations layout
- Sample menus, web pages, adverts, etc.
- Anything else that will help to illuminate and/or sell your plan

Executive Summary

The Executive Summary of a Business Plan is a one-page distillation of your entire plan, and often is the last section to be written. It's objective is to capture the reader's interest, so that they want to read the entire plan. It is not a summary of the plan; rather it should be considered a chance to "sell" the reader on the business opportunity.

A first-time reader should be able to read the Summary by itself, and know what your plan is all about. The Summary should stand-alone and should not refer to other parts of your plan. Remember, most readers will never get any further than your Executive Summary, so make it count!

- **Concept Description:** Summarize the essence of your business.
- **Opportunity:** What is the size of your market? What are the critical trends and how will your company exploit them? What is the compelling need?
- **Solution:** Describe the product or service and what problem you are solving.
- **Value Proposition:** Who is the target market? What are the customer benefits, i.e. what problem are you solving? What is your competitive advantage?
- **Process:** How is the product or service to be produced and delivered? How will this enhance your competitiveness?
- **Management:** Who are the key managers and what is their experience?
- **Financial:** What revenues will be achieved in year 3 or 4 and when will the company breakeven? How much funding is required? What is the exit strategy?

Company Overview

The Company Overview is a brief (one page) description of the company you have founded or want to found. How will it be organized? Will it be a sole proprietorship, partnership, or corporation? What are your ambitions for the company? Will it always be a small company, or do you want to grow it into an international giant? Upon reading this section, the reader should have a good idea of where you are and where you are going with your company. Note that the Company Overview is the reader's introduction to your plan.

Introduction

In the introduction to the Company Overview, answer the following questions in a single paragraph:

- What is the name of our company?
- Does our company currently exist, or will it be forming?
- Where is it located? Where will we grow?
- How is our company organized (e.g., sole proprietorship, partnership, corporation)?

Mission Statement

Your mission statement is a short (one sentence to one short paragraph) inspirational statement of the vision and goals you have for your company. Too many mission statements are vacuous exercises in ambiguity e.g., "employees are our most valuable asset". Be sure that your mission statement is succinct and content rich, and excites your readers.

History and Current Status

Briefly outline the history and current status of your company.

Objectives

In this subsection, spell out the objectives of your company in a single paragraph:

- Where are we going with our company?
- What are our goals for the company (keep it small, grow it big, franchise it, etc.)?
- What is our exit strategy for ourselves and for our investors (sell to larger company, go public, buy out investors, etc.)?

Products and Services Description

The Product and Services section is a detailed description of the products and/or services you will be selling. You should not assume that the reader is familiar with your product/service, so be sure to explain and describe it carefully. Begin to sell your idea here by generating some excitement about your product/service. Be factual, but be enthusiastic. When readers have finished learning about your product or service, they should be primed to wade into the marketing and financial details of your venture.

This description should be more than a product/service offering. What capabilities and assets do you have that will give a real competitive advantage? How can you enhance the product or service with a unique process, resources, employee skills, systems, location, strategic partnerships, etc?

Introduction

Write a one-paragraph description that evocatively describes the experience of customers dealing with your company as they purchase your product. Example (adapted from *The Hill's Kitchen* business plan, Fall 1998):

Entering Hill's Kitchen, customers are engulfed by the aroma of warm, hearty soups and freshly baked breads. They relax to music and peruse our menu of original gourmet recipes and freshly baked breads. A friendly and knowledgeable kitchen staff person greets them at the counter to offer suggestions and health information, and to take their order. Within moments the customer is served a generous portion of hot, hearty, and delicious Hill's Kitchen soup. Accompanying the soup is a large slice of freshly baked bread and a fresh fruit choice, all of which can be carried out or enjoyed in our clean and comfortable dining area. In just those few brief moments, Hill's Kitchen has served another healthy and delicious meal, and satisfied yet another customer.

Description

Briefly describe the product or service

- What exactly is our product or service? What isn't it?
- Who will purchase it? Why?
- What is unique about our product/service?
- What assets or capabilities do we have that will give us a competitive advantage?
- What are its features and benefits?
- How will it be priced?

Market Comparison

In one or two paragraphs, position your product or service in its marketplace:

- What are their products of your principal competitors?
- Why is our product/service superior to the competition, and how is it different?

Proprietary Rights

What proprietary rights do we have to the product/service? (For many products, there are no proprietary rights and this subsection can be deleted.)

- Patents, copyrights, trade secrets, non-compete agreements?
- Other proprietary knowledge or skills?

Stage of Development

Briefly describe the current status of your product or service:

- Where is the product in its lifecycle (early, growing, mature, declining)?
- Is it ready for the market, or is it in development?
- If in development, how far along is it?
- What obstacles remain?

