

How to Write a Great Business Plan

Business plans are the preferred mode of communication between entrepreneurs and potential investors. A business plan is simply a written representation of where a company is going, how it will get there, and what it will look like once it arrives. What's wrong with most business plans? Most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors. Include all necessary information in your business plan, but realize that you may not have as much information for every section. This handout is one suggested format for the information that you should include. There are many ways to get your information across as long as you are being clear and including all of the necessary elements.

Uses of a business plan

- Set the goals and objectives for the company's performance.
- Provide a basis for evaluating and controlling the company's performance.
- Communicate a company's message to middle managers, outside directors, lenders, and potential investors.

Steps in preparing your business plan

- *Identify your objectives.* You must decide what your target audience wants to know and what you want them to know.
- *Outline your business plan.* Once you have identified the objectives and know what you want to emphasize, you should prepare an outline based on these special requirements.
- *Review your outline.* Review your outline to identify the areas that should be presented in detail or summary form in your business plan.
- *Write your plan.* Make sure to take the time to complete required research before writing the plan because many of the assumptions and strategies described in the plan will be based on the findings and analysis of the research. Initial drafts of prospective financial statements are often prepared next. When writing the business plan, make sure that you keep detailed notes on the assumptions you make in your financial information. You will want to have all assumptions explained in the footnotes that must accompany the financial statements. Clearly stated assumptions make the business plan easier to read, understand, and evaluate. Most people choose to work with accountants and consultants on the financial information. The last element of the business plan to be prepared is the Executive Summary.
- *Have your plan reviewed.* Once you have finished the draft have someone very familiar with business management and the planning process review it for completeness, objectivity, logic, presentation, and effectiveness as a communication tool. Then modify your plan based on your reviewer's comments.
- *Update your plan.* Business plans must be periodically updated, or they become useless. As your environment and your objectives change, update your plan to reflect these changes. As time passes, make sure that your plan has the most current information.

A business plan should assess the four interdependent factors critical to every new venture:

- *The People*: the men and women starting and running the venture, as well as the outside parties providing key services or important resources for it, such as lawyers, accountants, and suppliers.
- *The Opportunity*: a profile of the business itself—what it will sell and to whom, whether the business can grow and how fast, what its economics are, who and what stand in the way of success. Specify and intellectual property rights such as patents.
- *The Context*: the big picture—the regulatory environment, interest rates, demographic trends, and inflation (factors that inevitably change but cannot be controlled by the entrepreneur).
- *Risk and Reward*: an assessment of everything that can go wrong and right, and a discussion of how the entrepreneurial team can respond.

The People

- Your team needs to include individuals that have industry experience as well as business management skills in order to be successful.
- A business plan should answer these questions about their people:
 - What experience have they had?
 - Whom do they know?
 - How well are they known?
- It should describe each team member's knowledge of the new venture's type of product or service; its production processes; and the market itself, from competitors to customers.
- Are you still looking into hiring key players
- It should also indicate whether the team members have worked together before.

The Opportunity

- Is the total market for the venture's product or service large, rapidly growing, or both?
- Is the industry now, or can it become, structurally attractive?
- What is unique about this opportunity?
- Questions about the business every business plan should answer:
 - Who is the new venture's customer?
 - How does the customer make decision about buying this product or service?
 - To what degree is the product or service a compelling purchase for the customer?
 - How will the product or service be priced?
 - How will the venture reach all the identified customer segments?
 - How much does it cost (in time and resources) to acquire a customer?
 - How much does it cost to produce and deliver the product or service?
 - How much does it cost to support a customer?
 - How easy is it to retain a customer?
- A business plan must demonstrate and analyze how an opportunity can grow—how the new venture can expand its range of products or services, customer base, or geographic scope.
- The following questions should be addressed so that investors can understand the cash flow implications of pursuing an opportunity:

