

# ***Business Planning Guide***



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# BUSINESS PLANNING GUIDE

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## WHAT IS A BUSINESS PLAN?

A business plan is a written summary of your business and describes what you wish to achieve by being in business and how you intend to organize your resources to meet these goals.

A business plan is a road map for success. It helps eliminate unknowns and misunderstandings that can arise if you don't take the time to put your thoughts, plans and research on paper.

The plan will:

- Highlight your management and organizational skills
- Outline the business's availability and use of funds
- Discuss management and personnel
- Describe products or services
- Articulate the market strategy
- Highlights the past (if there is one), present and future of the business.

Whether you are already operating or just starting a small business, a well written business plan can help you get to where you want to go, effectively and efficiently.

## PURPOSES OF THE BUSINESS PLAN

- forces you to think through your business idea
- helps you judge and evaluate a business idea so there is less risk (there is less risk with the more you know)
- shows where you need help or more information
- organizes and presents information about your business so you can progress logically and stay on track
- increases your self confidence
- lessens the risk of oversights and errors
- organizes ideas so you can communicate them to others
- increases chances of business success once established
- reminds you of good ideas and ways to save time or money, especially important as you get busier
- helps you obtain necessary financing

One major cause of small business failure is lack of planning. ***Failing to plan is planning to fail!***

**If you don't know where you are going, you may end up somewhere you don't want to be.**

## WRITING THE PLAN – SOME TIPS

**Tip:** Make sure and do the research for your plan *before* you start writing the plan!! Do the plan in a logical order.

**Tip:** Written words are communication tools. Writing is easy for some people and harder for others. Learning to write takes practice so be patient. Start writing your business plan in draft form. Even if you hire a consultant to prepare your plan, you should work closely with that person so you know your business inside and out. It is you that will be running and responsible for the business, not your consultant. Remember that your business plan is a marketing tool, if it doesn't look professional, you don't look professional.

**Tip:** All businesses are different. Some plans may be short and simple and others can be very complex and take considerably longer to write. You should shape your plan according to your business and the purpose of the plan. The plan should be as detailed as possible, but you should be comfortable with it. Remember that it should be adaptable and flexible.

**Tip:** If you are planning on getting financial assistance from a specific lender, use the format that they provide. Most lending institutions will have their own business planning formats. The information that will be included will be the same, it may just be organized in a different manner.

**Tip:** Write a draft copy of your plan and get someone to review it. You can bring in your business plan to our office, and we will review it and provide feedback. Take advantage of the resources that are available!

## PRESENTING THE PLAN

How the business plan is presented and looks will influence its effectiveness. Presentation of the plan includes a clean and complete typed or printed copy with smooth pages, in correct order, with covers, a title page and a table of contents inside the front cover. Your plan should convey your business image and display professionalism.

You need to be familiar with the plan because it is you that will need to meet with and discuss it with business contacts and lenders. You can depend on it to help you present the necessary information about your business in a clear, logical manner helping you be more confident. You have a written plan to help you.

## **UPDATING THE CONTENTS**

Writing the business plan is not the end of the process. For you to get as much use out of the plan as possible, you should work with it and revise it regularly. The recommendation is about once a year. Managing and operating a business will be much easier and successful with one.

## **BUSINESS PLAN OUTLINE**

There are many business plan templates out there, but all attempt to capture the same information. The basic format of a business plan includes:

**Table of Contents**  
**Executive Summary**  
**The Company**  
**The Market**  
**The Market Strategy**  
**Operations**  
**Project Requirements**  
**Financial Statements**  
**Appendices and Exhibits**

You can use this guide, purchase software from an office supply store, buy a business plan handbook, consult your lender, or use the Interactive Business Planner ([www.cbsc.org/ibp](http://www.cbsc.org/ibp)) to help complete your plan.

***Are you ready to start writing?***

## Executive Summary

Your executive summary should be capturing, concise and should provide an accurate description of your venture. This summary should be short (one to three pages). A well-written summary should encourage the reader to want to read more.