Industry and Marketplace Analysis

The Industry and Marketplace Analysis section dispassionately describes and outlines the industry and the marketplace in which you will compete. The focus in this section is on the industry and marketplace as it currently exists – you may not even mention your business here, unless it already a part of the industry. When finished with this section, you and your readers should understand the dynamics, problems, and opportunities driving your industry and marketplace.

Introduction

Write a brief introduction summarizing your industry and marketplace analysis.

Industry Analysis

In this section, summarize the industry in which you will compete. Most of the research you do for this subsection will probably be in a library, and will come from government statistics and trade organizations. Other great sources of information about an industry are suppliers who sell to the industry, equipment manufacturers, and brokerage firm analysts. Upon completion, your analysis will provide a "big picture" overview of the size and scope of your industry.

- How do we define our industry?
- How is the industry segmented? How are the segments defined?
- What are current trends and important developments?
- Who are the largest and most important players?
- What problems is the industry experiencing?
- What national and international events are influencing our industry?
- What are growth forecasts?

Marketplace Analysis

In your Market Analysis subsection, layout and describe the specific market in which you will be competing. Your market will probably be smaller than the entire industry defined above. For example, if you are opening a restaurant, your marketplace will be limited to the city, and perhaps a specific neighborhood, where you will be located. This is not the place to present your ideas and concepts, but to carefully and analytically describe the larger environment in which you will be participating. Much of the research you do for this subsection will be or talking with experts in the marketplace, including buyers, suppliers, sales representatives, wholesalers, distributors, and retailers. Be sure to identify voids in the market which are currently not served, and which you presumably will fill.

- How do we define our marketplace?
- How large is it and how fast is it growing?
- How is our marketplace segmented?
- What companies currently service this market?
- What trends are important in our marketplace?

Marketplace Buyer Analysis

In this section, identify and segment the current buyers (customers) in your marketplace. Consult industry publications, articles, and trade groups to understand the how the industry defines, identifies, and segments its customers.

- Who are the traditional customers in this market?
- How is the market segmented?
- What motivates buying decisions?
- What channels of distribution are used? What channels are being ignored
- In what ways are customers dissatisfied with current offerings in the marketplace?
- What customer needs are currently unmet by the market?
- What emerging customer groups are being ignored?

Marketplace Competitor Analysis

In this section, identify potential direct and indirect competitors in your industry and marketplace.

- Which are direct competitors? Which are indirect?
- What are the attributes and characteristics of these competitors and their products/services?
- What are their sizes, location, target markets, and other important characteristics?
- For each competitor's products or services, identify price, quality, features, distribution, and other important attributes.
- What problems and concerns do buyers have with these competitors?

Marketing Plan

The Marketing and Sales section of your plan will make or break the prospects for your venture. A great idea is meaningless if you cannot find customers. Carefully drafted and logical financial projections are irrelevant if nobody buys your product. In this Marketing Strategy section you must convince first yourself, and then the reader, that there is indeed an eager market for your product. The Marketing Strategy section is where you show how you are going to fit into the market structure you just finished describing. What are unmet needs in the marketplace and how are you going to fill them? How will you differentiate your product or service from your competitors? What unique features, benefits, or capabilities will you bring to the marketplace? Who are our customers? Research you do for this subsection will be with customers and potential customers. It is imperative that you do sufficient customer research to convince potential investors (and yourself) that customers will indeed come flocking to buy your product or service. Customer research can include simply talking with potential customers to get reactions to your product idea, conducting focus groups, undertaking walk-up or mailed surveys, putting up a mock demonstration of your concept and soliciting customer feedback, and so on. Be creative in finding ways to get honest customer input about your product or service. And finally, don't inadvertently cook the books here. You are undoubtedly enthused about your concept. Customers will pick up on your enthusiasm and often reflect it back to you, leading to erroneous conclusions about customer acceptance. So be neutral and factual as you collect data.

Introduction

Write a one-paragraph description of the critical elements of your marketing plan. Describe your target customer and explain why they would buy from you. What is the compelling need that you are satisfying? How will you position your product/service relative to your competition? Describe the distribution channel and how you will sell the product/service.

Target Market Strategy

Explain your strategy for defining your target market. Describe the unmet needs of your target customers that your product /service fulfills or the problems that it solves.

- What segment of the market are we targeting?
- What characteristics define our target customers?
- How big is our target market? What share of the market will we capture?
- Who are our customers? End users? OEM's? Distributors? Retailers?
- What needs does our product fulfill with our target market?
- What problems are we solving for these customers?
- What evidence do we have that potential customers want our product?
- How will we position our product or service with our customers?

- What evidence do we have that our target market wants our product?

