

Plan for Success

Creating a Business Plan

Objectives:

- A** Discuss the components of an effective business plan.
- B** Demonstrate procedures for developing an effective business plan.



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Patrick and Kristina graduated from college the same year and both decided to start their own businesses. Kristina created a carefully crafted business plan, but Patrick thought it was a waste of time. Why spend time working on another paper when college is over, and it's time to hit the real world, right?

Both Patrick and Kristina needed bank loans to open their businesses. When applying, Kristina used her business plan as part of her application, while Patrick hastily threw together some financial documents and hoped for the best. Can you guess which business owner had more success in obtaining a loan?

A good business plan is a company's blueprint for success. No business should be without one—and they are easier to create than most people think. Read on to learn the steps for creating this important document for business success.

So What



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A **business plan** is your company's **business model** in written form. This document is your map and compass, or GPS. Would you start out on a long journey without knowing which direction you're going or where you want to end up? Of course not! And you shouldn't start a business without planning ahead, either.

Although each business plan is unique, a typical business plan contains the following sections in the following order:

- | | | | |
|---|---------------------|----|-----------------------------|
| 1 | Cover page | 6 | Market analysis |
| 2 | Executive summary | 7 | Strategy and implementation |
| 3 | Table of contents | 8 | Management plan |
| 4 | Company description | 9 | Financial plan |
| 5 | Product(s) offered | 10 | Appendices |

1

Cover page

Your cover page should include:

- Your business's name, address, and phone number
- The owner or CEO's name
- A number for tracking purposes (example: copy 4 out of 15)
- The date the plan was prepared or updated

2

Executive summary

The executive summary is the heart of your business plan and the first thing that readers will see. Most readers will use the executive summary to decide if it's worth reading any further, making it the most critical part of the plan. While it is the first part of the plan that readers see, it should be the last section that you write because it is a two- to three-page overview of the entire plan.

Be sure to include the following information somewhere in your executive summary:

- Your business's name and location
- Your mission statement
- The purpose of the business plan
- The good(s) or service(s) you provide
- The date your business started (or will start)
- The founders and their functions
- The number of employees
- A description of business facilities
- Information about current investors and financing
- Summary of future plans



▲ *The first place readers will go to find an overview of your entire business plan is the executive summary. So it better be good!*

3

Table of contents

This step is very simple. Create a page that lists all the sections of the business plan with their corresponding page numbers. This makes it easy for your readers to locate the sections they want to read or review.

4

Company description

To write the company description section, you must be able to answer the following questions:

- What is your business?
 - Are you a retailer, wholesaler, manufacturer, service provider?
 - What need(s) do you meet for your customers?
- Is your business a start-up or an existing business?
- What is your business's legal structure—sole proprietorship, partnership, corporation?
- When did (or will) your business open?
- Who are the founders and what relevant business experience do they have?
- Where is your business located? What are your operating days and hours?
- What successes has your business achieved so far? If you are a start-up, why do you think you will be successful?



