

BUSINESS PLAN GUIDE

Southeastern Montana Development

Guide Available Online in Word



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WHY WRITE A BUSINESS PLAN?

You are writing a business plan to provide a strategic planning tool to ensure your business's success. There are a variety of specific purposes for a business plan. One or possibly all will apply to your situation. Among them are:

- To assist in financing. You will most likely need to borrow money from a lending institution to get your business started. That lending institution(s) will want to know where you are, where you are going, and how you will get there.
- The plan will tell you how much money you need when you need it and how you will get it.
- It helps you think through and write down what type of business you are starting or restructuring and consider every aspect of that business.
- Raises the questions that you need to have answered to succeed.
- Sets up benchmarks to keep your business under control.
- It helps you develop the competitive spirit to make you keenly prepared and ready to operate.
- It makes you think through the entire business process to not go into business blindly or lack vital information in opening and maintaining your business.
- It forces you to analyze the competition and determine how you will carve out your market share.
- Provides you with thorough information enabling you to decide whether you want to "take the plunge" or not.

FEASIBILITY CONSIDERATIONS

CASH FLOW – Your business should begin to cash flow (monthly sales revenues become greater than monthly expenses) sometime in the first year or early in the second year. If a business takes longer to generate positive cash flows (businesses in competitive industries), it will need more financing upfront.

CHARACTER – Experience you bring to the table, such as small business management and education. The fact that you can produce something that people in the market want to buy does not guarantee your business's success. You also have to manage marketing, hiring employees, recordkeeping, problem-solving, and planning.

CREDIT – Your credit background is essential. If you feel you have credit problems, obtain a copy of your credit report in advance, and be prepared to explain any issues or discrepancies.

CASH/COLLATERAL – you will be expected to put some cash in your business if you want someone else to provide funds. Be prepared to provide a minimum of 25% of all startup costs in cash and/or equipment. Circumstances may vary on the amount requested based upon the business, but this represents a general guideline.

Business Plan

(Guideline example)

(Insert a nice picture here)

Owners name

Your Business Name

Mailing Address

City, ST

Telephone number

Fax

E-Mail Address

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Executive Summary

Write this section *last!*

The Executive Summary should be a maximum of one page!

Include everything that you would cover in a five-minute interview.

Explain the fundamentals of the proposed business: What will your product be? Whom will your customers be? Who are the owners? What do you think the future holds for your business and your industry?

Make it enthusiastic, professional, complete, and concise. These suggestions will be helpful.

- What is the business name?
- What will your product or service be?
- Where is the business located?
- When was the business established?
- What will the loan do for the company?
- How much money is needed?
- How will the loan be repaid?
- When can repayment begin?
- What is the legal structure?
- Who are the owners?
- Whom will your customers be?
- What will be used for collateral?
- Why is the loan needed?
- How will the loan be used?
- When is the loan needed?

The Executive Summary should not be more than a half to one page in length. Remember, this is just a summary, so pick up your key points and remember your purpose. Your goal is to motivate and entice the reader. You must convey your sense of optimism about your business. This does not mean using "hype"; it simply means using a positive, confident tone and demonstrating that you are well-positioned to exploit a compelling market opportunity.

General Company Description

What business will you be in? What will you do?

Mission Statement: Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is an excellent place to put it in the plan, followed by:

Company Goals and Objectives: Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a customer service leader and has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.

Business Philosophy: What is important to you in business?

To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term, and long term? How will your company be poised to take advantage of them?

Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

The legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?

Products and Services

Describe your products or services (technical specifications, drawings, photos, sales brochures, and other bulky items belong in *Appendices*).

What factors will give you competitive advantages or disadvantages? Examples include the level of quality or unique or proprietary features.

What are the pricing, fee, or leasing structures of your products or services?

An excellent way to think about this is the menu of your business!

Marketing Plan

Industry

What is the total size of your market?

What percent share of the market will you have? (This is important only if you think you will be a significant factor in the market.) Current demand in the target market.

Trends in target market—growth trends, trends in consumer preferences, and trends in product development. Growth potential and opportunity for a business of your size.

