You Can Write

A Great Business Plan

By
Jim DeLapa, President
GreatBusinessPlans.com

http://greatbusinessplans.com

You Can Write a Great Business Plan:
Outline and Reference Guide

Table of Contents

The Outline

The Outline

Outline of a Winning Business Plan

One of the most common questions about business plans is, “What should my business plan include?” Future business owners also want to know where to start, and how they’ll know when their plan is finished. The first pages of this document are a direct answer to those questions.

Below is a comprehensive outline of what a business plan should include, along with the name of each section and its contents. The Reference Guide, which follows, is arranged in the same order as the outline, providing section-by-section instructions for the entire business plan.

Comprehensive Business Plan Outline

Cover Page

Table of Contents

Section 1: Introduction and Overview

- Introduction, or Elevator Pitch
- Objective (purpose for submitting the plan)
- Statement of Confidence
- Business Structure

Section 2: Products and Services

- Description
- Problem Solved or Unmet Need Filled
- Unique Selling Proposition
- Other Differentiators

Section 3: The Market

- Description of the Market
    - Growth Rates and Key Trends
    - Target Market (Including Location, if Retail)
    - Size of Target Market
- Competition
    - Direct Competitors
    - Indirect Competitors

Section 4: SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)

- Internal Strengths
- Internal Weaknesses
- Outside Opportunities
- Outside Threats

Section 5: Sales and Marketing Plan

- Unique Selling Proposition (repeated)
- Marketing Budget
- How Customers Will Find Out About Your Business
- Who Will Sell
- Pricing
- Sales Forecast / How Fast Will the Sales Come
- Evidence to Support these Projections

Section 6: Management Team

- Founders and Key Employees
- Board Members
- Professional Advisors
- Hiring Plan

Section 7: Go-To-Market Plan

- Current Capabilities
- Prioritized Immediate Opportunities
- Go to Market Goals
    - When
    - Expected Results

Section 8: Operating Plan

- Headcount
- Facilities and Equipment to Meet Sales Projections
- Critical Requirements
- Confirmation that the Operating Plan Supports Go to Market Plan

Section 9: Financial Projections

- Assumptions
- Income Statement
- Balance Sheet
- Cash Flow

Section 10: Capitalization and Use of Funds

- Financial Needs
- Structure (Debt, Equity)
- Startup Expenses
- Use of Funds

Section 11: Exit Strategy or Payback Analysis

- How a Loan will be Repaid
- How Equity Investors will Recover Their Investment

Section 12: Notices and Disclaimers

- Confidentiality
- Forward-Looking Statements
- Not an Offer to Sell or a Solicitation for Securities

You Can Write a Great Business Plan

Getting Started

Purpose of a Business Plan

Creating a well-written business plan forces you, the founder, to think through all of the core issues that will impact the startup, operation and ultimately the success of your business. When complete, the written document should provide evidence that you understand the customers and the market, you know the competition, you have the right experience, and you have an operating plan. The financial statements associated with the plan take into consideration all of the assumptions, costs and forecasted revenue to show the business's expected financial outcome.

While writing a business plan can be time-consuming, the value cannot be overstated. Problems that might otherwise have proven fatal to the business can be identified and completely avoided at almost no cost. The business plan provides a roadmap to follow when starting the business. Even when there are unexpected twists and turns in the road, successful entrepreneurs will tell you that having the plan enabled them to make the right adjustments more quickly, with greater confidence and a better outcome.

Lenders and potential investors will be reading your business plan to learn two things: first and most obvious, what your business is about. Second, and more importantly, the business plan will tell them about you—not in the sense of your biography, but rather, about your ability to think logically, convey information in an orderly manner, and thoroughly think through how you will build and sustain a profitable business.

How to Use This Business Plan Reference Guide

The material in this Reference Guide is presented in the same order as The Outline. Each of the 12 sections is broken into the following areas:

Section Name

Brief Description

What This Section of Your Plan Should Include

Important Considerations

Where to Begin

Refer to this document as you're writing your business plan. When you're ready to begin writing a given section, read the *Brief Description*, which states the objective of that section and provides insight into the questions that this section should answer. Review *What This Section of Your Plan Should Include.* For each topic listed, write your ideas as clearly as possible. Be sure to cover the topic fully, and at the same time, be concise. Make your point, support it, and be done. Take special note of the *Important Considerations*. Here you will find things that are important to do, and mistakes to avoid.

While your business plan should be organized and presented in the order outlined, you can write the sections in any order you like. However, having said that, we have a few recommendations and one exception:

- Developing Sections 1 through 6 of your business plan will serve you extremely well, even if you are the only person who will ever read your business plan. You'll clarify your own thinking and set yourself up for success.

- When you're ready to begin writing your business plan, we recommend starting with your Introduction, or "Elevator Pitch," in Section 1. This will put you in the frame of mind for writing the rest of your business plan. Also, the Introduction forces you to distill your ideas about your business into terms that will be important to an investor or lender. Your Introduction will determine whether the rest of your business plan gets read; therefore, as you'll see, we've provided more instruction on this section than on any other.

- While the actual table of contents can't be completed until the end, a rough draft will serve as an outline as you write. This rough outline will help you to see the big picture even as you get into the details of each specific section.

- Most entrepreneurs prepare rough-draft or high-level financial forecasts early, just to see if their idea is worth pursuing. Your financial forecasts need to reflect the costs associated with every aspect of your plan. Because your ideas will evolve as you're writing your business plan, we suggest that you wait until the end to finalize your financial projections.

- The administrative tasks, such as the cover page and finalizing your table of contents, can be your final touches.

How about all of the other sections? Read or scan through this entire document before you begin writing your plan. Be on the lookout for sections you think you could complete fairly easily. Much like if you were running a race, you'll have a renewed sense of energy when the finish line is in sight. With that in mind, dive in and get started with the areas that are most comfortable. Each section you complete will help motivate you to press on toward completion.

A Note about Confidentiality

The best way to protect yourself from someone using your business plan for something other than what you intended is to give it only to people you trust. Still, there are a few other steps you should take.