Product/Service Strategy

Describe how your product has been designed and tailored to meet the needs of your target customer, and how it will compete in your target market:

- What specific product/service design characteristics meet the needs of your customers?
- What differentiates our product in our target market?
- How does it differ from that of our competitors?
- What are the strengths of our product/service? Weaknesses?
- Why will customers in our target market buy our product rather than the competitions?
- How will we differentiate ourselves from our competitors, i.e. how is your product/service positioned?
- Why will customers switch to or select us?
- How quickly and how effectively can your competitors respond to our business?

Pricing Strategy

Explain your pricing strategy and why it will be effective with your target customer in your marketplace.

- What is our pricing strategy? Why?
- How does our pricing strategy compare with our competition?
- What evidence do we have that our target market will accept our price?

Distribution Strategy

Describe your distribution strategy and explain why it is the best for your marketplace.

- How will we distribute our product or service?
- What distribution channels will we use? Why?
- How will we gain access to these channels?

Advertising and Promotion Strategy

Explain your advertising and promotion strategy. It is critical that you inform your target market about the availability of your product or service, and that you continue to communicate your benefits to that market.

- How will we advertise and promote our product or service?
- How will we communicate with our customers? Advertising? Public relations? Personal selling? Printed materials? Other means of promotion?
- Why will this strategy be effective in reaching our target customer?

Sales Strategy

Depending on your business, sales may be a critical component of your success. Remember, "Nothing happens until the sale is made." An effective sales strategy is critically important for most manufacturers, publishers, software firms, and many service providers. Don't overlook the importance of formulating an effective sales strategy!

- How will our product or service be sold? Personal selling? TV infomercials? Direct mail?
- Who will do the selling? An internal sales force? Manufacturer's representatives? Telephone solicitors?
- How will we recruit, train, and compensate our sales force?
- How will we support our sales effort? (e.g. internal staff, service operations, etc.)

Marketing and Sales Forecasts

Summarize of your marketing expenses and revenue forecasts here. Include enough information to inform, but not so much that the reader is overwhelmed. For example you might include a table summarizing revenues for a simple business that looks like this:

Revenues	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold	25,000	35,000	50,000	100,000	150,000
Price per Unit	\$25.00	\$23.00	\$21.00	\$18.00	\$17.00
Net Revenue	\$625,000	\$805,000	\$1,050,000	\$1,800,000	\$2,550,000

A table summarizing sales and marketing expenses might look like this:

Sales & Marketing	Year 1	Year 2	Year 3	Year 4	Year 5
Salaries and Fringes	0	23,000	29,250	84,000	102,000
Commissions	31,250	40,250	52,500	90,000	127,500
Telephone, Fax	5,000	7,000	10,000	15,000	20,000
Travel and Entertainment	5,000	6,000	7,000	8,000	10,000
Brochures and Literature	15,000	20,000	15,000	25,000	35,000
Recruiting and Relocation	10,000				
Total Sales and Marketing	66,250	96,250	113,750	222,000	314,500
% of Revenue	10.6%	12.0%	10.8%	12.3%	12.3%

For each table, explain the principal assumptions used to create the table and describe important results such as revenue growth rates, extraordinary expenses, etc.

Operations Plan

The Operations section outlines how you will run your business and deliver value to your customers. Operations is defined as the processes used to deliver your products and services to the marketplace and can include manufacturing, transportation, logistics, travel, printing, consulting, after-sales service, and so on. In all likelihood, about 80% of your expenses will be for operations, 80% of your employees will be working in operations, and 80% of your time will be spent worrying about operating problems and opportunities. Be sure that you carefully link the design of your operations to your marketing plan. For example, if high quality will be one of your comparative advantages in the marketplace, then design your operations to deliver high quality, not low costs.

Remember that you will probably have to make trade-offs with your operations. It is impossible to have the lowest costs, highest quality, best on-time performance, and most flexibility in your industry all at the same time. Often, higher quality means higher costs, lower costs means less variety and less flexibility. Be careful how you make these trade-offs so that you can deliver products to the market in accordance with your marketing plan!

Introduction

Write a brief introduction to the operations section. This can also be a good place to include a more colorful and evocative description of how you will use operations to add value for your customers.

Operations Strategy

In this subsection, describe how you will fulfill your marketing strategy using operations:

- How will you use operations to add value for customers in your target market?
- How will you win in the marketplace on the dimensions of cost, quality, timeliness, and flexibility?
- Which dimensions will you stress and which will you de-emphasize?
- What comparative advantages do you have with our operational design?

Scope of Operations

Describe the scope of your operations. Include details in an appendix, as necessary.

- What will you do in-house and what will you purchase (make vs. buy?) Why does this make sense for our business?
- What will be your relationship with vendors, suppliers, partners, and associates?
- What kind of people will you need to hire?

Ongoing Operations

How will your company operate on an ongoing basis? Include detail in an appendix, as necessary.