- When does the business have to buy resources, such as supplies, raw materials, and people?
- When does the business have to pay for them?
- How long does it take to acquire a customer?
- How long before the customer sends the business a check?
- How much capital equipment is required to support a dollar of sales?
- Every business plan should answer the following questions about the competition:
 - Do you have any intellectual property rights to prevent others from using your idea?
 - Who are the new venture's current competitors?
 - What resources do they control? What are their strengths and weaknesses?
 - How will they respond to the new venture's decision to enter the business?
 - How can the new venture respond to its competitors' response?
 - Who else might be able to observe and exploit the same opportunity?
 - Are there ways to co-opt potential or actual competitors by forming alliances?

The Context

- Macroeconomic environment (Example: the level of economic activity, inflation, exchange rates, and interest rates)
- Where is your business located and why does that help operations?
- Government rules and regulations (Example: tax policy and rules about raising capital for a private or public company)
- Technology defines the limits of what a business or its competitors can accomplish.
- Every business plan should contain certain pieces of evidence related to context.
- The entrepreneur should show a heightened awareness of the new venture's context and how it helps or hinders their specific proposal.
- Demonstrate that you know the venture's context will inevitably change and describe how those changes might affect the business.
- The business plan should spell out what management can do in the event the context grows unfavorable.
- The business plan should explain the ways in which management can affect context in a positive way. For example, management might have an impact on regulations or on industry standards through lobbying efforts.

Risk and Reward

- The future is hard to predict, but it is possible to give potential investors a sense of the kind of risk and reward they are assuming with a new venture.
- It's hard to pose questions that could cause risk for an entrepreneur, especially when trying to seek capital. But a better deal awaits those who do present them and then provide solid answers.
 - For example: What happens if one of the new venture's leaders leaves? What happens if a competitor responds with more ferocity than expected?
- Venture capitalists often ask if a company can be taken public at some point in the future. Some businesses are difficult to take public because doing so would reveal information that might harm its competitive position. Some businesses are not companies, but rather products that are not sustainable as independent businesses. Therefore, the business plan

should talk about the end of the process. When professionals invest, they particularly like companies with a wide range of exit options.

- Make sure that you disclose any other funding, investors, or grants that you currently have along with the amount and form of capital that you are seeking.

Outline for a Business Plan

- *Executive Summary*: should not be a mere listing of topics contained in the body of your business plan but should emphasize the key issues presented. It's important to communicate the factors that will make your business successful in a competitive market. Your Executive Summary should be concise (less than three pages) in length and provide the reader with an overview of your entire business plan. Outline key details, but avoid repeating complete paragraphs. After the Executive Summary should be a brief table of contents designed to assist readers in locating specific sections in the plan.

A. The Purpose of the Plan

1. Attract investors
2. Document an operational plan for controlling the business

B. Market Analysis

1. The characteristics of your target market (demographic, geographic, etc.)
2. The products or services you will offer to satisfy those needs

C. The Company

1. The needs your company will satisfy
2. The products or services you will offer to satisfy those needs

D. Marketing and Sales Activities

1. Marketing strategy
2. Sales strategy
3. Keys to success in your competitive environment

E. Product or Service Research and Development

1. Major milestones
2. Ongoing efforts

F. Organization and Personnel

1. Key managers and owners
2. Key operations employees

G. Financial Data

1. Funds required and their use
2. Historical financial summary
3. Prospective financial summary (including a brief justification for prospective sales levels)

- *Market Analysis*: should reflect your knowledge of your industry, and present highlights and analysis of your market research. Clearly explain that there is a market need for your product or service, that you as owner not only understand this need but also can meet it, and that you can sell at a profit. Detailed market research studies should be presented as appendices to your plan.

