

[YOUR COMPANY NAME]

BUSINESS PLAN



[YOUR NAME]
[YOUR TITLE]
[YOUR ADDRESS]
[YOUR ADDRESS 2]
[YOUR CITY], [YOUR STATE/PROVINCE] [YOUR ZIP/POSTAL CODE]
[COUNTRY]

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[DATE]

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Statement of Confidentiality & Non-Disclosure

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BY ACCEPTANCE OF THIS DOCUMENT, THE RECIPIENT AGREES TO BE BOUND BY THE AFOREMENTIONED STATEMENT.

Executive Summary

The executive summary will provide readers and potential investors a brief yet dynamic description of the key components of the business plan. To make sure it is clear and comprehensive, it is often the last section to be written. A first-time reader should be able to read the summary by itself and know what your business is all about. The summary should stand-alone and should not refer to other parts of your business plan.

The summary, between one to three pages in length, will motivate readers to continue reading the remainder of the business plan in more detail.

The summary should include the following subsections:

Business Description

Provide a brief description of your company. The opening paragraphs should introduce what you do and where. From this section, the investor must be convinced of the uniqueness of the business and gain a clear idea of the market in which the company will operate. The legal form of the business such as LLC, S-Corporation, C-Corporation, Partnership, or Proprietorship should be stated as well as the objectives of the business via a mission statement that clearly states the business' purpose and values. Include a vision statement as well as where you see the business in five to ten years. Be sure to answer the following questions that are usually asked by potential investors:

- What form of business are you in?
- What type of business is it (e.g. manufacturing, consulting, reselling, services)?
- Is it a new business, a takeover, a franchise?
- What is your product or service?

Products and Services

This should include a very brief overview and description of your products and services, with emphasis on distinguishing features. Be sure to answer the following questions that are usually asked by potential investors:

- How will the products be made or the services performed?
- What will they do for the customers/clients?
- What is different about the product or service your business is offering?
- What value do you add to your product?
- What is it that separates your company from the rest of the pack?
- Is your product or technology proprietary, patented, copyrighted?

The Market

Provide a brief description of the market you will be competing in. Here you will define your market, how large it is, and how much of the market share you expect to capture. It is important to reference credible sources and include the name of your source(s) of information along with a date. Indicate how you will market the products/services and which channels will be used to deliver your products/services to your target market(s) (i.e. website, direct sales force, Value Added Resellers, channel partners, etc...). Be sure to answer the following questions that are usually asked by potential investors:

- What are the key drivers, trends, and influences in the market?
- To whom do you market your products and services?
- How will you educate your customers to buy from you?
- Who is your target market?

Competition

It is important to show the reader that you have investigated the competition. Identify the direct and indirect competitors, with analysis of their pricing and promotional strategies, as well as an assessment of their competitive advantage. Based on this analysis, you can identify key obstacles for your business, the additional services you might offer, competitive challenges, as well as opportunities ahead. Briefly describe the competitive outlook and dynamics of the relevant market in which you will operate. Be sure to answer the following questions that are usually asked by potential investors:

- Is your service better, faster, cheaper and if so why?
- Is your advantage a temporary “window” and are there steps you can take to protect your position?
- What have you learned from the competition? From their advertising?
- How is their business currently? Steady? Increasing? Decreasing?

You may also wish to include the following table:

Competitor Name	Sales	Market Share	Nature of Competitor

Main Competitors

Operations

Operations is defined as the processes used to deliver your products and services to the marketplace and can include manufacturing, transportation, logistics, travel, printing, consulting, after-sales service, and so on. This section should briefly outline how you will implement all of the above and include a brief description of the organizational structure and the expense and capital requirements for operation. Be sure to answer the following questions that are usually asked by potential investors:

- Are your staffing requirements on par with the rest of the industry, is your pay and benefits package appropriate?
- Have you considered the possibility of a unionized staff?
- Have you contacted suppliers and distributors and decided which you will choose?
- Do you have insurance? If so, does it provide adequate coverage?
- Have you prepared a contingency plan if some difficulties should occur?
- What facilities and equipment do you require? How much does they cost?
- What inventory will you have on hand? Where will you keep it?

Management Team

The quality of a company's management team is one of the best predictors of success, thus investors will look very closely at the individuals who will be managing the company. The ideal scenario is that senior managers have previously started and successfully managed companies in the same business. If your management team cannot show this kind of background, you should emphasize the previous relevant experiences of the team. Mention past experience, education, positions held and milestones achieved. Be sure to answer the following questions that are usually asked by potential investors:

- Can the current management team reach the desired goals set by the business?
- What about the future needs of management, will you hire new team members? What if a member of your management team leaves?
- What is the chain of command?
- Why did your current management leave their previous position?
- What will be the main duties of each individual member of management?

Risk/Opportunity

Risks are a part of any business, especially a new one. In this section, it is important to show potential investors and loan officers you have taken into consideration the risk involved with starting or expanding your venture. Illustrate the market, pricing, product, and management risks as well as how you plan to overcome these risks.

Convey to the investor that the company and product/service truly fills an unmet need in the marketplace. Describe and quantify the opportunity and where you fit. Explain why you are in business along with the reasons why you will be able to take advantage of this opportunity. Be sure to answer the following questions that are usually asked by potential investors:

- Have you considered all the possible risks involved?
- Does your business have a contingency plan in place for all of the risks mentioned?
- What makes this opportunity unique?
- What are the financial risks for your business? How will these risks be minimized?
- What is the worst-case scenario? How will your business handle it?

Financial Summary

The financial section of the business plan will help you and potential investors (or loan officers) estimate how much money will be required and how much profit and sales will be generated. This process will force you to think through the various scenarios that may arise through the course of business and the respective responses to each. Be sure to answer the following questions that are usually asked by potential investors:

- Have you stated your break-even point?
- What are the potential problems you are certain your business will face and what are the solutions to these problems?
- Are the balance sheet and income statement completed for five years?

This table should include a recap of your income statement:

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue					
Cost of Goods Sold					
Gross Profit					
Operating Costs					
Finance & Admin					
Sales & Marketing					
Total Expenses					
Net Income Before Tax					
Less: Income Tax					
Net Income					

This table should include a summary of your balance sheet:

As of [Date]	Year 1	Year 2	Year 3	Year 4	Year 5
Assets					
Liabilities					
Equity					

Financial Summary

Capital Requirements

Clearly state the capital needed to start or expand your business. You should have a very clear idea of how much money you will need to operate your business for the first full year. If possible, summarize how much money has been invested in the business to date and how it is being used. Describe why you need the funds and why the opportunity is exciting. Keep in mind that one of the most common causes of new business failures is under-capitalization. Investors and loan officers want to know when they will get their money back, so be sure to explain how and when they will recoup their investment or when you will repay the loan. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral. The following tables are useful to portray the sources and uses of funds:

Source of funds:

Source	Amount	Percentage
Owners' contribution		
Term loans		
New equity financing		
Total		

Use of funds:

Category	Amount	Percentage
Sales & Marketing		
Capital Expenditures		
G & A Expenses		
Other		
Total		

Executive Summary checklist:

- Does your Executive Summary capture the essence of your business plan?
- Does your Summary sell your distinctive competence for executing the plan?
- Does it sell your strategy for success?
- Does it stand-alone from your business plan (without reference to the business plan)?
- Is your Summary short, clear and exciting? Does it make the reader want to dive into the complete plan for more details?
- Do you cover all of the main elements of your plan (Business Description, Products and Services, The Market, Competition, Operations, Management Team, Risk/Opportunity, Financial Summary and Capital Requirements)

1. Business Description

The business description is a brief (one or two page) description of the company you have founded or are about to found. This section will be broken down into subsections and should give your reader a good idea of where you are, how you have gotten there and where you foresee your business in the future.

Answer the following questions in one or two paragraphs:

- What is the name of your company? Where is it located?
- Will it be a sole proprietorship, partnership, or corporation?
- Does your company currently exist, or will it be forming?
- What is your current stage? (Idea stage, start-up, expansion, etc.)
- Has the product been tested, lease signed, suppliers arranged, staff hired, etc.?
- How will it be organized?
- What is the size of the company? (Sales volume, number of employees, size of facilities, etc.)
- Why should an investor put money in your hands?
- To whom do you market your products? What is your target market?
- What changes do you foresee in your industry, and how will your company respond to them?