4

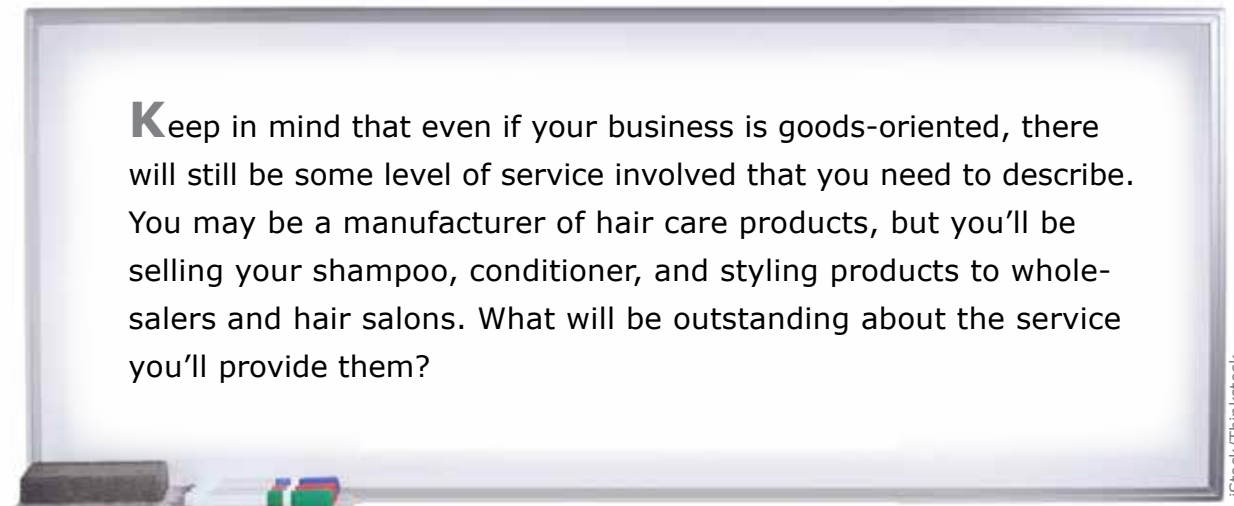
Company description

(cont'd)

- What resources (physical, human, financial) does your business have available for achieving its goals?
- What is special or unique about your business?
- What is your vision for the future of the business?

Your entire business plan depends on a clear understanding of exactly what business or business venture you are undertaking. Maintaining this kind of focus makes you less likely to waste time and money in the future.

Your company description will require serious thought, but it doesn't have to be long. Answer the questions and condense the information into two or three easy-to-read, conversational paragraphs.



5

**Product(s)
offered**

To write the product(s) offered section, you must be able to answer the following questions:

- What goods/services does your business offer?
- What benefits do these goods/services provide to customers?
- What will you charge for your goods/services?
- What advantages do your goods/services have over the competition?
- What technology is involved in your goods/services?
- Are there any obstacles that need to be overcome?
- For a product, what stage of the development process is it in? Do you have a prototype or is it still just an idea?
- What is the expected life cycle of the product?
- What patents or copyrights pertaining to your goods/services does your business currently hold? Are there any that are pending?
- What goods/services is your business planning to develop in the future?



▲ *Innovative products, like the projection keyboard, differentiate themselves by offering something new and unique to customers.*

6

Market analysis

The market analysis section is a very important part of your business plan and will require more time and research than the company description or product(s) offered sections. To write a market analysis, you must be able to answer the following questions:

- What is your business's target market(s)? Why?
- What are the key characteristics and trends within your target market?
- What is the general outlook for your industry?
- How is the market likely to respond to your business or venture?
- Are there any barriers to your market entry? If so, how will you overcome them?
- How does your business compare to competitors?
- What is your business's current position in the market?

Persona Name**Background:**

- Basic details about persona's role
- Key information about the persona's company
- Relevant background info, like education or hobbies

Demographics:

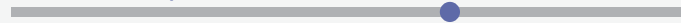
- Gender
- Age range
- HH Income (Consider a spouse's income, if relevant)
- Urbanicity (Is your persona urban, suburban, or rural?)

Identifiers:

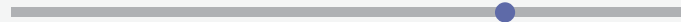
- Buzz words

Traits

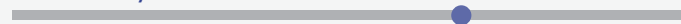
Tech Savvy



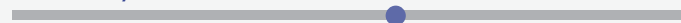
Marketing Savvy



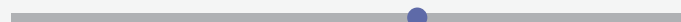
Seniority



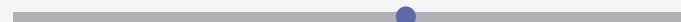
Visually Driven



Data Driven



Risk Tolerance



◀ Companies use personas (a fictional character) to represent the characteristics of an entire target audience, because it is easier to market to one person than thousands.

6

Market analysis (cont'd)

It is impossible to run a successful business without thorough knowledge of the market and your customers. After all, if you can't meet customers' needs, they won't buy your products, you won't make a profit, and your business will ultimately fail. Identifying your target market is critical. No business can be all things to all people, so you'll need to narrow it down to your ideal customers, and then gear your marketing plan towards them.