### ***Your executive summary should include the following:***

- The purpose of the plan - Is it to attract investors? Or to capture the interest of financial sources?
- Describe the type of business. Is it a retail, service or manufacturing business? If there is a history for this business, briefly describe it.
- What is the status of the business? Is it a new business start up or an expansion?
- How is the business formed? Is it a sole proprietorship, partnership or corporation?
- What product are you selling or service are you offering? Who are your customers?
- Describe the market place need that you are satisfying, methods that you are using to satisfy those needs and who the individuals or businesses are with those needs.
- Why is the business going to be profitable? What are your distinct competencies? What does your company do that makes you competitive?
- Include a brief financial summary if the company has a history or a brief prospective financial summary.
- Summarize the project details. It is here that you overview what the cost is and whether you are seeking financing, including the amount.

**Tip: Write the executive summary *last*, so you can include relevant information to meet your reader's requirements and highlight your operative and financial goals as defined in the body of the plan. You will be able to 'cut and paste' from the rest of the document to answer these questions.**

**Tip: This is the first chance you will have to sell your idea – SELL HARD!**

## THE COMPANY

- Include the contact information for your business. If you do not have a business address yet, include your personal address or contact information.
- What is the nature of your business? What are the market place needs and how will you be satisfying them?
- What are your distinct competencies? These describe why your customers should come to you rather than the competition.
- What are your competitive advantages and disadvantages?

## DESCRIBE THE MARKET

The topics that are discussed in this part of the business plan include the conditions of the industry, your competition and your customers (also known as the 3 C's). By carefully researching this information, you will have a good understanding of the environment in which you will be operating. A good market analysis will help you complete accurate financial projections.

**Tip: See the publication entitled Your Guide to Market Research for a list of sources to help you complete this section.**

### Conditions of the Industry

- What is the industry that you are in? Describe this industry.
- What are the conditions of this industry?
- What is the state of your industry? Is it growing, stable or declining? What are the trends in this industry?
- What is the size of the industry? You must support this figure with market research information including data and statistics. This size can be determined in dollar amounts or numbers.
- What is the market growth potential? You should support this with factual data. Look at local, national and international markets.
- Are there barriers to entry? If there are, what are they? Barriers could include patents or trademarks, cost, technology, customer or brand loyalty, personnel or time.

## **Competition**

It is important to take a close look at your competitors. Everyone has competition!!! Don't underestimate your competition!!! It will be very valuable for you to keep up on who your competitors are and what they are doing. It encourages you to be proactive rather than reactive.

**Tip: Think of your competition from the customer's perspective, and not as a business owner. There might not be another business out there like yours, you might be unique, but you are still competing for *the dollar*.**

Complete a SWOT analysis on your competition and your business. SWOT represents Strengths, Weaknesses, Opportunities and Threats.

You should evaluate your competitors strengths and weaknesses on the following:

- ability to satisfy customers' needs
- company's track record and reputation
- pricing
- product quality
- customer service
- warranty
- image
- location
- unique product or service offering
- new or specialized technology

Once you take a closer look at your business and competition, you may have a different list. You should also complete a SWOT analysis on yourself using the same criteria that you used on your competitors. It is useful to know what is important to the customer and complete the evaluations using this criteria.

- What are your competitive advantages? What are the things that you do better than the competition.
- You should *build* on your strengths, *take advantage* of opportunities, *minimize* internal weaknesses and *reduce exposure* to external threats.
- What are the key success factors in your business? You should be aware of what it takes to succeed in this business and prove that you possess these characteristics.
- How will you position yourself compared to your competitors? For example, will you be offering high or low quality or high or low price.

**Tip: In your draft plan, use a fresh piece of paper with each competitor's name at the top, following by their SWOT analysis. Summarize your results in the final business plan in this section, and put your full page(s) of notes in your appendices.**

## Customers

**Tip: Customers are the source of your cash flow. If you don't know enough about your customers, you will run into problems in the future. Take extra time to work on this section, and be sure to pay close attention to your customers' wants and needs once you start up.**

- *Who* are your customers? Consider age, gender, marital status, income, background, location, occupation, lifestyle, values, family life, education etc.
- *What* do your customers want? What are the features and benefits that they want from you or your product?
- *When* do your customers buy? Is it daily, weekly, monthly, seasonally or occasionally? Are there any seasonal or cyclical trends?
- *How* do your customers buy? Do they shop around for the best price, buy using cash or credit, do they read and listen to advertising?
- *Why* do your customers buy? Is it for investment or status reasons, for pride of ownership, fashion or is a basic, impulse or luxury item?
- *Where* your customers are located?
- How big is your target market? \$\$\$ or numbers. Consider:
  - the number of potential customers
  - annual purchases of products or services
  - geographical area
  - anticipated market growth
- What are your market share projections? How much of the 'pie' are you planning on capturing?
- What are the consumer/customer trends? Who is the decision maker?