The Business description should include the following subsections:

1.1 Industry Overview

Often neglected in many business plans, an industry overview will provide potential investors or loan officers information on the industry that you are entering or already have a stake in. The industry overview should begin with the current situation of the industry and the future of the industry. Where possible, provide information on all the markets in the industry, including the positive or negative affect new products and developments will have on your particular business. When writing this section it is very important to state or footnote the source of any information and data you have used. Investors and loan officers will want to know how reliable and accurate the information you have provided really is.

1.2 Company Description

Start with the legal name of your business and state the legal form such as LLC, S-Corporation, C-Corporation, Partnership, or Proprietorship. State whether the business is a new business, expanding business, or a takeover of an existing business. Next, explain the actual business you are in, this will include describing the manufacturing of any product, provision and delivery of any service, and so on.

State where your primary office will be located as well as any other facility that your business will operate in and then explain the reasons for that specific location. Give the actual size of each office and/or facility and along with a description of how each will be used and the duration in number of years these facilities will be adequate for operating the business (i.e. number of years used for amortization of their cost).

If your company uses any controlled substances in the manufacturing process or delivery of service be sure to list them along with the jurisdiction of the government agency associated with them. Be sure to indicate that you have obtained the necessary permits/licenses and what are the agencies that regulate them.

Mission Statement

Your mission statement is a short inspirational statement of the vision and goals you have for your company. Be sure that your mission statement is concise, content rich, and that it excites your readers. Your mission statement should address, but is not limited, to the following elements:

- Nature and philosophy of the company
- Quality, price, service, customer relationships, management style, employee relations
- Corporate culture, image
- Social and community image
- Growth and profitability goals

1.3 History and Current Status

Summarize the history and current status of your company. If your company is just forming, clearly explain how you came up with the idea to start your business and how you and your partners have met.

If your business is already in operation, state how long you have been in business. Do you have anything to say about previous owners, successes, failures, lessons learned, reputation in community or sales and profit history? Discuss significant past problems and how you survived them.

1.4 Goals and Objectives

In this section, explain in simple terms the objective of your business in a single paragraph. Express your company's objectives by answering the following questions:

- What are your plans for the future of the business?
- What are your ambitions for the company?
- Are you developing growth strategies? If so, how fast do you think you will grow?
- Do you plan to increase production, diversify, or eventually sell the business?
- Explain your short- and long-term goals for the company.
- What are your time frames for reaching different goals?

1.5 Critical Success Factors

Separate from the Goals and Objectives section, the critical success factors identify what needs to be in place or managed in order to accomplish the objectives. Questions to address are:

- What factors will make this business a success?
- What are the internal and external elements that have an immediate and direct impact on your business? How are you prepared to deal with them or make them happen?
- What are your major competitive strengths?
- If you are asking for funding, go on to explain how the new capital will help you successfully meet your upcoming challenges.

1.6 Company Ownership

This section will identify the owners of the business and should address the following:

- Who are the owners? How much of the shares do they own?
- Who are the people in the management team?
- List the name of the individual and the position held
- Describe the owners' plan for succession. Who takes over after you retire?

Use the following table to clearly show how the ownership will be broken down:

As of [Date]			
Name	Title (if Applicable)	Number of Shares	Percentage of Ownership
	TOTAL		

Ownership of Company

1.7 Exit Strategy

This is where you explain to investors how they will get their money back, what you are anticipating they will recover in excess of their investment and in what time frame. Possible exit strategies can include:

- The sale or merger of your company
- A management buyout
- An IPO or private placement

2. Products / Services

This section is a detailed description of the products and/or services you will be selling or providing. Since the reader may not be familiar with your product/service, make sure to explain and describe it carefully. Begin to sell your idea by generating some excitement about it. Be honest about capabilities. When potential investors have finished learning about your product or service, they should be enthusiastic about reading the marketing and financial details of your venture.

Try to describe the benefits of your goods and services from a customers' perspective.

Make sure to include technical specifications, drawings, photos, sales brochures, and other items that you deem appropriate in the appendix.

In a few paragraphs, answer the following questions:

- What exactly is your product or service?
- What marketplace needs does your product address?
- Who will purchase it?
- How will your product or service benefit the customer? What are its features?
- How does your product work or how is the service used?
- Which after-sales services are provided? (e.g. delivery, warranty, support, follow-up, or refund policy)
- What proprietary rights do you have to the product/service? Patents, copyrights, trade secrets, non-compete agreements? Other proprietary knowledge or skills?
- What is your pricing strategy?
- What are the sales price, cost, and profit margin for each product line?
- Which products/services are in demand?
- What are your current sales?
- What are the boundaries of your business?
- Are there other vendors involved and if so who and where do they fit?
- What is included in the product's bill of materials? (Major components only)
- Are there any current/potential component supply problems?

The Products/Services section should include the following subsections:

2.1 Product/Service Description

Begin by stating your [YOUR COMPANY NAME] and the product or service you provide. List all products/services in order of highest to lowest sales or importance of product line. If possible, try to refer potential investors and loan officers to patents, diagrams, product displays, or other supporting material.

For each product/service, describe the main features and benefits. State at what stage of growth your product/service is in [introductory, growth, maturity] and when you initially developed your product/service. When possible, provide a historical summary of product developments, introductions, and improvements up to the time of the business plan in a table.

Existing Products

- How is your product different from the competition? Compare capabilities, strengths/weaknesses, and characteristics of your product to that of competitors.
- Are your products currently up to date? If not, how and when do you plan to update them?
- Include the sales price, costs and profit margin for each product line
- Who are your current customers?

Description of the Products

- General concepts
- Specific features
- The cost and labor of production methods
- In what stage of development are the products?
- Product liability considerations?
- What is your pricing strategy?

Description of the Services

- What are the services offered?
- What is your pricing strategy?
- What is unique about your service?
- Does your service create a competitive advantage?

Stage of Development

Briefly describe the current status of your product or service:

- Where is the product in its lifecycle (early, growing, mature, declining)?
- Is it ready for the market, or is it in development?
- What obstacles remain?
- What is the timeframe for introducing these products to the market?
- How up-to-date are your products? Address potential obsolescence or losses of market share.
- Has your product been tested / evaluated and if so, where, when and what were the results.

2.2 Unique Features or Proprietary Aspects of Product/Service

In this section you will show how your product or service is unique. Explain the unique value-added characteristics of your product line or service and how these value-added characteristics will in turn give your business a competitive advantage.

Begin by stating why your business is unique (e.g. patent, secret ingredient, new production process, unmatched know-how). Explain how the competition may provide a similar product/service but provide the reasons why your business is able to differentiate itself in the market.

Be sure to give the details on any patents you have applied for, been granted, or been licensed. Provide a summary of the patent in the appendix. Point out your lead product/service and demonstrate how it addresses customer needs and benefits.

2.3 Research and Development

If your business is big enough to have either a Research and Development department or employee, specify the people in charge and their major objectives. List what your Research and Development has accomplished in the past such as innovative products/services. Account for what has been spent in the past year in percentage of revenue or actual dollar amount. If there are any plans for the future, give the percentage of revenue or dollar amount that will be allocated and the duration of the plan.

Selecting a product/service from idea to market can be a difficult task. It is a good idea to have criteria in place for deciding which product/service to move forward with. These criteria may include but are not limited to:

- Relatively low investment requirements
- Positive return on investment
- Feasibility of development and execution
- Uniqueness in the market
- Relatively low risk
- Timeliness of results

2.4 Production

This section will give more details on how your product/service is manufactured or delivered. To better assist you in writing this particular section, a product-oriented approach and a service-oriented approach are provided.

Product

There are a number of things to address when your business is product oriented. First, state if your product(s) is manufactured in-house or assembled in-house from various vendors, then list the raw materials, sub assemblies, or components used for your product. Identify where you purchase your materials or any manufacturers you may use for sub assembly.

List the critical factors in the production of your product.

Specify and explain capital equipment, material, and labor requirements. Are the above items readily available? Do you have multiple supply sources? List inventory requirements, quality, and technical specifications, and hazardous materials.