Operations Costs

Include a brief summary of anticipated cost of revenue such as this table:

Cost of Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
Direct Costs	275,000	313,250	395,000	725,000	990,000
Salaries and Fringes	70,000	95,000	120,000	175,000	215,000
Facilities	50,000	50,000	50,000	100,000	150,000
Depreciation	17,143	25,714	42,143	66,429	107,143
Warehouse and Shipping	10,000	12,000	15,000	25,000	40,000
Production Supplies	5,000	10,000	10,000	15,000	25,000
Total COGS	\$427,143	\$505,964	\$632,143	\$1,106,429	\$1,527,143
% of Revenue	68.3%	62.9%	60.2%	61.5%	59.9%

Be sure to describe your assumptions and the implications of the forecasts you summarize.

Development Plan

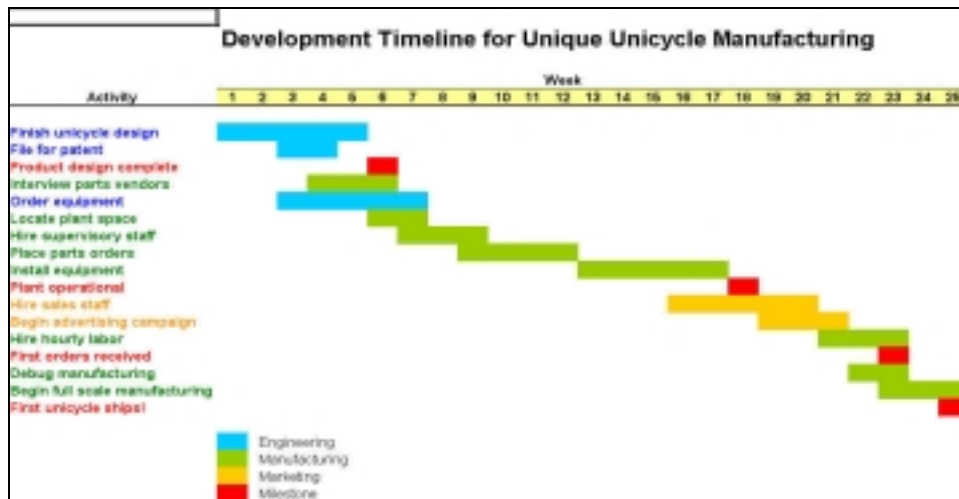
In this section, you will outline how you intend to ramp-up your business. This section is often woefully under-developed in many business plans. Assuming you have a dynamic marketing plan and customers do indeed come flocking for your product or service, you must be able to deliver it to them. The Development section is a road map of how you are going to get from where you are now to where you want to be in the future. If you are starting a business, what are all of the steps that you need to accomplish to get the business up and running? If you are expanding a business, what do you need to do to make it grow? These steps can be as routine as securing retail space, or as critical as applying for and getting a patent on key technology. Don't go into too much detail here. For example, the need to get business cards printed probably does not belong in a development plan. Use your judgment.

Development Strategy

What work remains to launch your company and our products? What factors need to come together to make our concept work? What are you doing to bring them together?

Development Timeline

What is your timetable for launching our company and our products? (Consider adding a chart or table here?) Go out as far in the future as you have plans.



Development Expenses

Include a summary of anticipated development expenses and of the assumptions behind your estimates.

Management Plan

Venture capitalists often assert that there are three attributes important for a successful start-up business: management, management, and management. Many venture capitalist claim they will invest in a strong management team with a mediocre idea, but will decline to fund a weak management team with a great idea. The purpose of the Management section therefore is to convince the reader that you have a great management team to complement a great business concept. This is not the place for modesty or self-depreciation. Be honest, but highlight your accomplishments and your capabilities while mitigating any obvious shortcomings or weaknesses. For example, if you are young and inexperienced, accentuate your energy, capacity for hard work, and willingness to learn, while downplaying your lack of experience. When readers are finished with this section, you want them to be confident that your venture is in good hands and will be competently managed -- by you!

Company Organization

Describe how your company will be organized.

- How will you be organized? What does our organization chart look like?
- What is the ownership structure of your company?
- Will you have a board of directors? Who will be on it? What will be their role?

Management Team

Describe the founders and principal managers who will run your firm.

- Who are the key managers? (Include resumes in the Appendix)
 - What will be their duties and responsibilities?
 - What unique skills do they bring to the venture?
 - How will they be compensated?
- What additions to the management team do we plan? When?

Administrative Expenses

Include a summary of anticipated administration expenses and of the assumptions behind your estimates.

Financial Plan

The Financial Projections section should be frosting on a cake. You've outlined a great business concept, demonstrated a real need in the marketplace, shown how you will execute your ideas, proven that your team is just right to manage the venture, and now you will show how much money everyone is going to make. Note, however, that if your business concept is weak, or there is not a market, or if your execution is poor, or if your management team is incompetent, then your financial plans are doomed to failure. If you haven't convinced your readers by now in the strength of your concept, then they won't be convinced with your financials.