A. Industry Description and Outlook

1. Description of your primary industry and applicable subsections

2. Size of your industry
 - a. Historically
 - b. Currently
 - c. In five years
 - d. In ten years
3. Industry characteristics and trends (where is company in its life cycle)
 - a. Historically
 - b. Currently
 - c. In the future
4. Major customer groups
 - a. Businesses
 - b. Governments
 - c. Consumers

B. Target Market

1. Distinguishing characteristics of your primary target markets and market segments. Narrow your target markets to a manageable size. Efforts to penetrate target markets that are too broad are often ineffective.
 - a. Critical needs
 - b. Extent to which those needs are currently being met
 - c. Demographics
 - d. Geographic location
 - e. Purchasing decision-makers and influencers
 - f. Seasonal/cyclical trends
2. Primary/target market size
 - a. Number of prospective customers
 - b. Annual purchases of products or services meeting the same or similar needs as your products or services
 - c. Geographic area
 - d. Anticipated market growth
3. Market penetration—indicate the extent to which you anticipate penetrating your market, and demonstrate why you feel that level of penetration is achievable based on your market research.
 - a. Market share
 - b. Number of customers
 - c. Geographic coverage
 - d. Rationale for market penetration estimates
4. Pricing/gross margin targets
 - a. Price levels
 - b. Gross margin levels
 - c. Discount structure (volume, prompt payment, etc.)
5. Methods by which specific members of your target market can be identified
 - a. Directories
 - b. Trade association publications
 - c. Government documents
6. Media through which you can communicate with specific members of your target market
 - a. Publications

- b. Radio/television broadcasts
 - c. Sources of influence/advice
- 7. Purchasing cycle of potential customers
 - a. Needs identification
 - b. Research for solutions to needs
 - c. Solution evaluation process
 - d. Final solution selecting responsibility and authority (executives, purchasing agents, engineers, etc.)
- 8. Key trends and anticipated changes within your primary target markets
- 9. Secondary target markets and key attributes
 - a. Needs
 - b. Demographics
 - c. Significant future trends

C. Market Test Results

- 1. Potential customers contacted
- 2. Information/demonstrations given to potential customers
- 3. Reaction of potential customers
- 4. Importance of satisfaction of targeted needs
- 5. Test group's willingness to purchase products/services at various price levels

D. Lead Times (amount of time between customer order placement and product/service delivery)

- 1. Initial orders
- 2. Reorders
- 3. Volume purchases

E. Competition

- 1. Identification (by product line or service market segment)
 - a. Existing
 - b. Market share
 - c. Potential (how long will your "window of opportunity" be open before your initial success starts new competition? Who will your new competitors likely be?)
 - d. Direct
 - e. Indirect
- 2. Strengths (competitive advantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Staying power (financial resources)
 - e. Key personnel
- 3. Weaknesses (competitive disadvantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Staying power (financial resources)
 - e. Key personnel

4. Importance of your target market to your competition
5. Barriers to entry into the market
 - a. Cost (investment)
 - b. Time
 - c. Technology
 - d. Key personnel
 - e. Customer inertia (brand loyalty, existing relationships, etc.)
 - f. Existing patents and trademarks

F. Regulatory Restrictions

1. Customer or governmental regulatory requirements
 - a. Methods for meeting the requirements
 - b. Timing involved
 - c. Cost
2. Anticipated changes in regulatory requirements

- *Company Description*: must provide an overview of how all of the elements of your company fit together without going into detail, since most of the subjects will be covered in depth elsewhere in the plan.

A. Nature of Your Business

1. Marketplace needs to be satisfied
2. Method(s) of need satisfaction
3. Individuals/organizations with the needs

B. Your Distinctive Competencies (primary factors that will lead to your success)

1. Superior customer need satisfaction
2. Production/service delivery efficiencies
3. Personnel
4. Geographic location

- *Marketing and Sales Activities*: both general and specific information must be included in this part of your plan. Describe the activities that will allow you to meet the sales and margin levels indicated in your prospective financial statements.