Service

Service-oriented businesses will address issues in a different manner. Anyone operating a service-oriented business will state if his or her service is provided by internal staff or subcontracted to field consultants. If there are procedures for delivering the service it will be described in this section.

List the critical factors for the delivery of service.

Specify if there will be a particular service level that has to be maintained and how you will maintain these levels.

2.5 New and Follow-on Products/Services

As your business expands, there will come a time to launch new products and services. If you already have new products in mind, point them out in this section. Specify whether they will be an extension of an existing product or completely new products. Your plan should include when and how you will launch the product/service (e.g. at major trade shows, industry events, through free samples, contests, etc.). Provide a target introduction date for the product/service.

Future Products

- Are there plans for future or next generation products? If so, what and when?
- Are these new products included in your revenue and cost projections?

Market Comparison

In one or two paragraphs, position your new product or service in its marketplace:

- Who are your principal competitors?
- What are their products?
- Why is your product/service superior and how is it different?
- What is unique about your product/service?

3. The Market

The success of many new ventures is often determined by how well they have prepared this section of the business plan. The section itself should be broken down into subsections for industry analysis, market analysis, and competitor analysis. To properly write this section of the business plan, conducting or gathering market research is very important. It is for this reason that we have supplied a short segment on Market Research before the subsections.

Why do market research?

Every business can benefit from doing market research to ensure it is where it wants to be. Use the business planning process as your opportunity to uncover data and question your marketing efforts. Rest assured it will benefit your business in the future and is time well spent.

There are two types of market research: primary and secondary.

Primary market research involves collecting your own data. Some examples of primary research include using the Internet and yellow pages to identify your local, national, and global competition. Conducting surveys, group interviews, and focus groups to learn more about potential consumers and niches for your particular business. Paying for professional research could be hard for anyone starting a new business. However, there are a number of books on the market, which can show small business owners how to conduct effective research by themselves.

Secondary market research involves using published information such as industry profiles, trade journals, newspapers, demographic profiles, magazines, census data, and books. This type of information is available from public libraries, industry associations, chambers of commerce, vendors who sell to your industry, business information centers, government departments, and agencies.

The Market section should include the following subsections:

3.1 Industry Analysis

The industry analysis subsection should objectively describe the industry in which you will compete. The government and suppliers of equipment for your industry are great sources of information. Use the Internet to research stats and reports. When completed with this section, potential investors and loan officers should understand the dynamics, problems, and opportunities driving your industry.

Try to find answers to the following questions:

- How is your industry defined? What is its NAIC (North American Industry Classification) code?
- How is the industry segmented? How are the segments defined?
- What are current trends and important developments?
- Who are the largest and most important players?
- What problems is the industry experiencing?
- What national and international events are influencing this industry?
- What are growth forecasts?
- What is the total estimated industry sales (i.e. current, 5-year, 10-year outlook)
- Are there any general industry standards, benchmarks and performance requirements

General Information

- Economic sector, service sector, manufacturing methods, distribution channels
- Particular type of industry (e.g. Manufacturing, Consumer Goods, Retail, Technology, Life sciences, Transportation, etc.)
- Industry structure
- Level of competition, dominant players, presence of conglomerates, noticeable past failures, noticeable new entries

Size, Growth Rate, Trends, Drivers of the Industry

- Rate of expansion. How does it compare to GNP growth?
- How your specific sector might be different
- Predicted trends and the strategic opportunities they offer
- Major industry trends, fashion and fads
- Changes of use of product

Sensitivity to Economic Cycles & Seasonality

- How will national and international trends affect your business?
- How will local industry affect your situation?
- How will seasonal variations in business affect your cash flow?
- Demand cycles

Legal, Political and Economical Factors

- Present and future laws as well as policies affecting your business
- Presence of government agencies and regulating bodies
- Corporate tax shelters
- Government spending
- Political climate (e.g. stable, war setting, etc.) and stability of government
- How can local and national regulation affect your business? (Inspection standards, wage and tax changes, etc.)

Sociocultural Factors

- Lifestyle and sociocultural changes
- Environmental concerns
- Change in use of disposable income
- Living conditions (amenities, utilities, pollution)

Technological Factors

- Breakthrough technologies or processes, technologies under development
- Rate of technological innovation
- Relative cost of technology, research and development
- Industry dependence on technological factors, impact of technological innovation
- Energy use

Finance Norms & Patterns

- Terms with vendors, customers, the capital market
- Standard markup of products
- Inventory par levels
- Profit expectations, etc.

3.2 Market Analysis

In your market analysis subsection, you have to describe the specific market in which you will be competing. Your market will probably be smaller than the entire industry defined above. Much of the research you do for this subsection will be to talk with experts in the marketplace, potential customers, competitors, sales representatives, wholesalers, distributors, and retailers. A thorough research of the market is the most important part in the development of a business plan. As well, it will help to isolate a target market and the behaviors and habits of the people within this market to better understand customer needs and expectations.

If it is a locally based business, you need to evaluate the demand for your product/service within a specific radius, based on what you determine is a reasonable distance from your business. If it is a web-based business or a business that relies on both the Internet and local traffic for revenues, you will need to evaluate demand on a local, national, international, basis. Be sure to identify any voids in the market which are currently not served, and which you presumably will fill. A research report from sites such as Forrester Research can cost hundreds to thousands of dollars. However, you may be able to get some basic information simply by using the Internet and its many search engines and directories.

Market Segmentation and Target Market

Identify and segment the customers in your marketplace. The research you conduct for this subsection will be with customers and potential customers. It is imperative that you do sufficient customer research to convince potential investors (and yourself) that there is an unmet need in the marketplace. The description will be completely different depending on whether you 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, then you must carefully analyze both the end user and the middlemen businesses to which you sell.

You may well have more than one customer group. Identify the most important groups. Then, for each consumer group, construct a Market Segment profile with the following breakdown:

Demographics

- Age, income range, sex, occupations, marital status, family size, ethnic groups, education, sophistication, home or auto owner, etc.

Geographics

- Area served → neighborhood, city, region
- Density → urban, suburban, rural
- Nature of the location → downtown, business, shopping, residential
- Transportation → how can customers and employees access the store (walk, drive, public transportation)?

Lifestyle

- Family status (single, newly married couple, full nest I, full nest II, etc.)
- Hobbies, sports, entertainment interests
- Television, radio, magazines, and other media preferences
- Political and other organization affiliation

Psychographics

- Status seeking or trend setting?
- Socially or environmentally conscious?
- Free spending or conservative?
- Practical or fun seeking?

Buying Factors and Sensitivity

- Price, quality, brand name, service
- Special product features, advertising, packaging
- Location, store design, ambiance, sanitation
- Nature or quantity of other customers

Market Size and Trends

Begin by stating the market you are competing in, how big it is in terms of a dollar amount and your source/date of information. Next, state any future trends you believe will occur in the market and your reasoning behind your beliefs. This can be achieved by listing the primary or secondary research you have performed. Once again, be sure to reference any source of information you have used to show potential investors and loan officers you have done your homework. Some common questions this section should address:

- How big is the target market?
- How fast is it growing?
- Where is the market heading?
- What economic and social factors will be influencing the market?
- How will the market's needs be changing and why?

Market Needs

Define any current needs in the market and how your product or service will fulfill those needs.

Market Growth

Gathering information on historical development and growth will aid in assessing potential market opportunities for the future. Business success is determined by not only recognizing what "today's" customers want, but also what "tomorrow's" customers will need. Try to identify the future makeup of the market you are entering and state whether the market will be growing or maturing in the short and long run.

- Will the price of your product increase/decrease in the future?
- How fast is the market growing?
- What is the stage of development of the market? (Growth, maturation, decline)
- How is the market affected by the state of the economy?

3.3 Competitor Analysis

Competition occurs on a daily basis no matter what line of business you are in. Advances in technology can send the profit margins of a successful business into a tailspin causing them to plummet overnight or within a few hours. When considering these and other factors, we can conclude that business is a highly competitive, volatile arena. Because of this volatility and competitiveness, in some cases, it is important to know your competitors, what they have accomplished, and the challenge you have before you. Your competitors have preceded you into the market. They have established position, distribution, market exposure, and a customer base. The success of your business depends on your company's ability to take market share away from these competitors or to address a segment of the market that is not currently being addressed. If you are anticipating taking market share, you need to explain how you are going to do it. There are a number of issues that you should consider in completing your competitive analysis. Potential investors and loan officers should have the sense that you have insights into your competition that they cannot get from reading the competitors' website or prospectus.