For starters, include a footer on every page of your business plan that says: "CONFIDENTIAL" and "© 2009 Your Company Name." This puts the recipient on notice.

You can ask for a nondisclosure agreement, or "NDA." However, don't be surprised if investors or lenders tell you they don't sign NDAs. The first time someone tells you this, it might raise a red flag. However, in reality, investors or lenders who sees dozens or even hundreds of business plans in a year are likely to see some that are similar. They cannot put themselves in a position of having reviewed your information under a signed nondisclosure agreement. It isn't that they intend to tell your story, or even that they don't take seriously their responsibility to treat your information as confidential. They simply don't have any reason to take on that burden of responsibility. For them, saying "no thanks" is an option. If you have a bad feeling about the person you're dealing with, this is an option for you too.

It's often possible and even preferable to prepare an alternative version of your business plan, using only information you are comfortable sharing without an NDA. By following the outline for the Introduction Section of your business plan, you will have an easily separated "Executive Summary" that will work well for this purpose. Certainly your plan might still include some confidential information, but not so much that it would jeopardize your entire business. If the other party shows a strong interest, you'll both have more of a reason to explore ways to protect your information in the next step. Often, asking for an NDA at this stage is more acceptable.

Finally, if you have an invention, trade secret or completely new idea never seen before, consult with an intellectual property attorney before deciding how much to reveal and under what circumstances. In these cases, the need for confidentiality and nondisclosure takes on added importance.

Cover Page

Brief Description

Keep in mind that most people *do* judge a book by its cover. The purpose of the cover page is to present your plan in a way that conforms to professionally accepted standards. Attempts to dazzle the reader with an extraordinary or artsy cover page are risky (unless you're starting an art supply store). Let the cover page simply be a cover page and allow the inside of your plan to do its job.

Your Cover Page Should Include:

- The name of your business
- Slogan or tagline (optional)
- A logo (optional)
- The word "CONFIDENTIAL" in all capital letters
- A copyright notice, similar to © 2009, Your Company Name
- The date and possibly a revision number, as in, "May 7, 2009. Revision 3"
- Contact Information: Your Name, phone number, email address and mailing address (be sure to use a professional email address, one that reflects your new business, as in "firstname@yourcompanyname.com").

Important Considerations

A slogan or tagline is optional but should be included if your business is in an industry that is considered timely or hot. Similarly, if you'll be sending your business plan to an investor or bank that is known for working with businesses of your type, let them know through a tagline or slogan that you are in that space. If you don't currently have a slogan, use something purely descriptive, such as "A social networking web business." The tagline you use on your business plan does not have to be the same slogan you might use with customers.

If you have a logo you are pleased with, include it on your cover page; however, there is no need to rush to create a logo just so you'll have it to include in your business plan.

Business Plan Table of Contents

Brief Description

While the table of contents is the first thing inside the cover of your business plan, it will be the last thing you update, to ensure all the pages are properly referenced. Many people don't even touch the table of contents until the document is complete. We recommend doing it a little differently.

By starting with the Outline of a Winning Business Plan provided in this document as your table of contents, you'll have a strong sense of where you are in the process and how the pieces are going to fit together when it's all done.

The true purpose of the table of contents, of course, is to make life easier for the reader. Your business plan will likely be read by different people who are focusing on different things. Business plans are not usually read from beginning to end by the same individual. Rather, different people will want to read different sections and in a different order. The table of contents is meant to make it easy for your readers to find exactly what they're looking for.

Your Table of Contents Should Include

- Major Sections and Starting Page Numbers
- List of Any Appendices and their Page Numbers

Important Considerations

It's common for business plans to be updated on a regular basis, long after the first draft is complete. A small change on page two might suddenly mean the page numbers listed in the table of contents are completely wrong. Be sure to update your table of contents to reflect these changes. To make this task a breeze, use the Table of Contents feature built into Microsoft Word.

Why do we include such an obvious suggestion? The fact is, many people overlook this step. Don't give some junior analyst at a venture capital firm with 100 business plans to review an early opportunity to say, "This person is sloppy and doesn't pay enough attention to details. Next plan."

If you use The Outline provided with this document as the starting point for *your* table of contents, you can include the subtopics while you're creating the plan. Then, in your final Table of Contents, you'll include only the major section titles.

Section 1: Introduction and Overview

The Introduction and Overview section of your business plan must be a highly compelling fast read. It needs to compel the reader to take the time to review the rest of the plan, or at least key sections that pertain to their investment or lending criteria. Avoid excessive details in the Introduction. It's really all about "why you should be interested in my business." The idea is to tell your story, but also leave the reader wanting more.

The Introduction of your business plan should include four key components:

- Introduction, or Elevator Pitch
- Current Business Structure
- Strong Close to Introduction

Each component has its own mission. Because the Introduction is so important, we will break out each of its components separately, in sections 1.1 – 1.3 below.

Section 1.1 Introduction, or Elevator Pitch

Brief Description

Your introduction should start with a written version of your elevator pitch. The term "elevator pitch" refers to your answer to the hypothetical question, "If you found yourself in an elevator with a wealthy investor who might have an interest in your company, what would you say about your company in the time it takes the elevator to go from the top floor to the lobby?" Your elevator pitch should be memorized and practiced often. Its primary purpose is to get someone to want to talk to you again after the elevator ride is over. Similarly, if your introduction starts with a written version of your elevator pitch, it should entice someone to read more or call you in for a meeting.

Because it's so important, we'll take extra care to walk you through writing your elevator pitch. This step-by-step structure and the examples that follow will help you with the process.

Your Elevator Pitch Should Include:

- The Problem Your Business Solves
- Who Has the Problem
- How Big the Market for the Solution Is
- Your Qualifications to Run this Business

Before you start to create your own elevator pitch, read through this entire section, including the examples at the end. Then, following the formula below, you'll be able to create a compelling elevator pitch for your business in no time. Start with a clear mind and a blank sheet of paper. As you'll see, each of the steps below asks you to write a very specific sentence or two, or in some cases, simply fill in the blanks of the sentence provided. For fill-in-the-blank sentences, the portions you are to supply are bracketed [like this].

