

RURAL SOUTH INSTITUTE

FACTSHEET

RSI-No. RM011

ELEMENTS AND BASICS OF A BUSINESS PLAN

What is a Business Plan? A Business Plan is written document describing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement. A business plan is a road map that provides directions so a business can plan its future and helps it avoid bumps in the road. The time you spend making sure your business plan thorough and accurate and keeping it up to date is an investment that pays big dividends in the long term.

Uses of a Business Plan

A. Setting Goals and Objectives: The business plan for an early-stage business or company is, in any ways, a first attempt at strategic planning. An entrepreneur should use a business plan as a tool for setting the direction of a business over the next several years, and a plan should set the action steps and processes to guide the company through this period. Many entrepreneurs say that the pressures of the day-to-day management of a business leave them little time for planning, and this is unfortunate because, without it, an owner runs the risks of proceeding blindly through the rapidly changing business environment. Of course, writing a business plan is not a guarantee that problems will not arise. But, with a thoroughly thought-out plan, a business owner can better anticipate a crisis situation and deal with it up front. Further, a well-constructed plan can help avoid certain problems altogether. All in all, business planning is probably more important to the survival of a small and growing business than a larger, more mature one.

B. Performance Benchmarks: A business plan can also be used to develop and document milestones along your business's path to success. In the heat of daily operations, you may find that taking an objective look at the performance of your business is difficult. Often, the trees encountered daily obscure your view of the forest in which your business operates. A business plan can provide you and your management team with an objective basis for determining if the business is on track to meet the goals and objectives you have set.

C. Internal and External Communications: Your business or company's story must be told and retold many times to prospective investors, potential and new employees, outside advisors, and potential customers. And the most important part of the story is the part about the future, the part featured in a business plan. Your business plan should show how all the pieces

of your business or company fit together to create a vibrant organization capable of meeting its goals and objectives. It must be able to communicate your business or company's distinctive competence to anyone who might have an interest.

Components of a Business Plan: Your business plan should conform to generally accepted guidelines regarding form and content. Each section should include specific elements and address relevant questions that the people who read your plan will most likely ask. Generally, a business plan has the following components. The discussion that follows will run through the basic elements based on an excerpt from the Vault Guide to Starting Your Own Business.

1. Cover and Introductory Pages: The cover page of your business plan should bear the name of your company, the logo, and contact information. The introductory page should include your name as the owner of the business and a very brief (2-3 sentences) description of your business. Don't try to do too much with your cover and introduction pages. These pages are simply meant to encourage the reader to keep going.

2. Executive Summary: The executive summary portion of your business plan should give the reader an in-depth understanding of how your business will operate. It is a snapshot of your entire business plan and gives the reader a framework to understand your idea. This section is generally no more than a couple of pages in length and is written after completing the business plan. The executive summary is usually written last because you want to be able to look through the rest of the plan and summarize the key points. Although the cover and introductory pages should grab the reader's attention, the executive summary is the real "teaser" part of your business plan. This is your chance to get readers excited about your potential business and demonstrate to them how you are going to succeed. Sometimes, venture capital firms and other investors will read only this section to determine if they are interested. Consequently, it is imperative that you grab the attention of the reader and immediately convince them of the merit of your idea.

3. Industry Analysis: The market information/industry analysis section of your business plan should include all relevant information on competitors and possible outside influences that

will affect your business. In order to put this section together, it is important that you study your competitors and experiment with their products and services. Determine past events that have brought the industry to its current form. Understand what future developments will be important to the landscape of the industry. Investigate developments and changes in the industry you can capitalize on. Speak with your friends, co-workers and fellow business owners to get an understanding of the marketplace, then report your findings in the business plan. Market research done to help you focus on enhancing your comparative advantage in the marketplace can be used in a business plan to show that you've "done your homework."

4. Description of Business Venture: The description of venture section is a detailed analysis of your company. Where the executive summary is only a page or two that briefly outlines your business idea, the description of venture is meant to be a comprehensive explanation of your company. Give the reader an accurate understanding of what your business is about. Share your future goals and vision for the company. Describe the personal skills, resources and contacts you have that will make your business a success. Describe how you came upon the idea and what makes it different from what already exists in the marketplace. In this section, you should provide thorough research on the industry and your competitors. Give detailed explanations of how your competitors are conducting business, highlighting their strengths and weaknesses. Web sites such as Dun & Bradstreet (www.dnb.com) and Vault (www.vault.com) are excellent sources to find out about comparable companies in the marketplace. Explain how you will exploit the weaknesses of your competitors. In this section, the reader should learn exactly how you are going to make your business a success. Even if you have the cleverest idea in the world, if you do not have proper operational and managerial methods your new business will wither on the vine.