Competitive Landscape

- Focus only on the competitors who are targeting the same market
- Indicate level of competition in industry (e.g. fierce, moderate) and number of competitors
- Describe type(s) of competition affecting your business (product/service competition, competition at the level of corporate/marketing strategy or business model, or competition based on specific attributes such as price, quality, features, etc.)
- Categorize the competition by type (e.g. chain restaurant, in-house facility, lunch wagon)

List your major competitors:

- Names & addresses
- Identify main sources of competition (direct competitors, indirect competitors, substitutes, potential entrants, related products) and evaluate relative intensity of competition arising from each sources
- Identify major competitors and lesser competitors and list them in categories based on source type (refer to above item) and/or based on their threat level
- Identify the factors that give power to competitor(s) (e.g. marketing strategy, superior product, established company, strong financial backing, expertise, relationship with key industry members, etc.)
- Identify the strategies and/or market conditions that have allowed competitors to achieve good results and, if applicable, what caused them to fail

Compare your products/services with competition:

Use the following table entitled *Competitive Analysis* to compare your company with your three most important competitors.

In the first column are key competitive factors. Since these vary with each market, you may want to customize the list of factors.

In the cell, labeled "Company" state how you honestly think you stack up in customers' minds. Then check whether you think this factor is a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be honest. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener.

Now analyze each major competitor. In a few words, state how you think they stack up.

In the final column, estimate how important each competitive factor is to the customer. 1 = critical; 5 = not very important.

Competitive Analysis Table

FACTOR	Company	Strength	Weakness	Competitor A	Competitor B	Competitor C	Importance to Customer
Products							
Price							
Quality							
Selection							
Service							
Reliability							
Stability							
Expertise							
Company Reputation							
Location							
Appearance							
Sales Method							
Credit Policies							
Advertising							
Image							

Competitive Advantage and Comparative Evaluation

Having done the competitive analysis matrix above, write a short paragraph stating your competitive advantages and disadvantages for both you and your competitors:

Goals

- Price (and hidden costs), credit policies
- Location
- Quality
- Special product features
- Image/style/perceived value
- Service (and special service features), customer relations, social image.

Internal Strengths

- Financial strength, volume purchasing power
- Marketing and promotional program and budget
- Operational advantages, strategic partnerships
- Company morale → personnel motivation, commitment, productivity

Market Share and Distribution

- How is the market distributed?
- Does any one or two companies dominate the market?
- How will you obtain sufficient market share?

Strategic Opportunities

- How can you use your competitive advantage to exploit opportunities in the marketplace?
- Where are your competitors vulnerable and how will you be able to take advantages of these weaknesses?

Barriers to Market Entry and Exit

Defined as a cost that must be incurred by a new entrant, entry barriers can benefit some new businesses while stopping others in their tracks. No matter which side of the barrier you are on, it is important to identify any barriers your business will have to overcome or have set in place for new entrants. Some of the more common barriers to entry include:

- ❑ High capital costs
- ❑ High production costs
- ❑ High marketing costs
- ❑ Consumer acceptance/brand recognition
- ❑ Government regulations
- ❑ Changing economy
- ❑ Change in technology
- ❑ Shipping costs
- ❑ Patents and proprietary knowledge
- ❑ Unions

Barriers to exit limit the ability of a firm to leave a market and can exacerbate rivalry. Examples of entry and exit barriers can be found below:

Easy to Enter if there are: <ul style="list-style-type: none">• Common technology• Little brand loyalty• Access to distribution channels• Low scale threshold	Difficult to Enter if there are: <ul style="list-style-type: none">• Patented or proprietary know-how• Difficulty in brand switching• Restricted distribution channels• High scale threshold
Easy to Exit if there are: <ul style="list-style-type: none">• Salable assets• Low exit costs• Independent businesses	Difficult to Exit if there are: <ul style="list-style-type: none">• Specialized assets• High exit costs• Interrelated businesses

4. Marketing Strategies and Sales

The Marketing and Sales section of your plan will make or break the prospects for your venture. A great idea is meaningless if you cannot find customers. Carefully drafted and logical financial projections are irrelevant if nobody buys your product/service. In this Marketing Strategy section you must convince potential investors and loan officers that there is indeed an eager market for your product. The Marketing Strategy section is where you show how you are going to fit into the market structure you just finished describing. What are unmet needs in the marketplace and how are you going to fill them? How will you differentiate your product/service from your competitors? What unique features, benefits, or capabilities will you bring to the marketplace? Who are your customers? Research you do for this subsection will be with customers, potential customers, plus any necessary secondary data. It is imperative that you do sufficient customer research to convince potential investors (and yourself) that customers will indeed come flocking to buy your product or service. Customer research can include simply talking with potential customers to get reactions to your product idea, conducting focus groups, undertaking walk-up or mailed surveys, putting up a mock demonstration of your concept and soliciting customer feedback, and so on. Be creative in finding ways to get honest customer input about your product or service. Finally, do not inadvertently cook the books here. Since you are enthusiastic about your concept, customers will notice your enthusiasm and often reflect it back to you, leading to erroneous conclusions about customer acceptance. It is therefore preferable to be neutral and factual as you collect data.

The Market Strategies and Sales section should include the following subsections:

4.1 Introduction

Begin with the fundamentals of your marketing plan. State target market segments you wish to penetrate, how you plan to achieve this (e.g. through retail, mail order, multi-level marketing, the Internet) and the period for capturing a specific percentage of the market share.

4.2 Market Segmentation Strategy

Explain your strategy for each segment you have described in section 3.2 (Market Segmentation and Target Market). Describe the unmet need of your target consumers that your product/service fulfils or the problem it solves. The main types of segmentation strategies are as follows (you may also choose a combination of strategies):

- ❑ Geographic segmentation: segmenting customers based on geographic area (city, country, ZIP code, metropolitan statistical areas, time-zone, etc.)
- ❑ Product-user segmentation: segmenting customers based on product usage (amount and/or consumption patterns of a product category or brand)
- ❑ Lifestyle segmentation: segmenting customers based on lifestyle (which includes: values, beliefs, perceptions, leisure activities, preference for social events, sports interest, media usage, political views, etc.)

4.3 Targeting Strategy

Identify the targeting strategy to implement. This will determine which market segments you will focus on. The three main targeting strategies are:

- ❑ Mass Marketing: go after the market as a whole with one offer that answers common needs
- ❑ Differentiated Marketing: go after several market segments with offers tailored to each
- ❑ Target (Niche) Marketing: go after a small segment or sub-segment with a tailored offer

4.4 Positioning Strategy

Here you will include the strategy you will use to position your product vis-à-vis competitors. Some of the common product positioning strategies includes:

- Positioning in relation to competitor (head-to-head comparisons, differential advantage)
- Positioning in relation to a product class or attribute (e.g. low energy consumption, environmentally friendly, efficient, time saver)
- Positioning in relation to target market
- Positioning by price and quality (high-quality, low-price leader, luxury)
- Repositioning (gives old product new image)

Corporate Message and Image

- The message you portray through all your marketing efforts should be clear, consistent, and reflect your corporate image
- Image can be portrayed directly (through a description of products, pricing, services, etc.) or indirectly (through suggestive design elements, logos, or uniforms, etc.)

4.5 Product/Service Strategy

Describe how your product/service has been designed and tailored to meet the needs of your target customer and how it will compete in your target market:

- What specific product/service features meet the needs of your customers?
- What differentiates your product in your target market?
- How does it differ from that of your competitors?
- What are the strengths of your product/service? Its weaknesses?
- Why will customers in your target market buy your product rather than the competition's?
- How will you differentiate yourself from your competitors?
- Why will customers switch to or select your product?
- How quickly and how effectively can competitors respond to your business?

4.6 Pricing Strategy

Your pricing strategy is a marketing technique that is part of your overall marketing/positioning strategy. Upon examining the pricing strategy your competition is currently using, explain your pricing strategy and why it will be effective with your target customers.