Having said this, it *is* important that you have strong, well-constructed financials. If you can't show that your great concept is going to make money, your readers will quickly lose interest. To construct your financials, we highly recommend that you start with your revenue projections and then consider the development and operations plan to create a schedule or timetable of development and operational activities.

Financial Statements

From these activities, you can then create *pro forma* income statements, balance sheets, and cash-flow projections, and for at least three years into the future, and sometimes five. As a rule of thumb, your financial projections should extend far enough into the future to the point where your business has achieved stable operations.

After you have prepared the annual projections, forecast the first year of your financial projections month-by-month, since cash flows are critical in the early stages of any startup. The second and third year financial statements should be projected quarterly. Be sure that your financial projections are in congruence with the other sections of your plan. For example, if you say you will open 3 stores in Year 2 and your financials showing you opening 5 stores, readers will quickly lose confidence in your plan.

In summary, the following projections are required and should be placed in the Appendix:

- Income Statement 3-5 years
- Balance Sheet 3-5 years
- Cash Flow 3-5 years
- Cash Flow 1st year by months
- Cash Flow 2nd and 3rd years by quarters
- Break-even Analysis

Financial Comparables

To help to validate your financials, compare critical financial measures from your plan to peer companies in your industry. Be able to explain and justify significant differences. Adjust financial statements if necessary.

- Compare with peer companies your projections of Ratios (working capital, fixed assets, debt, etc.), Profitability (gross profit margins, operating expenses, EBITDA, etc.) and Returns (return on capital, equity, etc.) and Growth rates (revenues and net earnings).
- Understand where and why there are differences – differences are perfectly acceptable *if* they can be explained and justified.
- If you cannot justify significant differences, adjust your financial statements to bring them more into line with your industry.

Financial Summary

Prepare a summary of your financial projections to be included in this section of the Plan. The following format should be utilized:

Summary of Financial Projections (\$000)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Income Statement					
Revenue	625	805	1,050	1,800	2,550
Gross Profit	198	299	417	694	1,023
Operating Expenses	200	261	324	573	776
EBIT	(102)	38	94	120	247
Net Earnings	(102)	38	82	72	148
% of Revenue	-16%	5%	8%	4%	6%
Cash Flow					
Cash Flow from Operating Activities	(148)	45	100	64	180
Depreciation	17	26	42	66	107
Capital Expenditures	120	60	115	170	285
Increase/(Decrease) Long Term Debt					
Increase in Common or Preferred Stock					
Dividends					
Balance Sheet					
Cash	212	188	172	66	(38)
Net Fixed Assets	103	137	210	314	491
Long Term Debt					
Shareholder's Equity	500	500	500	500	500
Retained Earnings	(122)	(96)	(13)	60	208
Growth					
Revenue Annual Growth		29%	30%	71%	42%
Net Earnings Annual Growth			118%	(12%)	105%

Write a description of the key financial drivers of the venture. What assumptions have you made that will determine the financial success of the business? For example, what minimum number of customers per day and average selling price is assumed? What level of costs per unit must be achieved? What are the customer acquisition costs? What level of discount is assumed for the distribution channel? What are the lease costs for the site? What is the development cost and timing of a new product?

Financial Assumptions

What assumptions have you made in putting together your financial forecasts? Describe in detail:

- Revenue forecasts (prices, volume, discounts, margins)
- Cost of Goods Sold (materials, labor, major indirect expenses)
- Sales and Marketing expenses (numbers of people, key salaries, customer acquisition costs, commissions, exhibitions, advertising and promotion)
- Development expenses (numbers of people, key salaries, subcontract, major expenses)
- Administrative expenses (numbers of people, key salaries, profit sharing, rent, major expenses)
- Extraordinary income and expenses
- Tax rate
- Capital Expenditures (major expenditures, depreciation)
- Working Capital (accounts receivable, inventory, payables)
- Funding (amount and timing of equity and debt, interest rate)
- Valuation calculations
- Other assumptions as needed

Place your Financial Assumptions in the Appendix

Funding Requirements

From your cash flow statement, determine the required amount and timing of investments needed to execute your plan.

- Review the monthly cash flow profile of your business during its first year and the annual cash flow profile for the subsequent five years.
- Determine the amount and timing of cash infusions needed to prevent cash balances from going negative.
- Add a cash safety cushion to anticipated cash needs to protect against unexpected expenses or delayed income. A cushion of twenty-five percent is a good starting point in many situations.
- Develop a funding strategy that is consistent with your cash needs. For example, if you need cash in year one and again early in year two, it may make sense to seek funding in one lump sum in year one. Alternatively, if cash is needed in year

one and again late in year two or year three, it may make better sense to seek funding in two tranches: the first in year one and a second in year two.

Sources and Uses of Funds

Sources of Funds.

Determine the type of funding most suitable for your business: equity, debt, or non-traditional financing.