1. [Name of your company] provides [name your products or services] for [describe the specific segment of the market you will serve] who [describe the problem this solves for them].

2. [Enter one sentence that tells why this business is needed and by whom.]

3. [Make a statement about the size and/or growth trend of the industry.]

4. [Write a sentence or two, no more, to address your qualifications to run the business.)

5. [Make an honest, upbeat, substantive and credible claim about the business potential in terms of sales or profitability.]

Important Considerations

Below are sample elevator pitches for two companies: WhirlyBird Yogurt Stores and JD Software Solutions. For each company, you'll find a "good" example and a "bad" example of an Elevator Pitch. The good examples follow the formula above. Notice that the formula for the elevator pitch works, even with two completely different businesses. The poor examples demonstrate common mistakes in elevator pitches. Read these examples and the critiques that follow, to avoid the common pitfalls. When you are finished with *your* elevator pitch, make sure you've followed the formula above and eliminated the common mistakes. It should have a similar tone to the "good" examples in this section.

WhirlyBird Yogurt Stores

Good Example:

Each WhirlyBird Yogurt store will offer 10 flavors of yogurt and 25 toppings to people within a five-mile radius of their carefully selected locations, ideal for people who want a healthy meal or snack. As an example, now the 300,000 people who live and work in Meadowbrook won't have to drive more than five minutes to get great yogurt, served by friendly people in a sparkling clean store. Frozen yogurt has been the fastest growing category in over-the-counter snack foods for the past 3 years, with year-over-year growth rates of 17%. WhirlyBird's founder, Ronald Smith, has 10 years' *experience as a regional manager of quick-service restaurants, where he learned how to run efficient, profitable stores. With that experience, Mr. Smith is confident about opening WhirlyBird Yogurt Stores at the rate of 1 every 6 months and building a business that is profitable from year one and surpasses $25 million in revenue within 5 years.*

Bad Example:

WhirlyBird Yogurt Stores will be poised to take over the competition because our products are the most healthy and nutritious available. The difference is gluten-free products that don't have the toxins found in other yogurts. All of our yogurts contain two forms of live bacteria: bulgaricus and thermophilus. Our founder, Ron Smith, has been eating it for years and credits that with his ability to run three marathons a year at age 45. As more people learn about the detoxifying powers of bacteria-rich yogurt, WhirlyBird's business will soar.

Critique: The pitch assumes that the reader is as informed, health-conscious and passionate about yogurt as is the founder. Nothing is mentioned about the size or growth of the health-conscious market versus the segment of people who just like to eat things that taste good. It is admirable that the founder runs so many marathons, but has this person ever run a business? The elevator pitch doesn't say.

JD Software Solutions

Good Example:

JD Software provides custom online commerce and back-office solutions to businesses with less than $10 million in sales that can't afford the high prices of big-name consulting firms. These business customers will be eager to drive their sales and improve efficiency, now that it can be accomplished with a fraction of the time and money required by the big-name firms. Our founder, John DelMonte, has 8 years' experience as a senior project manager for EDS, where he learned how to manage projects from start to finish using skilled independent contractors. With a market of over 8,000 small businesses in San Diego with revenue ranging from $1 million and $10 million, JD Software Solutions will be cash-flow positive and profitable in less than 12 months.

Bad Example:

Technology is moving fast and JD Software Solutions is on the leading edge. All of our developers are Web2.0 certified and we have been developing Cloud applications that work asynchronously since Ajax was first introduced. We can save clients thousands of dollars using MySQL or if they're tied to Oracle or SQL Server, we can implement open source middleware to perform data transformations in real time. We have that experience. Since the customer actually saves money over alternatives, selling will not be difficult and the potential of our business is unlimited.

Critique: The pitch doesn't tell about the problem that the business solves for its customers, who its customers will be, or how the founder is qualified to run a business. It also contains vague claims, such as, "JD Software Solutions is on the leading edge." Based on this elevator pitch, the reader would understand that the company has qualified software engineers, but a lender or investor wants to know that the founders can run a business.

Section 1.2 Current Business Structure

Brief Description

Your introduction should include some basic facts about the current status of your business, particularly if the business already exists as a corporate entity.

This Section of Your Plan Should Include:

- Business Status
- Type of Entity
- Current Ownership
- Current and Past Funding

Important Considerations

Keep this information in a concise, readable format. Remember, it is a summary of facts and needs little, if any, editorializing.

Include information covering each item below:

- One to five sentences on the status of the business (started or to be formed), when it was founded, and where it is or will be located.
- Type of entity (C Corp, S Corp, LLC, LLP or Sole Proprietorship)

- Who owns the company, and how much each person owns. If there are more than two owners, include a two-column "cap table" that shows the amount of capital invested by each person, and each person's ownership percentage.

- How has the company been funded to date (how much, by whom, and when was it invested).

Section 1.3 Strong Close to Introduction

Brief Description

A strong close to your introduction should answer the question, "Why should I continue reading your business plan?"

Business plans are submitted to different organizations and people for a variety of reasons. The first thing the recipient has to determine is whether your business is a match for what they do. If it's not, they'll stop reading right away. Make it easy for them to determine that it *is* a match. Then go a step further and show them why it's a good match.

Start with a concise statement of why you are submitting this business plan. Then hint at why they should fund your business. (This might require some modification if you are sending your plan to both a lender and a potential equity investor.)

The content outline below provides several possible scenarios. Keep this section brief, but establish your credibility and show that you've done your homework. (Note that this subsection of your plan is likely to be shorter than the instructions.)

Include a sentence or two that addresses each of the bold headings below. Use the examples to get started on writing an objective statement for your business plan.

This Section of Your Plan Should Include:

- The Goal of Your Business Plan Submission
- Why You are Submitting it to *this* Organization
- Credibility Statements

Important Considerations

Having a well-written objective will help you to focus on who you should be receiving your business plan. "Why *am* I submitting my business plan to these particular people?" is a question you should always be able to answer. After all, you really want to submit your plan only if it has the potential for helping you achieve your objective. Being focused and purposeful will help you to get your business funded faster and with less effort.