**Tip: You can never gather enough information about your customers. It's important as a business owner to keep your finger on this pulse!**

## **MARKET STRATEGY**

The Marketing Strategy includes the six P's and Distribution - Price, Product, Place, Promotion, Packaging and Positioning. Make sure that your marketing strategy makes sense and flows from the information that you gathered in the market analysis.

### **Product/Service Offerings**

- What is the product? What are you selling? What is it used for?
- What are the unique or innovative features? What variety and quality of products and services should I offer?
- Are these consistent with my image?
- Are these consistent with my consumer preferences?

### **Place**

- Where will you be located? Where will you be selling?
- Is your location important to your customers?
- Is your location consistent with your image?
- Does your location provide exposure, convenience and professionalism?

### **Pricing and Mark up Strategy**

- What is your pricing strategy?
- How do you plan on pricing, yet remaining competitive?
- Are you going to offer discounts and if so what is your discount structure?

### **Promotion**

- How are you selling your product or service? How are you advertising?
- What are your businesses promotional objectives?
- How much will these promotional activities cost?
- What is the timing of these promotional activities?

### **Packaging**

- What message do you want your packaging to convey?
- Packaging is a marketing tool so you should consider it carefully.
- Consider your image.

### **Positioning**

- Why will customers come to my business as opposed to the competition?

### **Distribution**

- How will you get your product or service to the market?

**Tip: The information you provide here will flow from the market research you've done in the previous section.**

## **OPERATING DETAILS**

### **Goals and Objectives**

- What are your overall company goals and financial objectives? What do you want to achieve? These should be identified in measurable terms.

### **Management and Personnel**

- Describe the organizational structure of your company. Who are the key people and what are their positions and responsibilities?
- Identify the owners and management team. Who they are? What strengths do they bring to the business including experience and expertise?
- What are the staffing requirements. Include: training, compensation, health and safety issues and operating policies.
- Describe pertinent legal issues including municipal and other licenses, constraining laws, environmental concerns and liability issues.

### **Business Contacts**

- List of business contacts including: suppliers, professional advisors including your accountant, lawyer and banker, and insurance agent.

### **Manufacturing Information**

- Include the manufacturing process if applicable.

### **Hours of Operation**

- Specify your hours of operation.

### **Inventory Control**

- What are your methods for controlling inventory?

**Tip: Make use of the appendices section of the business plan. You can refer to items like your resume, supplier contacts, pictures of the product or location, anything that supports the information you provide here.**

## **PROJECT REQUIREMENTS**

This is where you will be required to list what you need to get started and how much each item costs. You should have a clear idea of what is needed and should include both the large and smaller items.

### **Capital Requirements**

Capital requirements are larger things that you need to start and operate your business such as land, building, vehicles, tools, machinery, equipment, furnishings, etc.

### **Start - up Costs and Working Capital**

Start up costs are smaller in nature and include: initial advertising, inspections, fees, deposits, building renovations, printing, promotions, grand opening, insurance, office supplies, professional fees and licenses.

## **FINANCIAL STATEMENTS**

**Tip: It is important that you complete an accurate market analysis of your customer, competition and industry conditions in order to complete accurate and useful projections.**

An existing business should provide historical statements. Include Income Statements and Balance Sheets for the past three years.

New businesses must estimate sales forecasts by month for the first year and estimated second and third year annual sales. Be sure to include the rationale or assumptions behind the sales forecasts.

Complete a 12 month cash flow forecast statement for the first year, done month by month.

Sources and uses of funds. How much money do you need to get started? What will you be using it for? Proposed sources of financing. Where do you plan on getting your funding from?

Break even analysis is the point at which you have paid for all your expenses and costs and have started to make a profit.

Your personal statement of net worth.

Statement of forecast assumptions. This will state the assumptions you have made to achieve your sales levels.