- ***Equity funding*** is appropriate for most start-up businesses with moderate to large cash needs.
- ***Debt*** may be appropriate for existing businesses with a financial track record and assets, or for start-up businesses with modest cash needs. In the latter case, credit card or other consumer debt may be appropriate.
- ***Non-traditional financing*** may be appropriate when customers or vendors are willing to participate in the business.

Determine the most appropriate source(s) for the type of funding you seek

- Sources of ***equity funding***
 - *Friends and family* – suitable for smaller businesses with modest cash needs, and that will eventually be able to pay dividends or buy back shares. Or, seed stage for high growth ventures.
 - *Angel investors* – suitable for moderately sized business with moderate cash needs, excellent growth potential, and a clear exit strategy. Or, seed stage for high growth ventures.
 - *Venture capitalists* – suitable for potentially large businesses with large cash needs, extraordinary growth potential, and a clear exit strategy (e.g., will go public or will be acquired)
- Sources of ***debt financing***
 - *Banks* – suitable for businesses with established credit records, ongoing operations, and/or physical assets to use as collateral.
 - *Credit cards, second mortgages, consumer debt* – may be suitable when cash requirements are small and the business will quickly begin to through off cash.
 - *Friends and family* – may be suitable for small businesses with modest cash needs, and with the ability to make loan payments on a timely basis
- Sources of ***non-traditional financing***
 - *Leases* – lease rather than purchase equipment; cash flow must permit regular lease payments.
 - *Customer advances* – customers pay for merchandise or service at time of order in order to assist business and secure needed product.
 - *Customer participation* – customers purchase an equity stake in the business to secure need product and reliable source of supply.
 - *Vendor participation* – vendors furnish equipment and/or supplies in return for an equity stake in the business to secure initial and follow-on sales.

- *Other creative arrangements* – sources of non-traditional financing are limited only by the creativity and ambition of the entrepreneur.

Uses of Funds. Based on the estimate of the funds required, describe how the funds would be used. Summarizes the major expenditures, e.g. product design and development, marketing actions, capital expenditures (describe major expenditures), losses in the early years, working capital, etc. This analysis should be included in the Offering.

Business Risks

What are the risks to the successful implementation of our plans? Are they technological risks, e.g. we can't make our product work? Cost risks, e.g. it costs more than we figured? Competitive risks, e.g. are we preempted in the market by a competitor? How do you plan to minimize these risks? What is the worst-case scenario and how will you respond? Focus on risks that are important and critical to your business, not the ordinary operating risks faced by any business.

Offering (Funding Request)

The Offering (or Funding Request) is where you make your pitch for money. If you have decided to seek equity capital, then you need to describe the type of security being offered (common, preferred, warrants, etc) to the investor and what share of your company they will receive for a specified investment. If you are seeking a loan, then you need to indicate to potential lender how the loan will be repaid and what is the interest rate. In either case, it is important that you clearly spell out the key terms of the proposal and sell the advantages to the investor/lender, and make it clear how they can get a satisfactory return. Also, it is important that you persuade investors that the deal you are offering is fair to them and is supported by the facts. Finally, remember that everything is open to negotiation, so don't give away the farm on the first round!

Investment Requirements

Using your cash flow analysis, what investment do we require to achieve our plans? What is the timing?

Valuation of Business

What is the value of our company? How did you calculate this value? Put analysis in the Appendix.

Offer

What is the structure of the deal we are offering or seeking? How much money do we want? How much of the company are we willing to offer? How much interest are we willing to pay? What collateral do we have for a loan? What is the planned exit strategy for investors? What is the anticipated return on investment for investors?

Exit Strategies

What is our preferred exit strategy? How can investors realize a return on their investment? Go public? Sell out? Operate and grow? What is our exit strategy if the business does not develop as we hope?

Appendices

The appendices are where you should collect all of the documentation that supports the body of your business plan. As with the plan as a whole, it should be complete, but succinct. Include those documents that are required (e.g., financial projections), those that are helpful (e.g., results of marketing studies), and those that assist in selling your idea (e.g., letters of interest from potential customers). Don't include lots of tangential information such as newspaper clippings or tables of data unless they serve to bolster your plan. One way to deal with information that is voluminous and/or lengthy (such as a large market research study) is to summarize it, and note in the plan that the complete document is available upon request.

Required items

Financial Statements

- Income Statement
- Balance Sheet
- Cash Flow
- Monthly and Quarterly Cash Flow Statements
- Break-even analysis
- Financial assumptions

Management resumes

Optional items

Surveys and survey results

Development timeline

Operations layout

Sample menus, web pages, advertisements, etc.