Putting together a market analysis isn't easy. You'll need to synthesize information from yourself (your own expectations, experiences, and ideas for your company), as well as from reliable external research.

You don't necessarily need to hire an expensive market-research firm to put together a good market analysis. You can find a wealth of market data on the Internet, through industry associations, and in industry and government publications. You can also put together focus groups or customer surveys.

When searching for information on your competitors, you can check financial reports, annual reports, marketing materials, and customer reviews. The level of detail in your competitive analysis will depend on your specific industry and the purpose of your business plan. You may start with a general overview of the competition in your industry, and then take a closer look at your main competitors.



For a quick rundown on a market analysis, check out the video “Quick Tip: Write a Business Plan Market Analysis” at <http://sbinformation.about.com/od/businessplans/a/How-To-Write-The-Market-Analysis-Section.htm>.

7

Strategy & implementation

To write the strategy and implementation section, you must be able to answer the following questions:

- How do you intend to put your business plan into action?
- What is your business's marketing plan?
 - How will you approach advertising?
 - How will you approach public relations?
- What is your sales strategy? How will you carry it out?
- What type of sales force will you have?
How will you train it?

This is where the rubber meets the road.

Use this section to set specific assignments and deadlines for yourself and the other employees who will put the business plan into action.

This shows your readers that you're serious and have created measurable ways to track your progress.



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**Management
plan**

The quality of the management team is considered a main indicator of a business's potential success. To write the management plan, you must be able to answer the following questions:

- How many employees do you have?
- Who are your key employees? What skills, experience, and accomplishments do they have?
- What vacant positions need to be filled? What is the timetable for filling them?
- What is your organizational structure (divisions, departments, etc.)?
- Who is on your board of directors (if you have one)? What are their qualifications?
- What are your personnel costs (salaries, vacation and sick pay, benefits, taxes)?



If you are writing a plan for a start-up business, you may not have much to include in this section besides information about yourself and one or two partners. That's okay—you can use the section to explain how you plan to build your management team over time. You can also estimate future personnel costs according to your business's projected growth.

9

**Financial
plan**

Now that you've described your business, analyzed the market, and devised a strategy, you can start attaching actual financial figures to your business plan. To write the financial plan, you must be able to answer the following questions:

- Can your business generate a profit?
- What are your business's financing needs?
- Where will the financing come from?

You will also need to include several financial documents in this section, such as:

- Income statements
- Balance sheets
- Cash flow statements

Whether you are an established business or a start-up, you'll need to provide prospective financial data (projected income statements, balance sheets, and cash flow statements) for the next five years. Start-ups might want to start with quarterly or monthly projections for the first year and add data from there. Established businesses will need to provide historical financial data (income statements, balance sheets, and cash flow statements) for the past 3–5 years.

Get a little more help writing your financial analysis from Jeff Haden's article "How to Write a Great Business Plan: Financial Analysis" at <http://www.inc.com/jeff-haden/how-to-write-a-great-business-plan-financial-analysis.html>.