What are you aiming to achieve by submitting your plan? (examples shown in quotation marks)

"This business plan is being submitted to be considered by your organization for an equity investment."

This business plan is being submitted as part of an application for a business line of credit."

"This business plan is being submitted as part of a loan application for startup costs and working capital."

"This business plan is being submitted as part of an application for a loan to acquire inventory."

"This business plan is being submitted as part of an application for a loan to acquire equipment."

Why this organization specifically?

"This plan is submitted to you specifically because XYZ Ventures is a lead investor in startup companies, particularly in the (the type of business presented in this plan)."

"Because ABC Bank is a leading SBA lender with a history of working with local companies, your bank was specifically selected to receive this plan."

"PDQ Funding has an excellent track record for providing new businesses with equipment and startup funding, and that is why we are sending this business plan to your organization."

Close with positive credibility statements.

About the Plan

”The business plan shows that the company will be profitable after 12 months and will be able to repay the loan on a timely basis.”

”The business plan shows how the company will grow and profit, creating substantial shareholder value.”

”As the business plan reflects, the company meets all of the qualifications for an SBA micro-loan.”

About You or Your Team

- “Our experienced leadership team has more than 20 years of collective industry experience and has been instrumental in the successful launch or operation of 3 related businesses.”

- “I have built a solid record of strong leadership and proven results in the (type of) industry after having progressed over the past 10 years from manager, to senior manager, to regional manager.”

- “I have worked in managerial roles for two successful startups and have filled virtually every role in this type of business, including responsibility for day-to-day operations.”

- “I have a solid credit history and will be using the loan proceeds for hard assets, which can be collateralized.”

Section 2: Products or Services

Brief Description

In the Introduction, you made reference to the problem your company solves and the market or market segment you'll be addressing. Now it's time to tell your readers about your products and services. Here again, you'll want to keep the focus on how your products or services solve a real problem or fill an unmet need in the marketplace.

This Section of Your Plan Should Include:

- Description
- Problem Solved or Unmet Need Filled
- Unique Selling Proposition
- Other Differentiators

Important Considerations

Description. In the description of your products and services, remember that your business plan will be addressing potential investors or lenders, not consumers. The purpose of this section will be to convey that this is a good business, not that they should want to become a customer.

So for example, if you're starting a bakery, you might explain how you offer donuts, ready-to-eat sandwiches as well as specialty breads and dinner rolls. Further, you would explain that these products were selected to address all three mealtimes: breakfast, lunch and dinner. This approach will be much more meaningful than telling a banker how your donuts will melt in their mouth, the sandwiches are piled high with fresh ingredients right off the farm, and the baked breads evoke the feeling of a summer in Tuscany. (Again, this may seem obvious, but experience tells us that the distinction needs to be made.)

If you have sales literature, a flier, brochure or advertisement, include it as an appendix to your business plan and reference it in this section.

Problem Solved or Unmet Need Filled. Perhaps the most important aspect of your business plan is convincing readers that your company solves a real problem or fills an unmet need, so much so that people will be willing to take their money and give it to you. Sadly, the world is filled with businesses offering "solutions" for which there are no problems. These are not attractive to investors. So don't simply describe your solution. It will be important to define your business and your products in terms of the problem or need addressed in the marketplace.

Let's go back to the bakery example from the section above. They might describe the problem solved in this way:

> *Our bakery and retail store is located within one-half mile of three major office complexes. Over 50% of the workers are from households where two partners work, leaving them little time for preparing fresh-baked goods. Further, because our baked goods are prepared at 6:00 every morning, working people can come in for a pastry in the morning or sandwich for the afternoon, and take away a fresh loaf of bread to serve with dinner that evening. Working people don't have time to go to the store every day—which is what it takes to enjoy truly fresh baked goods. They have the money and the appetite for high-quality pastries and breads, they simply don't have time for the daily stop required to enjoy them.*

Now, the groundwork has been laid to talk about the unique selling proposition.

Unique Selling Proposition. The unique selling proposition refers to what makes your business different from all the others. A good unique selling proposition answers the question, "Why will people buy from you?" Don't overlook the word "unique." Does this mean that your business has to be the only one of its kind? No. However, it does need to solve the problem in a unique way for the segment of the market you intend to address. The opposite of this would be a "me too" business in a crowded market of competitors offering similar solutions. Investors shy away from these types of businesses because it's not clear why customers will buy from them.

The previous section on the problem solved or unmet need filled, is the setup for the unique selling proposition. Let's use our bakery example again. We established above that the problem is one of time. Working people don't have time. Now, let's see our baker's unique selling proposition in the form of an answer to the question, "Why will people buy from you?"

> *Premium quality baked goods need to be consumed within 24 hours to retain their peak freshness. Two-income households have the money but not the time to go to the grocery store every day. Because our store is located near three major office complexes, we* save *customers time by letting them address two or even three needs with one stop. Customers will buy from our bakery because in one stop they can get a fresh sandwich for the day's lunch, pick up a fresh baked loaf of bread for dinner, and a bag of fresh baked cinnamon rolls for tomorrow's breakfast. We satisfy our customers' appetite for quality baked goods and help solve their problem of too little time by combining breakfast, lunch and dinner options in one stop, five minutes from where they work.*

Other Differentiators. Most entrepreneurs have several aspects of their business that they believe make them stand apart from competitors. Customers do buy for different reasons, so these differentiators can be important. Also, as mentioned before, investors shy away from "me too" companies that are just like every other competitor. For these reasons, it's important to include additional differentiators in your business plan.

The most important differentiators are those that can be expressed in the format outlined above, those that speak to a problem or need that is addressed and the unique selling proposition. Isolate those differentiators from the others by including them in the section above and include the others here under the category, “Other Differentiators.”

Section 3: The Market

Brief Description

The Market section of your business plan is where you'll describe both your customers and your competitors. It should give the "big picture" of the customer and competitive landscape. The more quantitative you can be, the better. Investors and lenders want to see that you've studied the market and you know exactly what you're getting into.