Anything else that will help to illuminate and/or sell your plan

Twelve Steps to a Successful Business Plan

Writing a business plan is a demanding and complicated task. To help organize the work, this twelve step schedule will help to move the work forward:

Step1 – Assess your Concept

Step 2 – Begin Industry and Marketplace Analysis

Step 3 – Begin Marketing Plan

Step 4 – Begin Operations Plan

Step 5 – Begin Development Plan

Step 6 – Build Strategy

Step 7 – Forecast Revenues and Expenses

Step 8 – Create Financials

Step 9 – Determine Funding Needs

Step 10 – Formulate an Offering

Step 11 – Publish your Plan

Step 12 – Present your Plan

In the following descriptions of the twelve steps, those subsections listed in ***bold italics*** should be completed in the current step.

Step 1

Assess your Concept

- A. Write a two page Concept Summary as outlined in the attached description. This summary will serve as a reference and motivational document as you work through the rest of the plan.
- B. Prepare the Financial Comparables Analysis. In the *Financials* Excel workbook complete the “Comp” spreadsheet.

Step 2

Begin Industry & Marketplace Analysis

- A. Write an initial draft of the **Product/Services Description** section of your plan (about 1 page)
- B. Complete necessary research and write a draft of the first two sections of the Industry and Marketplace Analysis:

Industry and Marketplace Analysis

Industry Analysis (about 2/3 of a page)

Marketplace Analysis (about 2/3 of a page)

Customer Analysis

Competitor Analysis

Step 3: Begin Marketing Plan

- A. Write a one-paragraph ***Mission Statement*** for your business that expresses your vision, ambitions, and goals for your business. This should be a “shining city on the hill” statement that will excite and motivate you, your business partners, potential investors, and others interested in your business. Post your vision statement in a prominent location where you can review it as you work on your plan. This mission statement will become the opening paragraph of the Company Overview of your plan:
- B. Conduct necessary research and complete of draft of the ***Customer Analysis*** subsection of your plan:

Industry and Marketplace Analysis

- Industry Analysis
- Marketplace Analysis
- ***Customer Analysis***
- Competitor Analysis

- C. Undertake the customer research described previously and write a complete draft of the ***Target Market*** subsection your plan:

Marketing Plan

- Introduction
- ***Target Market Strategy***
- Product/Service Strategy
- Pricing Strategy
- Distribution Strategy
- Advertising and Promotion Strategy
- Sales Strategy
- Marketing and Sales Forecasts

- D. Write a complete draft of your Company Overview section:

Company Overview

- ***Introduction***
- ***Mission Statement***
- ***History and Current Status***
- ***Objectives***

Step 4

Begin Operations Plan

- A. Write an analysis describing the competitive landscape of your industry and marketplace:

Industry and Marketplace Analysis

- Industry Analysis
- Marketplace Analysis
- Customer Analysis
- ***Competitor Analysis***

- B. Write a draft of your product/service strategy for the marketing plan. As part of your research for this section, construct several product attribute maps to demonstrate how your product or service compares with that of the competition. You may or may not decide to include your attribute map(s) in the appendices of your plan.

Marketing Strategy

- Introduction
- Target Market Strategy
- ***Product/Service Strategy***
- Pricing Strategy
- Distribution Strategy
- Advertising and Promotion Strategy
- Sales Strategy
- Marketing and Sales Forecasts

- C. Complete a draft of the introduction and scope of operations subsection of your plan:

Operations Plan

- ***Introduction***
- Operations Strategy
- ***Scope of Operations***
- Ongoing Operations

Step 5

Begin Development Plan

- A. Complete a development timeline illustrating the important milestones and events in your business rollout.
- B. Write one to three paragraphs describing your timeline and rollout strategy.

Development Plan

- Development Strategy
- ***Development Timeline***
- Development Expenses

- C. Complete drafts of you're the pricing and distribution strategies for your product:

Marketing Strategy

- Introduction
- Target Market
- Product/Service Strategy
- ***Pricing Strategy***
- ***Distribution Strategy***
- Advertising and Promotion Strategy
- Sales Strategy
- Marketing and Sales Forecasts

- D. Write a one to three paragraph description of your ongoing operations:

Operations Plan

- Operations Strategy
- Scope of Operations
- ***Ongoing Operations***
- Operating Costs

- E. Complete the first two parts of the management section of your plan. Collect personal resumes of founders and key managers to include in appendices.

Management Team

- ***Company Organization***
- ***Management Team***
- Administrative Expenses

- F. Prepare a **Gross Margin** analysis, showing major assumptions for prices and cost of revenue (labor, materials, etc.)