Begin by stating your pricing strategy. Explain how you arrived at your pricing strategy (e.g. based on cost, gross margin objectives, market prices, perceived value). Point out how your pricing strategy compares to the competition. Be sure to include when you will review your pricing strategy, i.e. monthly, quarterly, annually.

Some common pricing strategies include:

- Retail cost and pricing
- Competitive position
- Pricing below competition
- Pricing above competition
- Price lining
- Multiple pricing
- Quantity discounts
- Cash discounts
- Seasonal discounts

In structuring your pricing plan, make sure you have considered all of the following:

- Competitor pricing
- Direct/indirect costs
- Prices you plan to charge, typical gross and net margins for each product and service
- Credit arrangements, returns policy, etc.
- Profitability
- Financial justification
- Customer needs and what they are willing or not willing to pay for
- How customers view additional features and benefits
- What kind of cost savings might interest customers

4.7 Distribution Channels

A distribution channel consists of the set of people and processes involved in the transfer of a product from producer to ultimate consumer. Describe your distribution strategy and explain why it is the best for your marketplace.

Begin by providing the distribution channels your business will use [WHOLESALEERS, CATALOGUERS, MASS MERCHANT RETAILERS, CONSOLIDATORS, DISTRIBUTORS] and how they are good fits for your end users because of [CUSTOMER PROFILE, GEOGRAPHY, SEASONAL SWINGS, OTHER FACTOR]. Then point out the distribution channels used by your competition and the reasons why your choice of distribution channels is advantageous for you.

- List your major current customers or consumer groups including a one or two sentence description for each and demonstrate how your product reaches the end user. A chart or diagram may be useful.
- Identify geographical or sales territories to be covered
- Specify whether middlemen are:
 - Gathering marketing information
 - Providing marketing research information down and up the supply chain
 - Promoting your product
 - Adding a price markup
 - Transporting and sorting goods
 - Negotiating with customers and/or other middlemen

4.8 Promotion and Advertising Strategy

How you advertise and promote your goods and services is crucial to gaining acceptance in the market and successfully generating a profitable sales volume. Having a good product or service and poor advertising is like not having a business at all. Many business owners operate under the mistaken concept that the business will promote itself, and channel money that should be used for advertising and promotions to other areas of the business. Advertising and promotions, however, are the lifeline of a business and should be treated as such. Your purpose is to introduce, promote, and support your products in the marketplace. Although considered a cost, a properly designed and executed campaign is an investment.

Explain your advertising and promotion strategy. It is critical that you educate your target market about your product or service, inform it about its availability, and regularly communicate your benefits to that market.

- How will the business advertise and promote its product or service?
- How will the business communicate with its customers? Advertising? Public relations? Personal selling? Printed materials? Other means of promotion?
- Why will this strategy be effective in reaching your target customer?
- If you have identifiable repeat customers, do you have a systematic contact plan?
- How do you get the word out to customers?
- Why this mix of advertising channels and not some other?

Marketing Vehicles

You must decide how you will generate awareness of your product or service among potential customers. Employing the following promotional activities can generate awareness:

- Brochures, flyers, leaflets
- Print media – newspapers, magazines, specialty publications, Yellow Pages
- Direct mail, (e)mailing lists
- Broadcast media/electronic – television, radio, Internet, movie theaters
- Promotions (2 for 1), dining clubs, credit card discount programs
- Signs – on store, billboards, public transport, blimps
- Hotel – in-house publications, video guides, concierge relations, services
- Charity events
- Samples, coupons
- Specialties – packaging, T-shirts, stickers, mugs, etc.
- Trade shows, networking
- Point of sale devices, promotions, and employee practices
- Public relations

Promotional Budget

There are four common promotional budget methods:

- Percentage of sales
- All available funds
- Following the competition
- Budgeting by task or objectives

State and give details of the method you will apply to your marketing strategies. Be sure to consider the following questions when completing your promotional budget:

- How much will you spend on the marketing vehicles listed above
- Should you consider spending less on some promotional activities and more on others?
- What is the budget for all phases of the marketing effort?

4.9 Sales Strategy

Depending on your business, a strong sales team may be a critical component of your success. Remember: "nothing happens until the sale is made." An effective sales strategy is critically important for most manufacturers, publishers, software firms, and many service providers. Do not overlook the importance of formulating an effective sales strategy.

- Discuss how and where you plan to sell and distribute your product or service
- How will your product or service be sold? Personal selling? TV infomercials? Direct mail?
- Who will do the selling? An internal sales force? Manufacturer's representatives? Telephone solicitors, call-centers? Internet Marketing?
- How will you recruit, train, and compensate your sales force?
- How will you support your sales effort? (e.g. internal staff, service operations, motivators, etc.)

4.10 Sales Forecasts

Now that you have described your products, services, customers, markets, and marketing plans in detail, it is time to attach some numbers to your plan. Prepare a month-by-month sales forecast for a projected twelve-month period. The forecast should be based upon your historical sales, the marketing strategies that you have just described, market research, and industry data if available.

It is preferable to do three forecasts: 1) "best case", 2) "expected case", and 3) "worst case" (a low estimate that you are confident you can reach no matter what happens).

For this section, please refer to the Sales Forecast in the appendix.

Remember to keep notes on your research and assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. Relate the forecast to your sales history, explaining the major differences between past and projected sales. This is critical if you are going to present it to funding sources.

5. Development

In this section, you will outline how you intend to improve your business. This section is often sadly underdeveloped in many business plans. Assuming you have a dynamic marketing plan and customers do indeed come flocking for your product/service, you must be able to deliver it to them.

The Development section is a road map of how you are going to get from where you are now to where you want to be in the future. If you are starting a business, what are all of the steps that you need to accomplish to get the business up and running? If you are expanding a business, what do you need to do to make it grow? These steps can be as routine as securing retail space, or as critical as applying for and getting a patent on key technology. Do not go into too much detail here. For example, the need to get business cards printed probably does not belong in a development plan (although you might include it in a detailed checklist in the appendices). Use your judgment.

The Development section should include the following subsections:

5.1 Development Strategy

What work remains to launch your company and your products? What factors need to come together to make your concept work? What are the risks threatening the successful implementation of your development plan? Are they technological risks, cost risks, competitive risks? How will you mitigate these risks?

5.2 Development Timeline

What is your timetable for launching your company and your products? Go out as far in the future as you have can. Consider adding a chart or table here.

5.3 Development Expenses

Include here a description of the development costs and assumptions that appear in your financial statements.

6. Management

Venture capitalists often assert that there are three attributes important for a successful start-up business: management, management, and management. Many venture capitalists claim they will invest in a strong management team with a mediocre idea, but will decline to fund a weak management team with a great idea. The purpose of the Management section, therefore, is to convince potential investors and loan officers that you have a great management team to complement a great business concept. This is not the place for modesty or self-deprecation. Be honest, but highlight your accomplishments and your capabilities while mitigating any obvious shortcomings or weaknesses. For example, if you are young and inexperienced, accentuate your energy, capacity for hard work, and willingness to learn, while downplaying your lack of experience. When readers are finished with this section, you want them to be confident that your venture is in good hands and will be competently managed.

The Management section should include the following subsections:

6.1 Company Organization

Describe how your company will be organized.

- How will your business be organized? What does your organizational chart look like?
- What is the ownership structure of your company?
- Will you have a board of directors? Who will be on it? What will be their role?

6.2 Management Team

Biographies of the Management Team

The management section should include the names and backgrounds of lead members of the management team and their respective responsibilities. Describe the founders and principal managers who will run your business.