This Section of Your Plan Should Include:

- Description of the Market
    - Growth Rates and Key Trends
    - Target Market (Including Location, if Retail)
    - Size of Target Market
- Competition
    - Direct Competitors
    - Indirect Competitors

Important Considerations

Description of the Market. Begin your Market section with a brief overview of the global or national demand for your products or services, then quickly narrow it down to your specific target market. You want to establish the big-demand picture and then get into the demand you intend to serve.

Funnel

The Global View

The Addressable Geography, or Local View

The Segmented or Targeted View

The purpose for including brief information about the global view is to establish that you're entering a growing market. It's always better to be swimming *with* the tide. Do your research and know the numbers. Make the point, and move on.

If you're starting a retail or service business, chances are you're going to have some geographical constraints. There will be a limit to how far someone can be expected to travel, or how far your people will travel to do business. Think about the boundaries for your business. Describe them and measure the size of your market. If people generally don't travel more than 10 miles (or 10 minutes) to purchase products or services like yours, how many people in that region can you hope to serve?

Note: Web-based businesses don't have the same geographical boundaries, and the emphasis shifts to the Sales and Marketing plan (Section 5).

Getting down to the targeted view, suppose you're starting a retail business selling baby furniture. First you would define the size of the market in the U.S. for baby furniture, and the trend over the past five years. Next you would describe the geographical target and its size. You're almost finished. Baby furniture generally falls into three categories: designer, middle-market, and budget. Most stores sell only one, or possibly two of these categories. You'll need to further define and estimate the size of the market by the segments you intend to address. Ideally, you would include specific trends for those market segments. For example:

> *The U.S. market for baby furniture in 2008 was $X billion dollars, representing $88 per household on average and an annual growth rate of 8%. Data supplied by the real-estate broker representing our intended store location shows that consumers will drive up to 8 miles to shop at this location. There are 100,000 households within 8 miles of the shopping center. We will sell both designer and middle-market baby furniture, which together represent 72% of the market. This translates to a market potential of $6.336 million.*

You could go on to describe the growth trends in the mid and designer segments. Also, you would want to comment on your demographics versus the averages. For example, an area surrounded by retirement communities certainly has less demand for baby furniture than an area comprised of first-time home buyers.

If you'll be selling business-to-business services, you would follow the same formula. Look at the big-picture demand for your type of service and its trend. Next, address the serviceable area where you can reasonably expect to do business. Finally, look at the specific segments of the market you'll address. In each step, do your best to provide data on the numbers or size of the market. Investors will want to know this information and they will expect you to have provided it.

Competition.   When writing your business plan, include an objective look at your competition. Some business owners worry about providing such details to potential investors, thinking it might scare them away. While that's always possible, the more common pitfall is creating the impression that you don't know a lot about the competition. Therefore, don't be afraid to include detailed information about the strength of your competitors. List both your direct competitors and indirect competitors.

A direct competitor is another business that serves the same customers as your business, and meets the same needs. For example, if you're a tax-preparation service, your direct competitors are those tax preparers who address the same market segment that you do. You should know and include the number of your direct competitors. For the largest, most direct competitors, show that you know a lot about them, including how you will compete against them. Avoid dismissing them as a pushover and avoid demonizing them as if the entire world views them as bad or deficient. Rather, take an objective look at their business, acknowledge their strengths, and describe how you will compete. It's not a weakness to have competitors—often, it legitimizes the demand for what you offer.

Indirect competitors are companies that market a similar or substitute product or service to the same customers you want to serve. For example, TurboTax software is an indirect competitor to a CPA in the tax-preparation business. Your business plan should acknowledge indirect competitors and their expected impact on your business.

Section 4: SWOT Analysis

Brief Description

A "SWOT" analysis is an objective look at your company's strengths, weaknesses, opportunities and threats. This section will answer two questions for the reader: "Can this company's leaders look at themselves and the outside world objectively?" and, "What do they see when they look?" Be sure to address the first question, so the reader will be interested in your answer to the second.

This Section of Your Plan Should Include:

- Internal Strengths
- Internal Weaknesses
- Outside Opportunities
- Outside Threats

Important Considerations

While SWOT analysis is used for a wide variety of disciplines, this section will apply it specifically to your business plan.

The SWOT Analysis section of your business plan will likely be only two or three pages long. Yet it could be the section in which you'll invest the most time. Creating a SWOT analysis involves a rigorous look at both your own company and the outside world of customers and competitors.

As shown in the SWOT Diagram at the end of this section, Strengths and Weaknesses refer to issues *internal* to your company, such as your people, your processes, operations or cost structure. Opportunities and Threats refer to *external* factors, such as competitive issues or factors about your potential customer base.

Start by identifying as many Strengths, Weaknesses, Opportunities and Threats as possible, but include in your diagram only the most important (as a general rule, no more than five in each category). It's not uncommon to have just one item in a particular category, *if* that item stands out above all others.

The best way to create a SWOT analysis is to involve the key leaders of your company in a brainstorming session. For each category, create a long list. If you're just getting started or you're planning to be a solo entrepreneur, your initial brainstorming session might be with just one other person. Next, for each category, prioritize the list, and select those statements that are truly the most impactful.

The next step is the most important, and the one that takes considerable time. Identify what you could do right now to eliminate or reduce the impact of threats and weaknesses. In the same way, identify how you could exploit strengths and opportunities, or lock them in for the long term. This exercise will help you identify your niche and create strategies that truly take advantage of what makes your business unique. The thinking that comes from this analysis will impress potential lenders and investors, and position you to succeed—both at getting the funding you need and at running your business.

Good SWOT statements are those where you could honestly say, “Customers would agree with this.” Or, “Competitors could not dispute this.” Keep your SWOT statements factual and unemotional. For example, instead of saying, “Our products are superior,” you might say, “Customers will prefer our products because they can be shown to last twice as long.”

As a proud entrepreneur, you’re likely to discover weaknesses and threats that you would never want to acknowledge to a potential lender or investor. You recognize immediately that they are simply too glaring to be overlooked. As an example, a weakness might be, “Nobody on our team has ever led or even worked on a sales team.” The point of a SWOT analysis is to identify and address key issues up front. To improve the quality of your business plan, either remedy the weakness *now*, thereby eliminating it, or include your plan for compensating for the weakness.