What barriers to entry do you face in entering this market with your new company? Some typical barriers are:

- High capital costs
- High production costs
- High marketing costs
- Tariff barriers and quotas
- Labor (finding and hiring the right people)
- Training and skills
- Unique technology/patents
- Shipping costs
- Unions

And of course, how will you overcome the barriers?

How could the following affect your company?

- Change in technology
- Change in government regulations
- Change in the economy
- Change in your industry

Product

In the *Products and Services* section, you described your products and services as you see them. Now describe them **from your customers' point of view**.

Features and Benefits

- List all of your major products or services.
- For each product or service:
 - Describe the most important features. What is unique about it?
 - Describe the benefits. That is, what will the product do for the customer?

Note the difference between features and benefits and think about them. For example, a house that gives shelter and lasts a long time is made with specific materials and to a particular design; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so that you can sell the benefits.

What after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

Customers

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.

The description will be completely different depending on whether you plan to sell to other businesses or directly to consumers. If you sell a consumer product but sell it through a channel of distributors, wholesalers, and retailers, you must carefully analyze both the end consumer and the middleman businesses you sell.

You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class and occupation
- Education

For business customers, the demographic factors might be:

- Industry (or portion of an industry)
- Location
- Size of firm
- Quality, technology and price

Competition

What products and companies will compete with you?

List your major competitors:

(Names and addresses)

Will they compete with you across the board, or just for certain products, specific customers, or in certain locations?

Will you have significant indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)

How will your products or services compare with the competition?

Niche

Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world.

In one short paragraph, define your niche, your unique corner of the market.

Strategy

Promotion

How will you get the word out to customers?

Advertising: What media, why, and how often? Why this mix and not some other?

Have you identified low-cost methods to get the most out of your promotional budget?

Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and a network of friends or professionals?

What image do you want to project? How do you want customers to see you?

In addition to advertising, do you have plans for graphic image design? This may include logo design, cards and letterhead, brochures, signage, and interior design.

Have you given thought to a system to identify repeat customers and then systematically contact them?

Promotional Budget

How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

Pricing

Explain your method or methods of setting prices. For most small businesses, having the lowest price is not an acceptable policy. It robs you of needed profit margin; customers may not care as much about price as you think, and large competitors can underprice you. Usually you will do better to have average prices and compete on quality and service.

Does your pricing strategy fit with what was revealed in your competitive analysis?

Compare your prices with those of the competition. Are they higher, lower, the same? Why?

How important is the price as a competitive factor? Do your intended customers make their purchase decisions mostly on price?

What will be your customer service and credit policies?

Distribution Channels

How do you sell your products or services? Retail, Direct, Wholesale, Personal SalesForce, Agents, Independent Reps, Bids on Contract?

SWOT ANALYSIS

<p><u>Strengths</u> (Internal)</p> <p>The store will buy smaller unit of clothing from suppliers. Doing this will make it seem that not every woman in the town has the same clothing.</p> <p>The quality of the clothing is high. We sell mostly made in America products that are made from durable materials.</p>	<p><u>Weaknesses</u> (Internal)</p> <p>Difficulty of getting items in small quantity and large enough variety of clothes in a small town so women won't feel like others in town have same styles.</p> <p>Price range/quality compared</p>
<p><u>Opportunities</u> (External)</p> <p>Shoppers living in small towns often prefer to shop locally if the price/quality/variety meets their expectation.</p> <p>Miles City is a good example of this.</p>	<p><u>Threats</u> (External)</p> <p>Billings which is only 1 ½ hours away</p>

Operational Plan

Explain the business's daily operation, location, equipment, people, processes, and the surrounding environment.

Production

How and where are your products or services produced?

Explain your methods of:

- Production techniques and costs
- Quality control
- Inventory control
- Product development

Legal Environment

Describe the following:

- Licensing and bonding
- Health, workplace regulations
- Zoning or building code
- Trademarks, copyrights, or patents (pending, existing, or purchased)
- Permits
- Environmental regulations
- Insurance coverage

Personnel

- The number of employees
- How will you find the right employees?
- Pay structure
- Job descriptions
- Type of labor (skilled, unskilled, etc.)
- Quality of existing staff
- Training

Location

What qualities do you need in a location? Is the location important to your customers? Describe the type of location you'll have.