A. Overall Marketing Strategy

1. Marketing penetration strategy
2. Growth strategy
 - a. Internal
 - b. Acquisition
 - c. Franchise
 - d. Horizontal (providing similar products to different users)
 - e. Vertical (providing the products at different levels of the distribution chain)
3. Distribution channels (include discount/profitability levels at each stage)
 - a. Original equipment manufacturers
 - b. Internal sales force
 - c. Distributors

- d. Retailers
- 4. Communication
 - a. Promotion
 - b. Advertising
 - c. Public relations
 - d. Personal selling
 - e. Printed materials (catalogues, brochures, etc.)

B. Sales Strategies

- 1. Sales force
 - a. Internal vs. independent representatives (advantages and disadvantages of your strategy)
 - b. Size
 - c. Recruitment and training
 - d. Compensation
- 2. Sales activities
 - a. Identifying prospects
 - b. Prioritizing prospects
 - c. Number of sales calls made per period
 - d. Average number of sales calls per sale
 - e. Average dollar size per sale
 - f. Average dollar size per reorder

- *Products and Services:* Special attention should be paid to the users of your business plan as you develop this section. Too much detail will have a negative impact on most external users of the plan.

A. Detailed Product/Service Description (from the user's perspective)

- 1. Specific benefits of product/service
- 2. Ability to meet needs
- 3. Competitive advantages
- 4. Present stage (idea, prototype, small production runs, etc.)

B. Product Life Cycle

- 1. Description of the product/service's current position within its life cycle
- 2. Factors that might change the anticipated life cycle

C. Copyrights, Patents, and Trade Secrets

- 1. Existing or pending copyrights or patents
- 2. Anticipated copyright and patent filings
- 3. Key aspects of your products or services that cannot be patented or copyrighted
- 4. Existing legal agreements with owners and employees
 - a. Nondisclosure agreements
 - b. Noncompete agreements

D. Research and Development Activities

- 1. Activities in process

2. Future activities (include milestones)
 3. Anticipated results of future research and development activities
 - a. New products or services
 - b. New generations of existing products or services
 - c. Complementary products or services
 - d. Replacement products or services
 4. Research and development activities of others in your industry
 - a. Direct competitors
 - b. Indirect competitors
 - c. Suppliers
 - d. Customers
- *Operations:* Be certain that the level of detail included in the plan fits the specific needs of the plan's users. For many business plans a simple paragraph or two may be sufficient.

A. Production and Service Delivery Procedures

1. Internal
2. External (subcontractors)

B. Production and Service Delivery Capability

1. Internal
2. External
3. Anticipated increases in capacity
 - a. Investment
 - b. New cost factors
 - c. Timing

C. Operating Competitive Advantages

1. Techniques
2. Experience
3. Economies of scale
4. Lower direct costs

D. Suppliers

1. Identification of the suppliers of critical elements of production
 - a. Primary
 - b. Secondary
2. Lead-time requirements
3. Evaluation of risks of critical element shortages
4. Description of the existing and anticipated contractual relationships with suppliers

- *Management and Ownership:* Your management team's talents and skills are some of the few truly unique aspects of your company. If you are going to use your plan to attract investors, this section must emphasize your management's talents and skills, and indicate what distinctive capability they possess that cannot easily be replicated by your competition.

A. Management Staff Structure

1. Management staff organization chart
2. Narrative description of the chart

B. Key Managers (complete resumes should be presented in an appendix to the business plan)

1. Name
2. Position
3. Brief position description, including primary duties
4. Primary responsibilities and authority
5. Unique skills and experiences that add to your company's distinctive competencies
6. Compensation basis and levels (be sure they are reasonable—not too high and not too low)

C. Planned Additions to the Current Management Team (include the same as above)

D. Legal Structure of the Business

1. Corporation
 - a. C corporation
 - b. S corporation
2. Partnership
 - a. General
 - b. Limited
3. Proprietorship

E. Owners

1. Names
2. Percentage ownership
3. Extent of involvement with the company
4. Form of ownership
 - a. Common stock
 - b. Preferred stock
 - c. General partner
 - d. Limited partner
5. Outstanding equity equivalents
 - a. Options
 - b. Warrants
 - c. Convertible debt
6. Common Stock
 - a. Authorized
 - b. Issued