A compelling business plan reduces threats and weaknesses to issues that could be resolved with additional funding. Think about it—if you have issues that could be resolved without funding, a wise investor would have you do so and come back afterwards. Similarly, if after receiving additional funding you still don’t have a plan for addressing the threats and weaknesses, why would someone want to invest? Remember, your goal is to make it easy for the investor/lender to say “yes,” by clearing away the obstacles and highlighting the opportunities.

Once you’ve identified your unique strengths and opportunities, your business plan should be written to capitalize on them. To truly exploit what is unique about your business, your opportunities should be well matched to your strengths. Your business plan should address how you will make the most of your advantages and perpetuate them for as long as possible.

SWOT Diagram:

	Strengths	**Weaknesses**
Internal -->	• Strong core team (developers, Project Manager) • Developers active in the technical blogging community—regarded as leaders	• New business will lack a 'corporate identity' • Selling beyond our own contacts • Must land near term contracts for cash flow purposes
	Opportunities	**Threats**
External -->	• Cost advantage: Clients becoming increasingly sensitive to high rates of big firms. Big firms can't match our rates because of their overhead.	• Clients tempted to hire their own developers • Current economy has some clients putting projects on hold

Following your SWOT diagram, include a brief description of each statement from each category. For strengths and opportunities, explain how you'll take advantage of them, why competitors can't immediately duplicate them, and how you'll build them into your business strategy.

For threats and weaknesses, address how you plan to compensate for them. While you don't need a detailed, point-by-point plan, your text should make it clear that you have a workable solution and a plan for implementing it.

Section 5: Sales and Marketing Plan

Brief Description

The sales and marketing section of your business plan needs to show readers that you have thought through the methods and costs of getting your message to your potential customers. This section also needs to address *how* you will sell and *how much* you will sell. Finally, you'll want to include information to support that your forecasts are reasonable and not simply wishful thinking.

This Section of Your Plan Should Include:

- Unique Selling Proposition (repeated)
- How Customers will Find Out About Your Business
- Marketing Budget
- Who Will Sell
- Pricing
- Sales Forecast / How Fast Sales Will Come
- Evidence to Support these Projections

Important Considerations

Unique Selling Proposition (repeated). Keeping in mind that business plans are often read in pieces, rather than from front to back, it is okay and even worthwhile to include your unique selling proposition both in Section 2: Products and Services, and again here in your Sales and Marketing Plan. We recommend providing a summary of your unique selling proposition here and referencing the more complete version in Section 2. For example:

> *Our sales and marketing plan is built around our unique selling proposition, which essentially states that we satisfy our customers' appetite for quality baked goods and help solve their problem of too little time by bringing breakfast, lunch and dinner options to a single location, five minutes from where they work (for a complete description of our USP, please see Section 2: Products and Services). Since these are the factors that matter most to our customers, and the ones that make us unique, our sales and marketing plan will focus heavily on these aspects of our business.*

How Customers will Find Out About You. Don't let your new business be the best kept secret in town—if you don't have a marketing plan or a marketing budget, chances are, that's what will happen. Before starting your business, put yourself in the mindset of your future customers and ask yourself, "How would I find out about this new business, and what would make me care about it?" Experienced entrepreneurs will often talk about "rising above the noise," which means having your message heard above all the other advertisements, sales pitches, fliers, signs and brochures that bombard consumers every day. It's a difficult task. Now that you've identified your unique selling proposition, what is the best way to get that message to your prospects? There are numerous advertising vehicles to consider, including online ads, outbound email, newspaper advertising, direct mail, Yellow Pages advertising, fliers, door-hangers, radio advertising and more. If you have established competitors, or better still, companies in the same business but in a different geographical market, look at what they do. It's a reasonably safe bet that if they have been running a small ad in the community newspaper for several months, it's because that advertisement is working.

Your startup marketing plan should include more than one marketing vehicle. This will allow you to quickly identify whether your business can be improved by changing your message or changing where you market your company. For example, if online advertisements are not bringing in any business, but the fliers you distribute are performing quite well—the next step is clear: Reduce online advertising and increase fliers. On the other hand, if neither is bringing in business at the level you forecast, maybe it's the message or the offer that needs tweaking.

Marketing Budget. Now that you have identified the types of marketing that you'll be pursuing, it should be straightforward to put together a marketing budget. Start by accounting for up-front costs such as copywriting or production of promotional materials. Then look at the recurring costs for each marketing method you've included in your plan. Your business plan should include a budget for an ongoing, sustained marketing plan. Avoid the "Super Bowl Ad" trap (even on a smaller scale) where you spend a lot of money up front and expect that to carry you through the year. Over time, you'll want to fine-tune your message, adjust your offering to customers, and adapt to better meet customers' needs. This will require ongoing marketing.

Separately, think about the startup marketing costs that you will need to incur. Depending on the type of business you're in, these could include signage, letterhead, printing, creating case studies or "white papers," creating demonstration products, and of course, Web development.

When you've arrived at your number, it's acceptable to include in this section a monthly, quarterly or annual number for your marketing budget. If you have seasonal fluctuations, it's better to break it out monthly. Describe how the budget will be allocated among the different marketing vehicles. You don't necessarily have to include all the details behind your numbers in your plan, but you should have them available so that if you're asked to explain it, you can show exactly how you arrived at your budget.

Finally, when you get to Section 9: Financial Projections, be sure that your marketing budget matches what you have presented here.

Who Will Sell? Selling is the most important thing a business must do. No sales, no business. Your business plan should state who will be responsible for selling. Walk the reader through your business' sales process and describe by title or position who will perform each aspect of selling.

Clearly for some businesses, this is very simple. For example, if you're opening a yogurt store that sells exclusively through walk-in traffic, your business is more marketing-driven. The salespeople are the counter help who serve the customers and ring up their purchases.