- Who are the key managers?
 - What will be their duties and responsibilities?
 - What unique skills do they bring to the business?
 - How will they be compensated?
- Summarize resumes of key management and owners
- List education, skills, experience (including past duties). Focus on important past accomplishments but do not be too lengthy. Detailed resumes may be included in an appendix.
- What additions to the management team are you planning? When?
- If there is a key position that is not yet filled, explain your plans to do so
 - Briefly describe the job and the profile, compensation, and qualifications of the prospects

Officers and Key Employees	Age	% of Ownership
President		
Vice President of Sales & Marketing		
Vice President of Finance		
Vice President of Operations		
Vice President of R & D		
Controller		
Corporate Attorney		

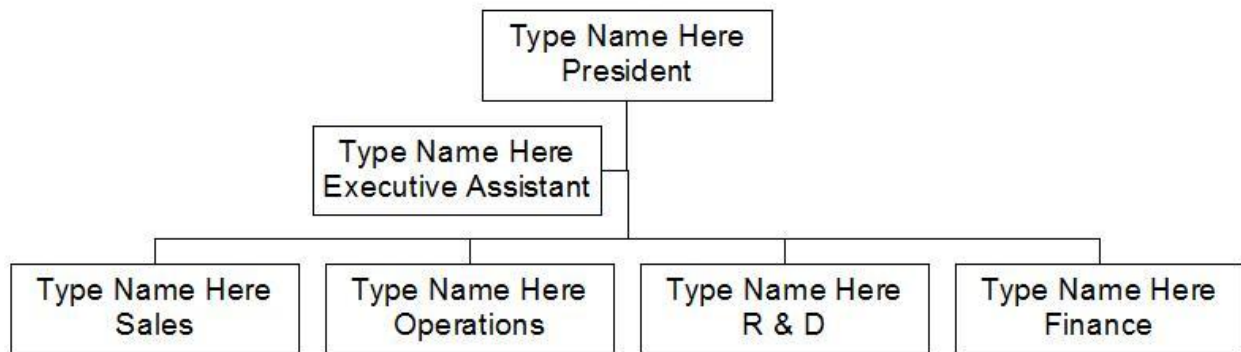
6.3 Management Structure and Style

Organizational Chart

If you have more than ten employees, do an organizational chart showing the management hierarchy and who is responsible for key functions. A very simple organizational chart will help explain how the company is organized, the reporting structure, and the positions that you plan to fill. The chart should reflect both current and open positions, or you can have two charts – pre- and post-funding. Two charts would be more applicable if you foresee significant changes in the organizational structure after funding.

Insert your Organizational Chart below.

Sample Organizational Chart



Management Style

- Describe your company's management style. Management style should reflect and support the general corporate style (suggested in the mission statement)
- Include any innovative or unusual aspects of management style that would affect growth or give a competitive advantage

6.4 Ownership

In this subsection, you will list the majority owners of the business. State if you have authorized shares of common stock and then break down the number of the shares held and percentage of ownership for each stockholder.

Name	# Shares Held	% Ownership
[Founder]	52	52%
[Inventor]	22	22%
[Management Team]	10	10%
[Seed Ventures]	10	10%
[Stock Option Pool]	6	6%

6.5 Professional and Advisory Support

Here you will list service providers your business may consult or from whom you will obtain additional services, who are not a part of your internal staff. These may include:

- Corporate attorney
- Accounting firm
- Application service providers
- Professional service firms
- Insurance agent
- Bankers
- Consultants

6.5 Board of [Advisors OR Directors]

If your business will have a Board of Advisors or Directors be sure to list each member, detailing where and why they add strategic importance, what experience they have and what contacts they can contribute. How will the Board be compensated?

7. Operations

The Operations section outlines how you will run your business and deliver value to your customers. Operations is defined as the processes used to produce your products/services and deliver them to the marketplace and can include manufacturing, transportation, logistics, travel, printing, consulting, after-sales service, and so on. In all likelihood, about 80% of your expenses will be for operations, 80% of your employees will be working in operations, and 80% of your time will be spent worrying about operating problems and opportunities. Be sure that you carefully link the design of your operations to your marketing plan. For example, if high quality will be one of your comparative advantages in the marketplace, then design your operations to deliver high quality, not low costs. Remember that you will probably have to make trade-offs with your operations. It is impossible to have the lowest costs, highest quality, and best on-time performance in your industry all at the same time. Often, high quality means higher costs, low costs means less variety and less flexibility. Be careful how you make these trade-offs so that you can deliver products to the market in accordance with your marketing plan.

Operations checklist:

- How will you produce and deliver your product/service?
- What will you do in-house, and what will you purchase (make vs. buy)?
- How will you use your operations to compete? Cost? Quality? Timeliness? Flexibility?
- What comparative advantages do you have with your operational design?
- What will be your relationship with vendors, suppliers, partners, and associates?

The Operations section should include the following subsections:

7.1 Operations Strategy

In this subsection, describe how you will fulfill your marketing strategy using operations:

- How will you use operations to add value for customers in your target market?
- How will you win in the marketplace on the dimensions of cost, quality, timeliness, custom service and flexibility?
- Which dimensions will you stress and which ones will be less significant?

7.2 Scope of Operations

Describe the scope of your operations. Include details in an appendix, as necessary.

- What will you do in-house and what will we purchase (make vs. buy)? Why does this make sense for your business?
- What will be your relationship with vendors, suppliers, partners, and associates?
- What kind of people will you need to hire?

7.3 Ongoing Operations

How will your company operate on an ongoing basis? Include details in an appendix.

7.4 Location

The location of your business can play a decisive role in its success or failure. Your location should be built around your customers, it should be accessible, and it should provide a sense of security. State where your primary office will be located as well as any other facility where your business will operate and then explain the reasons for those locations. Give the actual size of each office and/or facility

and along with a description of how each will be used and the duration in number of years these facilities will be adequate for operations. Some issues you may address include:

- ❑ What are your location needs?
- ❑ Describe locations of production, sales, storage areas, and buildings
 - Are the premises leased or owned?
 - Why is this area desirable?
 - What kind of space will the business require?
 - What renovations are needed, and how much will they cost?
- ❑ Describe access to buildings (e.g. walk in, parking, freeways, airports, railroads, shipping)
 - Is it easily accessible, is parking available? Is public transportation available? Is street lighting adequate?
- ❑ What are your business hours?
- ❑ Are market shifts or demographic shifts occurring?
- ❑ Include a drawing or layout of your proposed facility if you are seeking an expansion loan
- ❑ Location of the competition

Facilities and Equipment

- ❑ Location → addresses, floor plans, etc.
- ❑ Lease → terms, length, important details
- ❑ Improvements → plans, funding, budget
- ❑ Key factors → expansion potential, proximity to market, unique aspects
- ❑ Physical condition

7.5 Personnel

The right mix of personnel will be the most valuable asset any business has. Employees and staff will play an important role in the overall operation of your business. It is very important to know what skills you possess and the ones you lack since you will have to hire personnel to supply the skills you lack. Furthermore, it is essential that you know how to manage and treat your employees. Make them feel as part of the team. Keep them informed of changes and be sure to get their feedback. Employees can often be a great source of excellent ideas, of innovations to existing products/services, and inspiration for new product lines and markets to enter, so be sure to take the time to listen to your employees as they may provide you with the new competitive edge you have been looking for.

This section should be broken down to include the following:

- ❑ Number of employees
 - Will your employees be full-time or part-time?
 - Can the business use part-time help to meet increases in demand?
- ❑ Type of labor (skilled, unskilled, professional)
 - What skills must they have?
 - Do you have written job descriptions for employees? If not, take the time to write some.
- ❑ Quality of existing staff
 - What unique skills do they bring to the business?
 - Who does which tasks?
 - Are schedules and procedures in place?
- ❑ Pay structure
 - Will you pay salaries or hourly wages?
 - Certain employee benefits are mandatory. Find out what they are.
 - What benefits, if any, can you afford?
 - Will you provide additional fringe benefits? If so, which ones? Have you calculated the costs of these additional fringe benefits?
 - Will you utilize overtime? If so, you may be required by law to pay time and a half, double time, and/or extra expenses such as meals.
- ❑ Procedures for acquiring new employees
 - Are the people you need available?
- ❑ Training methods and requirements
 - Will you have to train people for both operations and management? If so, at what costs to the business?

7.6 Production

Explain your methods of production or how you deliver your service.

- ❑ Production techniques and costs
 - How and where are your products/services produced?
 - Description of manufacturing process (if applicable)
- ❑ Quality control
- ❑ Customer service

7.7 Operations Expenses

Include here a description of the operating costs and assumptions that appear in your financial statements. Most expenses are often referred to as overhead expenses. Overhead expenses are all the non-labor expenses required to operate the business. Expenses can be separated in two ways: fixed (expenses that have to be paid no matter the volume of business) and variable or semi-variable (expenses which change according to the amount of business).