## **FINANCIAL STATEMENTS OVERVIEW**

The two main financial statements are the Balance Sheet and the Income Statement.

### **The Balance Sheet**

The balance sheet presents the financial picture of the business at specified point of time on the day it was written. The income statement is different, it is a measure of activity over time. Everything that is included on the financial statements must be valued in dollars and cents.

The balance sheet will show the companies assets, liabilities and equity.

**Assets** - include everything that you have including cash, inventory, machinery and buildings. Assets have value and this value must be quantifiable in order to be listed on the balance sheet.

**Liabilities** - how much the company owes and are obligations of the business. Liabilities include things like accounts payable and bank loan.

**Equity** - what the business is worth. Equity includes the original amount of money that the owners have put into the business and the retained earnings which is the earning that the owners have kept in the company.

The Balance Sheet must always 'balance'  
 $\text{Assets} = \text{Liabilities} + \text{Owners (or Shareholders) Equity}$

### **The Income Statement**

The Income Statement shows the profitability of a business. It provides the measure of business activity over time. This time period is specified on the Income Statement (for example, one month or one year).

The Income Statement will show the activity over time including what sales are, costs and expenses and income. Income occurs if sales exceed expenses (and that is what you want).

## **Cash Flow Statement**

This statement tracks the movement of cash through the business over time. The statement shows the cash that is on hand at the beginning of the period plus the cash that is received during that period, minus the cash spent results in the cash on hand at the end of the period.

If the company is paying out more in cash than it is receiving, it risks running out of cash and not being able to pay the bills when due.

**Tip: If you overestimate your expenses and underestimate your sales, you may help create a 'buffer zone' to eliminate the cash crunch.**

## **APPENDICES AND EXHIBITS**

This is the appropriate place for you to include any additional information that you feel would be useful to your readers, but need not be included in the body of the plan. This information is best placed here so it will not add 'bulk' to the plan. Information included here will add more detail to support the information in the plan. This information will be kept separate from the other sections of the plan and the reader can use it on an as needed basis.

The information that would be included depends on the type of business. The following examples are some of the information that would be included here:

- Resumes of key managers or personnel.
- Market study or survey information
- Contracts
- Manufacture's product documentation, pamphlets, product promotional materials
- Credible newspaper articles and/or Industry journal articles
- Partnership agreements etc.

## REFERENCE DEFINITIONS

### **Break Even Point:**

This analysis will determine the level of sales that a business has to achieve before it begins generating a profit. The formula is as follows:

$$\text{Break Even Point} = \frac{\text{Total Fixed Costs (those that never change)}}{\text{Gross Margin}}$$

Gross Margin is the amount that is left over from sales after product manufacturing costs.

$$\text{Gross Margin} = \frac{\text{Gross Profit (selling price - cost of goods sold)}}{\text{Selling Price}}$$

Costs of Goods Sold are the product manufacturing costs.  
These are variable costs.

### **Equity:**

Equity is capital invested in the business by its owners. You obtain equity capital in the first instance by investing your own money in the business. You can increase the equity capital in your business by investing more of your own money, by taking other people into the business who are willing to risk their money in it, or by reinvesting the profits which the business earns.

### **Forecasting:**

The art of estimating future demand by anticipating what buyers are likely to do under a give set of conditions

### **Market:**

The set of all actual and potential buyers of a product or service. Consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want.

### **Marketing:**

Is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organization objectives.

### **Marketing Mix:**

The set of controllable tactical marketing tools - product, price, place, package, position and promotion - that the firm blends to produce the response it wants in the target market.

**Market Segmentation:**

Dividing a market into distinct groups of buyers with different needs, characteristics, or behavior which might require separate products or marketing mixes.

**Marketing Penetration:**

A strategy for company growth by increasing sales of current products to current market segments without changing the product in any way.

**Market Positioning:**

Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of the target consumers. Formulating competitive positioning for a product and detailed marketing mix.

**Marketing Strategy:**

The marketing 'game plan' by which the business unit hopes to achieve its marketing objectives.

**Target Market:**

A set of buyers sharing common needs or characteristics that the company decides to serve.

**Working Capital:**

This refers to your present or anticipated operating cash requirements. For example, your cash on hand or at the bank to meet costs while waiting for you receivables. Working capital requirements are often covered by operating loans or credit lines from banks.