In other businesses, there are several steps involved. For example, suppose your business is providing solar energy solutions. An advertisement generates a phone call. Who answers that call? What questions is that person equipped to answer? Next, an onsite consultation is scheduled where someone goes out to the prospect's house to gather the required information to prepare a quote. Then the costs have to be calculated and a proposal created. The proposal has to be presented to the customer. Who will perform each of these important functions?

The idea is to think it through, present it in this section of your plan, and then be sure that your personnel plan and financial forecasts take into account the sales cycle for your products or services and what it will take to make your selling efforts a success.

Pricing. Your investors or lenders are not so much interested in seeing your price list as they are in seeing that you have thought through your costs, and set prices that allow you to be profitable yet competitive. If your prices will be roughly in line with competitors, or if price is not a key factor in a customer's buying decision, then this subsection will be more of an account of the facts and will not be required to be persuasive. However, let's consider two extreme cases: that of the low-cost provider and that of the premium-priced company.

If you plan to compete on price by being the low-cost provider, this section will be crucial. You will need to spell out your cost advantage and how you will remain profitable while selling at a lower price. Include information that supports your ability to run every aspect of your business and still remain profitable. Also include information that addresses why competitors won't simply match your prices, or what the impact will be if they do.

The classic mistake to avoid is to plan to compete on price without taking into account all of the costs associated with producing, selling and delivering your products or services. Unless you can demonstrate some fundamental breakthrough or cost advantage, competing on price is a dangerous strategy—investors and lenders know this.

The opposite of the low-cost provider is the premium-priced product or service. If your plan is to charge prices at the high end of the competitive spectrum, you will need to convince your readers that customers will be willing to pay the higher prices. In this case it would be helpful to include some examples of similar companies (even if in different territories) that have been able to succeed with higher prices, while competing directly with lower-cost providers. This will be important. After reading this section of your plan, an investor or lender would have be able to say, "Yes, I can see why people will pay more to do business with your company—I think you are right."

Sales Forecast. A banker will tell you that sales usually climb more slowly than business owners expect, and the expenses pile up faster. Your business plan should take this into account and convey that you're funded sufficiently to survive that prediction, should it prove to be true. Put together a plan that shows your business ramping up sales slowly over time and ultimately reaching profitability. No banker or investor ever got upset with an entrepreneur who blew away his or her own sales forecast. They will, however, dismiss a plan if they think the founder is naïve about how long it will take to develop the business.

This ramp-up period is the area most likely to get discussion. The initial months are those when you're most vulnerable to completely missing your sales forecast. Carefully think through your early startup phase and include information in your sales forecast section to support your numbers even before you're asked.

If you will have multiple product lines, break out your sales forecast by product line. Each could have its own ramp-up period and each could also be rolled out at a different time. Investors and lenders will want to see where your sales are coming from, not just your total sales. Without going overboard, more detail is generally better.

If your business will include some period of development where there will be *no* sales, address these time periods as well in your sales forecast section. For example, if sales are not expected to begin until month 6, certainly there will be things that must happen in months 1 through 5 to be sure you are on track. Answer the question, "How will I know in months 1 through 5 if we're still on track to begin selling in month 6?"

On the sales forecast itself, the most common mistake is to provide a rosy "top down" forecast. For example, the plan states (and might even substantiate) the size of the market and then says, if we just get 1% of the $300 million market, we'll be a $3 million company. Sounds conservative, right? Not if you're an investor or a lender. Why? They want to see a "bottom up" plan that demonstrates you understand the mechanics of what it will take to generate the sales.

A bottom-up sales plan sounds something like this: "We'll have 3 stores, each open 18 hours a day. Each store will have 3 full-time sales people on the floor at all times. Each salesperson can average $100 in sales per hour across the day, which equates to $5,400 per store per day, or approximately $2 million per year for all three stores." What if you have four stores? How much sales does each person do from 11 PM to midnight? What if you closed your stores at 11? What if they average only $ 80 each for the first six months a store is open? Now you have something your readers can get their heads around and discuss in business terms.

This section should include the narrative about your sales forecast, as described. Rather than include all of the details in this section itself, it is acceptable to summarize and point the reader to Section 9: Financial Projections for the details. For example: “Taking into account the information outlined in this section, we expect to reach sales of $125,000 in Quarter 1; $250,000 in Quarter 2; $475,000 in Quarter 3 and $600,000 in Quarter 4. Please see Section 9: Financial Projections for a monthly breakout by product group.”

Section 6: Management Team

Brief Description

The most obvious part about the Management Team section is that it provides an overview of your founders and key employees. Yet in the beginning, that might be just one person. You can increase your plan's credibility by establishing a supporting cast of key mentors and advisors, and including them in this section.

This Section of Your Plan Should Include:

- Founders and Key Employees
- Board Members
- Professional Advisors
- Hiring Plan

Important Considerations

Venture capitalists will often say, "We don't invest in ideas, we invest in people." Their rationale is that over time the idea will have to evolve. The right team will develop the idea into a winner. But the wrong team can ruin even what was initially an outstanding idea. The question to be answered by this section is, "What experience and achievements in this team's past demonstrate that they will succeed in this new business?"

Founders and Key Employees. Begin your Management Team section with a description of the individual who will be the CEO or senior person in charge of running the company. Typically this is the founder, or one of the founders. In some cases, an early-stage company will already have hired a non-founding CEO or president to run the company. In any case, lead with the individual who will lead the company.

You can include the resumes of your key management team members as appendices in your business plan and refer to them in this section. But use this section to highlight the relevant experience and accomplishments your team brings to the table.

For each individual you list, include their relevant experience, transferable skills, and key accomplishments with a special emphasis on factors that will contribute to your business' success. Avoid making readers "connect the dots" on their own. Rather, make the connection for them. For example:

"In Mr. President's previous role as General Manager of LikeMine Company, he expanded into new markets and tripled the size of the business in three years. This experience is ideal for MyCo as we move beyond a single market to expand into neighboring regions."

In the business plan, it's helpful to convey a pattern of accomplishments, such as, "At her last company, Ms. Johnson was named Sales Representative of the Year in 2005-2006, was promoted to VP of Sales in 2007, and once again promoted to COO in 2008."