- Amount of space
- Type of building
- Zoning
- Power and other utilities
- Parking requirements
- Convenient
- Company image
- Relative to the competition

Inventory

- What kind of inventory will you keep: raw materials, supplies, finished goods?
- The average value in stock (i.e., what is your inventory investment)?
- Rate of turnover and how this compares to the industry averages?
- Seasonal buildups?
- Lead-time for ordering?

Suppliers

Identify key suppliers:

- Names and addresses
- Type and amount of inventory furnished
- Credit and delivery policies
- History and reliability

Should you have more than one supplier for critical items (as a backup)?

Do you expect shortages or short-term delivery problems?

Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing prices?

Accounting Policies

Credit Policies

Do you plan to sell on credit? Do you need to sell on credit? Is it customary in your industry and expected by your clientele?

If yes, what policies will you have about who gets credit and how much? How will you check the creditworthiness of new applicants? What terms will you offer your customers, that is, how much credit, and when is payment due?

Will you offer prompt payment discounts? (Do this only if it is usual and customary in your industry.) Do you know what it will cost you to extend credit? Have you built the costs into your prices?

Managing Your Accounts Receivable

If you extend credit, you should do an aging at least monthly to track how much of your money is tied up in credit given to customers and alert you to slow payment problems. A receivables aging looks like the following table:

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Receivable Aging						

You will need a policy for dealing with slow-paying customers:

When do you make a phone call, send a letter, or get an attorney?

Managing Your Accounts Payable

You should also age your accounts payable, what you owe to your suppliers. This helps you plan whom to pay and when. Settling too early depletes your cash, but paying late can cost you valuable discounts and can damage your credit. (Hint: If you know you will be late making a payment, call the creditor before the due date.)

Do your proposed vendors offer prompt payment discounts?

A payables aging looks like the following table.

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Payable Aging						

Management and Organization

Talk about Yourself

Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What unique or distinctive competencies? Is there a plan for the continuation of the business if this person is lost or incapacitated?

If you have more than ten employees, create an organizational chart showing the management hierarchy and the person responsible for critical functions.

Include position descriptions for key employees. If you are seeking loans or investors, have resumes of owners and key employees.

Professional and Advisory Support

List the following:

Board of directors

Management advisory board

Attorney

Accountant

Insurance agent

Banker

Consultant or consultants – Alex Evans, SBDC Director and/or SEMDC Staff

Mentors and key advisors

Financial Plan

The financial plan consists of a three-year profit and loss projection, a cash-flow projection, and a projected balance sheet. Together they constitute a reasonable estimate of your company's financial future. More importantly, the process of thinking through the financial plan will improve your insight into your company's inner financial workings.

Examples of each of these statements have been included at the end of this book for your reference. Your Small Business Advisor will be able to assist you through this process.

Sales Forecast

Use a sales forecast spreadsheet to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.

You may want to make two forecasts: 1) a "best guess," which is what you expect, and 2) a "worst-case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

Personal Financial Statement

Include personal financial statements for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the business, and these statements will show what is available. Bankers and investors usually want this information as well.

Startup Expenses and Capitalization

You will have many expenses before you even begin operating your business. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance you will leave out substantial expenses or underestimate them.

Even with the best of research, however, opening a new business has a way of costing more than you anticipate. There are two ways to make allowances for surprise expenses. The first is to add a little "padding" to each item in the budget. However, the problem with that approach is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item called contingencies, to account for the unforeseeable. This is the approach we recommend.

Explain your research and how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also, explain how much will be contributed by each investor and what percent ownership each will have.

Appendices

Include details and studies used in your business plan; for example:

Brochures and advertising materials

Industry studies

Blueprints and plans

Maps and photos of the location

Magazine or other articles

Detailed lists of equipment owned or to be purchased

Copies of leases and contracts

Letters of support from future customers

Any other materials needed to support the assumptions in this plan

Market research studies

List of assets available as collateral for a loan