Overhead expenses normally include any or all of the following:

- Travel
- Maintenance and repair
- Equipment leases
- Rent
- Advertising and Promotion
- Supplies
- Utilities
- Packaging and Shipping
- Unrecoverable receivables
- Professional services
- Insurance
- Loan Payments
- Depreciation

In order to develop the overhead expenses for this portion of the business plan, you need to multiply the number of employees by the expenses associated with each employee. The following equation can be used to calculate the sum of each overhead expense: *Overhead = Number of Employees x Expense per Employee*

Cost Controls

- Inventory → forms, systems (computer), practices
- Food and beverage → check systems, management practices, training, periodic inventory
- General → management, inventory

Administrative and Financial Controls

- Bookkeeping systems and policies (payments, billing)
- Accounting systems (report intervals)
- Sales systems (computers)

7.8 Legal Environment

Describe each of the following elements as they apply to your business:

- Licensing and permits
- Bonding requirements
- Health, workplace or environmental regulations
- Special regulations covering your industry or profession
- Zoning or building code requirements
- Insurance coverage
- Trademarks, copyrights, or patents [PENDING, EXISTING, OR PURCHASED]

7.9 Inventory

Explain how you will manage your inventory. Give the details on each of the following elements of inventory:

- The kind of inventory kept: raw materials, supplies, finished goods
- Average value in stock
 - What is your inventory investment?
- Rate of turnover and how this compares to industry average
- Season buildups
 - Will there be seasonal buildups?
 - How will you handle seasonal buildup?
- Lead-time or ordering

7.10 Suppliers

Identify the supplies you will use for your products and services. Be sure to document the following in this section:

- The names and address of each
 - Who are your suppliers?
 - Do you expect shortages or short-term delivery problems?
 - Are current suppliers providing the best service or should you be looking for new suppliers?
- Type and amount of inventory furnished
- Credit and delivery policies
- History and reliability of each supplier
- Are supply costs steady or variable? If variable, how do you deal with the changing costs?

7.11 Credit Policies

If your business will extend credit, be sure to include detailed descriptions of the policies you will implement. When creating your policies you should have answers to the following questions:

- What terms will you offer your customers? How much credit and when is payments due?
- How do you check the creditworthiness of new applicants?
- Do you sell on credit? If so, do you really need to sell on credit? Is it customary in your industry and expected by your clientele?
- Do you know what it costs you to extend credit? This includes both the cost of capital tied up in receivables and the cost of bad debts.
- Have you factored the costs into your prices?

You need to carefully manage both the credit you extend and the credit you receive.

Managing your Accounts Receivable

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

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

Collecting from delinquent customers is no fun. You need a set policy and you need to follow it.

- When do you make a phone call?
- When to send a letter?
- When to get your attorney to send legal notices?
- Do you offer prompt payment discounts? (It is best to do this only if it is usual and customary in your industry)?

Managing your Accounts Payable

You should also age your Accounts Payable, what you owe to your suppliers. Use this format:

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

This helps you plan who to pay and when. Paying too early depletes your cash, but paying late can cost you valuable discounts and damage your credit. Are payment discounts offered by your proposed vendors? Do you always take them?

- Do you carefully monitor your payables, what you owe to vendors, to take advantage of discounts and to keep your credit rating good?

8. Financials

The Financials section should be frosting on a cake. You have outlined a great business concept, demonstrated a real need in the marketplace, shown how you will execute your ideas, proven that your team is just right to manage the venture, and now you will show how much money everyone is going to make. Note, however, that if your business concept is weak, there is no market for your product/service, your execution is poor, or if your management team is incompetent, then your financial plans are doomed to failure. If you have not convinced your potential investors and loan officers by now of the strength of your concept, then they will not be convinced by your financials.

It is important to have strong, well-constructed financials. If you cannot show that your great concept is going to make (lots of) money, your potential investors and loan officers will quickly lose interest. To construct your financials, it is highly recommend that you start with your development and operations plan to create a schedule or timetable of development and operational activities. From these development activities, you can then create cash-flow projections, income statements, and *pro forma* balance sheets for at least three years into the future, and sometimes five. As a rule of thumb, your financial projections should extend far enough into the future to the point where your business has achieved stable operations. The first year of your financial statement projections should be month-by-month since cash flows are critical in the early stages of any startup. Second and third year financial statements should be quarterly, and fourth and fifth years should be annual. If possible, it is useful to include best case, expected case, and worse case scenarios for your financials. This allows you and potential investors to explore the upside potential and downside risks of your venture. Be sure that your financial projections are in congruence with the other sections of your plan. For example, if you say you will open three stores in Year 2 and your financials show you opening five stores, potential investors will quickly lose confidence in your plan.

The Financials section should be a discussion and description of your financial projections -- put the actual financial spreadsheets in the appendices. Describe the timing and amount of investment that you will require to achieve your plans. Then demonstrate that this investment is a good one by showing that profits, assets, and ROI are all favorable as the business progresses. When potential investors and loan officers are finished with this section, they should be anxious to invest.

Guidelines

- Consult your accountant and your attorney
- Be conservative and honest
- Use standard industry forms and formats

8.1 Start-up Funds

The section should identify all the costs associated with starting the business, expanding a current business, or taking over a business as well as the sources of investment capital and/or borrowed money. Include a start-up budget or estimate to account for the initial cost of the business.

Elements to consider when preparing a start-up budget include:

- Personnel (costs prior to opening)
- Legal/ Professional Fees
- Occupancy
- Equipment
- Supplies
- Salaries/Wages
- Income
- Utilities
- Payroll expenses
- Licenses/Permits
- Insurance
- Advertising/Promotions
- Accounting

8.2 Financial History and Analysis (current businesses only)

A solid analysis of the past must precede any serious attempt to forecast the future. The *Financial History and Ratios* spreadsheet allows you to put a great deal of financial information from other statements on a single page for ease of comprehension and analysis. Your financial information is presented in dollars and percentages. Key financial ratios are calculated automatically. You may also enter industry average ratios for comparison.

In an appendix, put year-end balance sheets, operating statements, and business income tax returns for the past 3 years, plus your most current balance sheet and operating statement.

8.3 Current Financial Position (current, takeover or franchise businesses only)

Provide in detail the current financial position of the company. Present the current balance sheet in an appendix. Include all outstanding debts in an easy to understand format. A debt schedule may be useful here.

Debt Schedule

This table gives in-depth information that the financial statements themselves do not usually provide. Include a debt schedule in the following format for each note payable on your most recent balance sheet.

Debt Schedule Table

To Whom Payable	Original Amt.	Original Date	Present Balance	Rate of Interest	Maturity Date	Monthly Payment	Security	Current/Past Due

8.4 Operating Forecast

This section should provide an estimate of the sales and expenses your business will incur for a twelve-month period. (Please refer to Appendix for Financial Projections.)

Be sure to document any sources of information or any assumptions used for calculations.

8.5 Break-Even Analysis

This section should provide a calculation for the break-even point in dollars and units for the business. Include all assumptions upon which your break-even calculation is based. (Please refer to Appendices for Break-Even Analysis spreadsheet.)

A break-even analysis determines sales volume in dollars, at a given price, required to recover total costs.

Expressed as a formula, breakeven is:

$$\text{Break-even Sales \$} = \frac{\text{Fixed Costs}}{1 - \text{Variable Costs}}$$

Fixed costs are expressed in dollars but variable costs are expressed as a percent of the total sales dollar amount. To obtain the break-even point in terms of number of sales, simply divide the break-even sales (dollar amount) by the price of your product.

8.6 Balance Sheet

The balance sheet is a "snapshot" of what you own and what you owe on a specific date. A "Pro Forma Balance Sheet" shows how things will be in the future, under given conditions, rather than how they are now.

A balance sheet follows a standard format (please refer to the appendix for Balance Sheet template), however, it may contain additional items depending on circumstances relating to the business for which it is prepared. State the assumptions you used for all major changes between your last historical balance sheet and the projection.

8.7 Income Statement

The income statement is a financial statement that reveals whether or not a business has earned a profit or has suffered a loss after a specified period. (Please refer to the appendix for Income Statement template.)