5. Operation/Production Methods: The more efficiently your business can get its product or service to the market, the higher your profit margins. The operation/production section of your business plan should give the reader a general understanding of how you will create your product or administer your service in the marketplace. Depending on the type of business you are starting, there are different costs associated with bringing your products or services to customers. For example, the advent of the Web allows individuals to create a storefront online, without having to pay for rent or salespeople. This method has brought to life thousands of new companies that are taking advantage of this new, cheap, effective way to bring their product or service to the marketplace. This is just one example of how an operational method may have a drastic effect on every business. Using the correct number of employees and hiring people with specific skills is another essential aspect to maximizing your resources.

6. Marketing: The marketing section of your business plan should explain how you plan to get the word out about your business and the type of image you are trying to create. Even if you are offering the best product or service since chocolate-covered cherries, you will never make a dime if no one knows about it. Building the right image for your business is a critical part of the buzz you want to create about your product or service. There are many different ways of reaching customers: word-of-mouth, the media, paid advertising and the Web. We will review these in a later chapter, but for now, understand that discussing these strategies in your plan is an important part of convincing potential investors that you have thought through your business idea. Partnerships and joint ventures lend credibility to your business. When an enterprise is in the beginning stages, being able to show relationships with other companies in the marketplace makes it more attractive to readers. This section is the place to note such partnerships.

7. Organizational Structure: Your plan must include a description of the company's organizational structure. This includes yourself, your employees, the board of directors, and any outside advisors. Each of these people plays an important role in the success of your business, so potential investors will want to know about them. The board of directors is the advisory group that will oversee your business. Directors with industry experience, contacts, and who are familiar with your type of business will prove to be valuable resources to help shape and grow your company. As with joint ventures and partnerships, well-recognized members of your board should be played up in your business plan to establish credibility.

Outside advisors are people who are not formally connected with your company, but who provide advice and suggestions for your business. As with your board of directors, these advisors can lend credibility to your venture. Most young entrepreneurs try to find older, more established individuals (professors, high-level execs, etc.) as advisors. Although planning your organizational structure from the beginning will help you handle growth and define the roles of each individual within your company, understand that this structure must be able to adapt and expand as the company grows. This understanding of the importance of an evolving organizational structure should also be conveyed in the business plan.

8. Assessment of Risk/Competitors: Every new business faces some risk; don't try to make readers of your business plan believe otherwise. If you don't address all the risks associated with your idea, the reader will assume that you are unaware of any drawbacks and will question your competence. By clearly outlining potential problems in a clear and concise manner and explaining how you plan to overcome them, you will give the reader more confidence than if you had omitted all mention of them. Give a detailed analysis of how you plan to succeed

despite the risks associated with the business. The next step is identifying the companies that will be your competitors. Write about their strengths and weaknesses and how they have created a niche for themselves within the marketplace. People who are interested in becoming part of your business team are going to want to know how you deal with competition.

9. Financial Plan: The financial section of your business plan should include your estimated startup costs, projected income statement, balance sheet and projected statement of cash flows. In addition, it should include explanations of any irregularities in your data and the assumptions you used in projecting finances. The financial section of your business plan should demonstrate how your business is going to be profitable. Make sure to explain your reasoning and present the information in a consistent format. Financial professionals can immediately judge your business savvy by the quality of your income statement, balance sheet and statement of cash flows.

If you are not comfortable preparing your own financial statements, seek outside counsel. Tax accountants and financial advisors can help you set up your income statement, balance sheet and statement of cash flows. Make sure you spend the necessary time to make sure that you understand the format. This section will be the one most carefully scrutinized by investors. If you do not prepare the statements yourself, make sure that whoever did so explains to you and others exactly why each number is there. Potential investors will want to understand every detail in your financial plan. Be prepared to answer every question and provide additional projections and scenarios if need be.

Many venture capitalists are looking for a very high return in the next five to seven years from any business. They will look for certain profit margins and anticipated sales when analyzing your business plan. But don't let that goad you into inflating your figures. Investors have experience in the marketplace and know when predictions are out of line. In fact, if your projections seem unrealistic, they have the potential to kill the deal immediately.

10. Appendix: The appendix should include any other information that you have discovered while doing research for your business. It can include examples of your competitors, general information on the industry, survey and questionnaire responses, or even testimonials from potential customers who think your business is a great idea. While you shouldn't overstuff the appendix, it is a great place to include valuable information that supports your idea and gives the reader further confidence in your business. It is also a good idea to put in detailed descriptions of some of the main projects planned by your company in the appendix. This will give the reader an opportunity to learn in more detail about your business if he or

she desires. The appendix is meant for specific information that is not essential within the body of the business plan.

11. Biographies of Key Personnel: One of the main issues that readers will focus on is the quality of the people involved in your business. When you have a small business, the background of each individual plays a large part in shaping the culture and future of your company. Including information on your company's key personnel will give the reader an idea of the talents and skills that your company possesses. Highlight areas that demonstrate industry expertise and will give your business an advantage in the marketplace. The biographies of key personnel should give the reader an idea of the backgrounds, experience, and specific industry knowledge that each individual adds to the company and the synergy these different experiences will create.

Remember that investors are as interested in the individuals running the company as they are in the actual enterprise. In the end, your people make or break your business.