Step 6

Build Strategy

- A. Write the Introduction, Advertising, and Sales Strategy sections for your marketing plan:

Marketing Strategy

- ***Introduction***
- Target Market Strategy
- Product / Service Strategy
- Pricing Strategy
- Distribution Strategy
- ***Advertising and Promotion Strategy***
- ***Sales Strategy***

- B. Write a complete draft of the introduction and Operations Strategy sections for your Operations Plan:

Operations Plan

- ***Operations Strategy***
- Scope of Operations
- Ongoing Operations

- C. Write the development strategy subsection of your development plan:

Development

- ***Development Strategy***
- Development Timeline

Step 7

Forecast Revenues and Costs

In the *Financials* Excel workbook

- Complete the RATIOS section of the FINANCIALS spreadsheet.
- Complete the “Revenues” spreadsheet
- Complete the *Sales and Marketing* section of the “Salaries” spreadsheet
- Complete the *Sales and Marketing* section of the “Ops Expense” spreadsheet
- Complete the “COGS” (cost of goods sold) spreadsheet
- Complete the *Cost of Goods Sold* section of the “Salaries” spreadsheet
- Complete the “Plant” spreadsheet
- Complete the *Research and Development* section of the “Salaries” spreadsheet
- Complete the *Research and Development* section of “Ops Expense”
- Complete the *General & Administration* section of the “Salaries” spreadsheet
- Complete the *General & Administration* section of “Ops Expense”

Step 8

Create Financials

- A. Carefully review and integrate the major sections of your plan:
- Industry and Marketplace Analysis
 - Marketing Plan
 - Operations Plan
 - Development Plan
- B. In the ***Financials*** Excel workbook, complete the following spreadsheets:
- “Extra” – include any extraordinary expenses (e.g., startup costs)
 - “Taxes” – estimate tax rates appropriate for your business type
 - “WorkCap” – estimate required working capital
- C. In the ***Financials*** Excel workbook, carefully examine and review the automatically generated “Income” spreadsheet. Answer the following questions:
- Will your business make money? Are your results credible?
 - Are your costs of goods sold, gross profits, operating expenses, and net earnings in line with your industry? If not, can you justify the difference?
 - What refinements need to be made to subsidiary spreadsheets to create a more compelling income statement?
- D. In the ***Financials*** Excel workbook, complete the following spreadsheets:
- *Balance* – verify that assets equal total liabilities plus equity
 - *CashFlow* – how much funding to maintain positive cash balances?
 - *Funding* – assume all equity funding at this point
 - **Note:** you will need to iterate through these three spreadsheets to provide adequate funding, keep positive cash balances, and get your balance sheet to balance.
- E. Create a ***monthly cash flow statement*** for the first two years of operations and ***quarterly cash flow statement*** for years 3 to 5. Verify that your monthly cash flow statement reconciles with your 5-year statement
- F. Write succinct descriptions of the key assumptions in the Financial Assumptions section and the financial drivers in the Financial Summary section.
- ***Financial Statements***
 - ***Financial Comparables***
 - ***Financial Summary***
 - ***Financial Assumptions***
 - Funding Requirements
 - Sources and Uses of Funds
 - Business Risks

Step 9

Determine Funding Needs

- A. Determine your *Funding Requirements* as described above
- B. Decide on the *Source of Funds* that will be used will be used to fund the business. Prepare a summary of the major *Uses of Funds*.
- C. Describe the major *Business Risks* that your business will face.

Financial Plan

- Financial Statements
- Financial Comparables
- Financial Summary
- Financial Assumptions
- *Funding Requirements*
- *Sources and Uses of Funds*
- *Business Risks*

Step 10

Formulate an Offering

- A. Write a compelling *Executive Summary* for your plan. Ideally, your summary should be two pages long. The sections of the summary should be the same as the sections of your plan.
- B. Determine the value of your company using the Venture Capital method and/or the Discounted Cash Flow method.
 - *Investment Requirements*
 - *Valuation of Business*
 - *Offer*
 - *Exit Strategies*

Step 11

Publish your Plan

- A. Create a set of relevant appendices. Only include information that is necessary to understand your plan or significantly helps to sell your concept. Do not include tangential or marginal information.
- B. Organize the various parts of your plan as described above.
- C. Print, copy, and bind your plan with an attractive cover. Choose a binding (e.g., spiral or plastic teeth) that allows your plan to lay flat when opened.

Step 12

Present your Plan

Presentation: Prepare a compelling presentation of your plan

- Create a 20-minute presentation using overhead transparencies or computer projections
- Your presentation should not have more than 20 slides (1 per minute maximum)
- Hit the high points – don't try to include all of the detail of your plan
- Use pictures and graphics on every slide to help hold the interest of your audience
- Don't include tables with financial numbers – use graphs and charts instead
- Be prepared with backup slides for questions from your audience
- Be sure to introduce yourself and other speakers

Organization: Consider using this organization for your presentation.

Topic	Time
Introductions	1
Product Description, Company Overview	3
Industry and Marketplace Analysis	3
Marketing Strategy	5
Operations and Development	3
Financial Projections	3
Offering	1
Conclusions and request for questions	1
	20 minutes

You will obviously need to modify this timetable to fit the specific requirements of your business.