F. Board of Directors

1. Names
2. Position on board
3. Extent of involvement with the company
4. Background
5. Contribution to the company's success

- a. Historically
 - b. In the future
- *Funds Required and Their Uses:* Any new or additional funding reflected in your prospective financial statements should be discussed here.
 - A. Current Funding Requirements
 - 1. Amount
 - 2. Timing
 - 3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
 - 4. Terms
 - B. Funding Requirements over the Next Five Years
 - 1. Amount
 - 2. Timing
 - 3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
 - 4. Terms
 - C. Use of Funds
 - 1. Capital expenditures
 - 2. Working capital
 - 3. Debt retirement
 - 4. Acquisitions
 - D. Long-Range Financial Strategies (liquidating investors' positions)
 - 1. Going public
 - 2. Leveraged buyout
 - 3. Acquisition by another company
 - 4. Debt service levels and timing
 - 5. Liquidation of the venture
- *Financial Data:* Contains the financial representation of all the information presented in the other sections. Various prospective scenarios can be included.
 - A. Historical Financial Data (past three to five years, if applicable)
 - 1. Annual statements
 - a. Income
 - b. Balance sheet
 - c. Cash flows
 - 2. Level of CPA involvement (and name of firm)
 - a. Audit

- b. Review
 - c. Compilation
 - B. Prospective Financial Data (next five years)
 - 1. Next year (by month or quarter)
 - a. Income
 - b. Balance sheet
 - c. Cash flows
 - d. Capital expenditure budget
 - 2. Final four years (by quarter or year)
 - a. Income
 - b. Balance sheet
 - c. Cash flows
 - d. Capital expenditure budget
 - 3. Summary of significant assumptions
 - 4. Type of prospective financial data
 - a. Forecast (management's best estimate)
 - b. Projection ("what-if" scenarios)
 - 5. Level of CPA involvement
 - a. Assembly
 - b. Agreed-upon procedures
 - c. Review
 - d. Examination
 - C. Analysis
 - 1. Historical financial statements
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation
 - 2. Prospective financial statements
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation
- Appendices or Exhibits: Any additional detailed or confidential information that could be useful to the readers of the business plan but is not appropriate for distribution to everyone receiving the body of the plan can be presented here. Should be bound separately from the other sections of the plan provided on an as-needed basis to readers.
 - A. Resumes of Key Managers
 - B. Pictures of Product
 - C. Professional References
 - D. Market Studies
 - E. Pertinent Published Information
 - 1. Magazine articles
 - 2. References to books
 - F. Patents
 - G. Significant Contracts
 - 1. Leases
 - 2. Sales Contracts
 - 3. Purchase contracts

4. Partnership/ownership agreements
5. Stock option agreements
6. Employment/compensation agreements
7. Noncompete agreements
8. Insurance
 - a. Product liability
 - b. Officers' and directors' liability
 - c. General liability

The Deal

- Once a business plan is written, the goal is to land a deal.
- Characteristics of a sensible deal:
 - They are simple.
 - They are fair.
 - They emphasize trust rather than legal ties.
 - They do not blow apart if actual differs slightly from plan.
 - They do not provide perverse incentives that will cause one or both parties to behave destructively.
 - They are written on a pile of papers no greater than one-quarter inch thick.
- It's a good idea to treat the new venture as a series of experiments. Assemble a focus group to test the product, build a prototype and watch it perform, conduct a regional or local rollout of the service. Such an exercise reveals the true economics of the business and can help enormously in determining how much money the new venture actually requires and in what stages.

Ernst and Young LLP. "Outline for a Business Plan." Article 21. 1997: 122-129

Sahlman, William. "How to Write a Great Business Plan." Article 20: 114-121