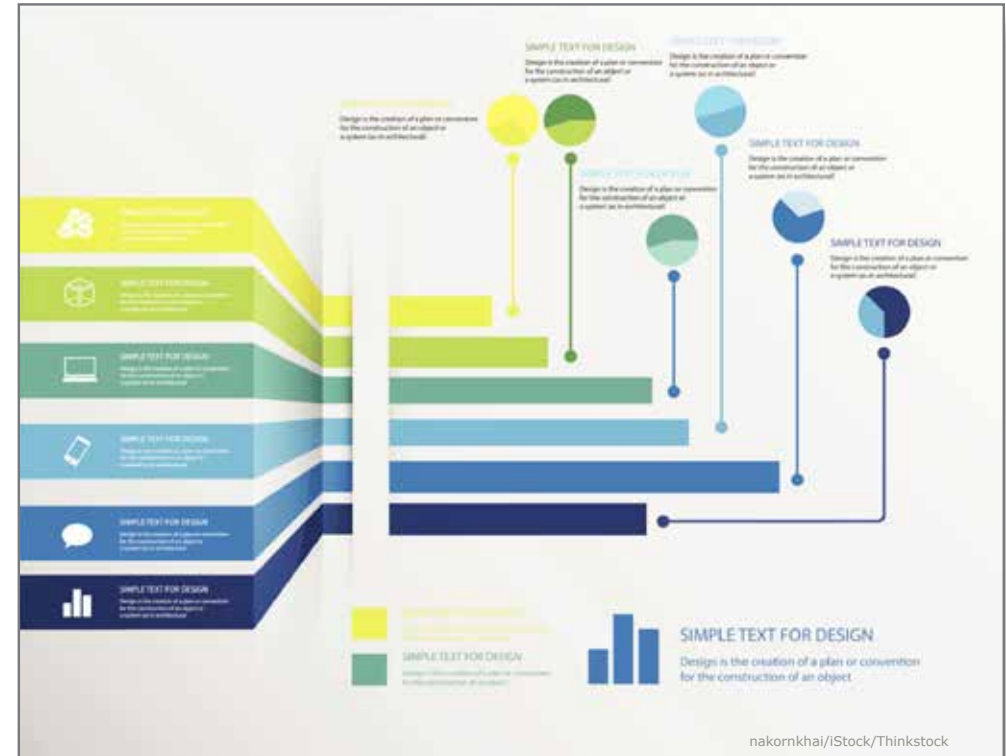
iStock/
Thinkstock

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Appendices

The appendices to your business plan are the extra bits of information that support the points you have already made. The appendices you include may be altered depending on who is receiving the particular version of the plan. Typical business plan appendices may include:

- Management résumés
- Market research studies
- Contracts
- Licenses
- Credit history
- List of business associates, including attorney and accountant
 - Building permits
 - Product pictures
 - Letters of reference
 - Copies of leases
 - Relevant magazine articles
 - Legal documents such as patents
- Company literature (marketing or sales materials, such as ads, brochures, catalogs, etc.)



Summary

A business plan is your company's business model in written form. To create your business plan, you must include a cover page, executive summary, table of contents, company description, product(s) offered section, market analysis, strategy and implementation section, management plan, financial plan, and appendices.

THE GRAY ZONE

Araya is composing a business plan for her start-up company. For now, she will be creating a variety of gift baskets for special occasions, including birthdays, anniversaries, and housewarmings. However, Araya feels that her business plan needs something more to attract investors. So, in the product(s) offered section, she says she plans to create her own line of beauty and skin-care products. Araya has no concrete plans to do this, but since she *might* in the future, she feels it's all right to include this information in her business plan. The investors won't know the difference. What do you think? Is it acceptable to include something you *might* do in your business plan just to make it sound better?

TOTAL RECALL

1. What is a business plan?
2. What is the most critical part of the business plan?
3. Why is the company description section of the business plan important?
4. What information should be included in the product(s) offered section of a business plan?
5. Why is a market analysis critical to a business plan?
6. What does the strategy and implementation section of a business plan show readers?
7. Why are readers interested in the management team section of a business plan?
8. List the three financial documents you must include in your business plan.

Planning in Action

Benefits of business plans

If you're all fired up about starting a new business or business venture, you might feel that sitting down to compose a business plan is going to be boring and a waste of time. However, the process is almost always very fruitful and enlightening. Getting everything organized and down on paper helps you to understand your business better. It enables you to refine your thoughts about what you want out of the

business, as well as what your customers want. It can also assist you in setting goals, responsibilities, and deadlines within your business—things that can be very difficult to do if you don't take the time to plan. Many business owners are surprised at the new ideas and solutions they're able to generate just by sitting down to put together a business plan. So don't be afraid to dive into it—you'll be happy you did!

Tips for getting started

Every business is unique, and so is every business plan. Depending on the size of your business and the purpose of your business plan, you may end up with a document anywhere from 10 to 50 pages long. But page count doesn't matter as much as substance—one plan might be 50 pages long and full of useless information, while a 10-page plan might be well written and extremely effective. There are a variety of acceptable formats you can use as well. What's most important is the content—make sure you include all the necessary information in a way that is easy for readers to comprehend.