An income statement may also be referred to as a "profit and loss statement" (PNL) or an "operating statement."

A "Pro Forma Income Statement" is used to show how things will be under given conditions rather than how they are at present.

Be sure to state any assumptions when creating your Income Statement.

8.8 Cash Flow

A cash flow statement identifies monthly inflows and outflows of cash. It reveals whether a company will have enough money to meet its needs on a monthly basis. (Please refer to the appendix for Cash Flow template.)

Use the Income Statement as a starting point. For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

Your cash flow will show you whether your working capital is adequate. Clearly if your cash on hand goes negative, you will need more. It will also show when and how much you need to borrow.

Explain your major assumptions, especially those which make the cash flow differ from the Profit and Loss Statement, such as:

- If you make a sale in month 1, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery or much later?
- How will this affect cash flow?
- Are some expenses payable in advance?
- Are there irregular expenses, equipment purchase or inventory buildup which should be budgeted?

9. [Offering OR Funding Request]

The Offering (or Funding Request) is where you make your pitch for money. If you have decided to seek equity capital, then you need to offer the [POTENTIAL INVESTOR, VENTURE CAPITAL FIRM, ANGEL, ALLIANCE PARTNER, FRIENDS AND FAMILY] a specified share of your company in return for a specific amount of money. If you are seeking a loan, you need to request a potential lender [BANK, CUSTOMER, FRIENDS AND FAMILY] for a specific amount of money in return for the principal plus interest. In either case, it is important that you be specific with your funding needs, sell the advantages of your proposal to the investor, and make it clear how investors can get their money back, i.e. what is their gain (ROI). In addition, it is important that you persuade investors that the deal you are offering is fair to them and is supported by facts. Finally, remember that everything is open to negotiation, so do not give away the farm on the first round.

9.1 Offer

Clearly, state the offer your business will use to approach potential investors. It is important here to consider:

- What is the structure of the deal you are offering or seeking?
- How much money do you want?
- How much of the company are you willing to give away?
- How much interest are you willing to pay?
- What collateral do you have for a loan?
- What is the planned exit strategy for investors?
- What is the anticipated return on investment for investors?

9.2 Capital Requirements

Clearly, state the capital needed to start or expand your business. You should have a very clear idea of how much money you will need to operate your business for the first full year. If possible, summarize how much money has been invested in the business to date and how it is being used. Describe why you need the funds and how both parties will benefit from the opportunity. Keep in mind that one of the most common causes of new business failures is under-capitalization. Investors and loan officers want to know when they will get their money back, so be sure to explain how and when you will repay the investment or loan. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.

9.3 Risk/Opportunity

Risks are a part of any business, especially a new one. Here, it is important to show potential investors and loan officers that you have taken into consideration the risk involved in starting or expanding your venture. Illustrate the market, pricing, product, and management risks as well as how you plan to cope with them.

Convey to the investor that the company and product/service truly fills an unmet need in the marketplace. Describe and quantify the opportunity. Explain why you are in business along with the reasons why you will be able to take advantage of this opportunity. Be sure to answer the following questions that are usually asked by potential investors:

- Have you considered all the potential risks involved?
- Does your business have a contingency plan in place for all of the risks you have mentioned?
- What makes this opportunity unique?
- What are the financial risks for your business? How will these risks be minimized?
- What is the worst-case scenario? How will your business handle this?

9.4 Valuation of Business

What is the value of your company? How do you calculate this value?

9.5 Exit Strategy

All good business plans include a section that lays out the strategy you will follow should investors decide or need to cash out (end their involvement and recoup their investment). This can involve, for example, selling the business, merging, a buyout by a partner/shareholder, getting acquired or issuing an initial public offering (IPO). The strategy to be laid out here can be based on a target dollar figure you want to reach, revenue growth, the market's reception to your idea, or a consensus among top officers.

10. Refining the Plan

The generic business plan presented above should be modified to suit your specific type of business and the audience for which the plan is written.

10.1 For Raising Capital

For Bankers

Bankers want assurance of orderly repayment. If you intend on using this plan to present to lenders, include:

- Amount of loan
- How the funds will be used?
- What will this accomplish (how will it make the business stronger)?
- Requested repayment terms (number of years to repay). You will probably not have much negotiating room on interest rate, but may be able to negotiate a longer repayment term, which will help your cash flow.
- Collateral offered and list of all existing liens against collateral

For Investors

Investors have a different perspective. They are looking for dramatic growth, and they expect to share in the rewards.

- Funds needed in the short term
- Funds needed in 2 to 5 years
- How company will use funds and what this will accomplish for growth
- Estimated return on investment
- Exit strategy for investors (e.g. buyback, sale, IPO)
- Percent of ownership you will give up to investors
- Milestones or conditions you will accept
- Financial reporting to be provided
- Involvement of investors on the Board or in management

10.2 Refine According to Type of Business

Manufacturing

- Provide production levels
- Provide levels of direct production costs and indirect (overhead) costs
- Gross profit margin, overall and for each product line
- Production/capacity limits of existing physical plant or of expanded plant (if expansion is planned)
- Production/capacity limits of existing equipment or of new equipment (if new equipment is planned)
- Potential production efficiency increases
- Prices per product line
- Purchasing and inventory management procedures
- Anticipated modifications or improvements to existing products
- New products under development or anticipated

Service Businesses

Service providers sell intangible products. They are usually more flexible than other types of businesses, but they also have higher labor costs and generally very little in fixed assets.

- ❑ Prices, methods used to set prices
- ❑ System of production management
- ❑ Quality control procedures
- ❑ Industry averages or accepted quality standards
- ❑ How is labor productivity measured?
- ❑ What percent of total available hours are actually billed to customers?
- ❑ Break-even billable hours
- ❑ Percent of work subcontracted to other firms
- ❑ Credit, payment, and collection policies and procedures
- ❑ Strategy for keeping client base, strategy for attracting new clients

High Technology Companies

- ❑ Economic outlook for the industry
- ❑ Do you have information systems in place to manage changing prices, costs, and markets?
- ❑ Do you employ the best available technologies and does it keep up with updates/upgrades?
- ❑ What is the status of R&D? And what is required to:
 - Bring product/service to market?
 - Keep the company competitive?
- ❑ How does the company:
 - Protect intellectual property?
 - Avoid technological obsolescence?
 - Supply necessary capital?
 - Retain key personnel?

If your company is not yet profitable or perhaps does not yet generate sales, you must do longer-term financial forecasts to show when profit take-off will occur. All your assumptions must be well document and well argued.

Retail Business

- ❑ Company image
- ❑ Pricing:
 - Explain markup policies
 - Prices should be profitable, competitive and in accord with company image
- ❑ Inventory:
 - Selection and price should be consistent with company image
 - Calculate your annual inventory turnover rate. Compare this to industry average for your type store
- ❑ Customer service policies: should be competitive and in harmony with company image
- ❑ Location:
 - Does it give the exposure you need? Is it convenient for customers? Is it consistent with company image?
- ❑ Promotion:
 - Methods used and budget
 - Does it project a consistent company image?
- ❑ Credit:
 - Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?

11. Appendix

The appendix is where you should provide all of the documentation that supports the body of your business plan. Include those documents that are required (e.g. financial projections), those that are helpful (e.g. results of marketing studies), and those that assist in selling your idea (e.g. letters of interest from potential customers). Do not include lots of tangential information such as newspaper clippings or tables of data unless they really serve to bolster your plan. One way to deal with information that is voluminous and/or lengthy (such as a large market research study) is to summarize it, and note in the plan that the complete document is available upon request.

Templates for all financial documents below are provided separately in this product.

Appendices checklist:

- Include financial documents such as:
 - Start-up Budget
 - Financial History and Ratios
 - Financial Projections
 - Break-Even Analysis
 - Balance sheet
 - Income statement
 - Sales Forecast
 - Cash flow statement

Include documents which you believe could be of interest to potential investors and loan officers. This may include:

- Product literature and brochures
 - Market research data
 - Surveys and Studies
 - Detailed account of ongoing operations
- Have you included all documents needed to support your plan?
 - Do you provide support for assumptions, trends, and comparisons
 - Do you provide support for your development plan?