Not all business plans require the same level of detail. For example, a small sandwich shop opening in a town of 5,000 residents will not have as complex a plan as a Fortune 500 company preparing for a merger. Don't get overwhelmed by the details—you can always start with the basics and add information as your business grows.

For a quick overview of creating a business plan, watch the video "How to Write a Business Plan" by Business Wales at <https://www.youtube.com/watch?v=PDWvcsTloJo>.





Steps

for creating an effective business plan

1 Make the plan clear and concise.

Readers must be able to easily understand your main points. It's also helpful to break up dense text by using headlines and easy-to-scan bullet points.

2 Make the plan focused.

What is your specific purpose in writing it? To obtain funding? To implement a strategic plan? To bid for a specific contract? Keep this purpose in mind as you create the plan. Every part of it should relate back to this main purpose.

3 Make the plan realistic.

If you are starting a small business, you cannot reasonably expect to make millions of dollars in profits your first year. Be objective and honest about your business as you go through this process. Otherwise, the business plan will hold no real value for you or your readers.

4 Make the plan have a logical structure and flow.

There is no *one* correct format for a business plan. However, the parts can't just be haphazardly thrown together. The plan must follow some kind of order so it makes sense to readers.



5 Make the plan accurate.

Make sure the numbers in the financial section add up correctly. And while you're at it, check for proper spelling and grammar as well.

6 Begin each section with a short (one- or two-paragraph) summary.


Include the most important, can't-miss information in this summary, assuming that it may be the only part of the section that people may read.

7 Make the executive summary interesting and intriguing enough to capture your readers' attention.

Your executive summary should briefly summarize the most important points in all other parts of the business plan, as well as key financial figures. A reader should be able to understand the purpose of your entire business plan and what makes your business tick just by reading the executive summary—the other sections exist to provide support and greater detail. In other words, the executive summary should be able to stand alone, apart from the rest of the plan. It is *not* merely an introduction.

8 Describe goods and services in terms that are easy to understand.

The product(s) offered section should be detailed and written as if you were speaking to potential customers. You may know your products inside and out, but they don't. Be thorough. Focus on customer benefits rather than product features. It is not enough to say that your business offers a variety of therapeutic massage services—you must sell the fact that your customers will be healthier and more relaxed because of your product.



9 In your market analysis, include only information that makes an impact on your business and your decisions while running it.

Your market analysis must be thorough and backed by solid research, but only as it pertains to your business. The readers of your business plan are interested in *your* business or venture and how the

market research supports it. Keep the analysis as simple as possible. Focus on conclusions and results, not details. If there is extra data that you think is really important, you can always include it in the appendix.

10 Make the financial plan simple.

The bankers and investors reading your business plan will expect to see traditional financial data and documents organized in a logical manner. They will also check your financials to make sure they line up with the amount of the loan or investment you are seeking

(if that is the purpose of your business plan).

The summary you begin this section with should be a short analysis of your financials and may include a few charts or graphs to illustrate your points.

11 Plan ahead for tracking and follow-up.

Your business plan will contain information (personal and financial) that you'll want only specific people to see. Number each business plan you distribute, keeping careful track of how many plans are circulating and where. Many businesses, especially those with sensitive product-development information, request that anyone who receives a copy of the plan sign a confidentiality agreement.

12 Plan for regular review, updates, and corrections.

Once your business plan is complete, you'll be ready to put it into action. But that doesn't mean it's finished. Over time, you'll need to review and adjust it as your business or venture grows and changes.





Summary

Every business plan is unique in length, format, and level of detail—it's most important to focus on content. Make sure your business plan is clear, concise, focused, realistic, logical, and accurate. Begin each section with a short summary. Make the executive summary interesting. Describe products in terms that are easy for customers to understand. Keep the market analysis and financial plan simple. Plan ahead for tracking and follow-up. Review, update, and edit your business plan regularly.

TOTAL RECALL

1. What are the benefits of writing a business plan?
2. What's the most important thing to focus on when writing a business plan?
3. List 12 steps for creating an effective business plan.