Leave out admirable, but "sideline" accolades such as, "Ms. Johnson is a two-time winner of the La Jolla Triathlon." Unless an accolade relates to the success of your business, you're better off mentioning it in the biography (included as an appendix), or leaving it out altogether.

Board Members. There are two types of boards: a board of directors and a board of advisors. A board of directors can have specific legal responsibility and authority. For that reason, some individuals are reluctant to join a board of directors. A board of advisors generally has fewer or no formal responsibilities, but can be just as beneficial to the company through the guidance it provides. It's never too early, and your business is never too small to have a board.

If you do not already have a board of directors, consider putting together a board of advisors. Chances are you have mentors and people with relevant experience who are giving you input on your business idea. Perhaps one of them is even a customer or potential customer. Consider asking these people to agree to be on your board of advisors, a group that would meet perhaps quarterly to hear updates on does your business and offer input. With their consent, you can list members of your board of advisors in your business plan.

For each board member (whether directors or advisors), listing name, current or most recent position, and company is sufficient. If members have special experience that pertains strongly to your business, naturally you would want to include that information as well.

Having a board of directors or board of advisors tells lenders and investors that you value the input of outside thinking and that you have the skills to build relationships with people who can help your business succeed. That bodes well for the future success of your business!

Professional Advisors. If you have worked with an attorney to establish your business, an accountant to help prepare your financial forecasts, or an advertising or PR firm to help prepare some promotional materials—include these organizations in your business plan's management section under the heading, "Professional Advisors." Bankers and investors are often well connected to area professional service providers. Simply knowing that you are working with recognized names in the business community can boost your credibility. It also tells the reader that you're being advised by professionals. Be sure to let your advisors know in advance that you've listed them in your business plan, since oftentimes they'll get a phone call asking for their impressions of the business.

In this section, just include the type of services provided, the name of the firm, and your primary contact.

Example:

Legal Services:
ProBono Law Firm
Jerry Mander, Partner

Hiring Plan. At the early stages of your company, you might be missing some key people on your management team—this is normal and acceptable. Usually this has a lot to do with why you are seeking funding. If you haven't yet hired all your key people, you can address this in your business plan in two ways.

First, if you have lined up some individuals who will come on board when you bring in your funding, you might choose to identify them in your business plan. If this information is not ready to be disclosed, you can allude to it in generalized terms without divulging the person's name or current company. "We have identified an individual with 10 years of experience in a similar company, to fill the Director of Marketing role. Pending the timing of our funding, we would expect this person to join our team."

Next, address any gaps in your management team that need to be filled. Identify key hires that remain and the order in which you expect to fill the positions. This shows that you're thinking ahead and shields you from any criticism about holes in your current team.

Section 7: Go-to-Market Strategy

Brief Description

The Go-to-Market Strategy matches immediate opportunities with current capabilities, and sets goals based on the two. Your long-term vision likely has your business expanding into a number of products, services, markets or regions. The question to be answered by the Go-to-Market section of your business plan is, "Which immediate opportunities will your business be in a position to go after first so that your business can get some customers, generate revenue, become profitable, and position itself to stay in business for the long run?"

The Operating Plan, which is covered in the next section, will demonstrate that your business plan has taken into account everything that will be required to execute the go-to-market strategy.

This Section of Your Plan Should Include:

- Priority Opportunities
- Current Capabilities

Important Considerations

It can be painful for entrepreneurs who have a vision for the long-term total solution, to focus instead on the near term. Even Microsoft didn't do it all at once. First there was DOS, then Windows, then Word, Excel and eventually Office. Why did Microsoft start with the operating system? Because a customer (IBM) had a problem they were willing to pay someone to solve.

Priority Opportunities and Current Capabilities. Following the format of this Reference Guide, previous sections have called for each subtopic to be addressed separately. When writing your Go-to-Market Strategy, it is best to discuss priority opportunities and current capabilities. The key is to demonstrate that these two areas are well matched.

Priority opportunities are those needs or pains of customers that they would be willing to pay you to solve right now, *and* which your current capabilities would allow you to address, quickly or immediately. **"**Current" can also take into account the capabilities that are immediately within your grasp, once funded. For example, if having two more delivery vehicles would allow your business to open up a new market, and your funding would provide for those vehicles, then serving this market would be considered to be within your current capabilities.

Winning Go-to-Market Strategies are best explained by giving some examples. In Section 2: Products or Services, we used an example of a bakery that would provide pastries, ready-made sandwiches, and breads & dinner rolls. The unique selling proposition was that the bakery was located near several office complexes, and its location saved its customers time by enabling them to buy fresh baked goods for dinner or the next morning's breakfast, while they were taking their lunch break at work. As it turns out, there were two types of equipment required for baking breads and making donuts. The equipment, in addition to all the other startup costs, was very expensive. Even more challenging, the retail site that was key to the *convenient for customers* factor was not large enough to support all of the equipment.

Here is a summary of our bakery owner's go-to-market strategy:

> *When we open, we will offer fresh made sandwiches of the highest quality. We will buy our bread daily from a commercial baker that is not in the retail business. Our customers will gladly pay us today to provide fast, convenient, quality lunches. While our revenue won't be as high, neither will our expenses. Our business plan shows that we can be profitable in year one as a sandwich shop.*
>
> *Our landlord has a tenant in the same shopping center, whose lease expires in 15 months. We have negotiated an option on the space if we rent the currently available location. We will be building up our customer base during this time and letting our customers know about our expansion as the time draws closer. After twelve months of operation, we will have established a loyal clientele and be ready to secure additional funding, take on the new space, and expand our product offerings. We expect with this plan, the new equipment will be funded partially from current operations. This go-to-market strategy lets us make money today by solving an immediate customer need, while positioning us for future growth.*

This is a banker's dream come true. The borrower has an immediate strategy for starting a small profitable business, with a small loan. Then, the business will demonstrate whether or not it can execute as planned. If the business proves to be a winner, it will still want to borrow more money to expand the business. This time, however, the business will have customers, a track record, and a favorable credit history with the bank. Perfect!

Another example: A software services startup company wanted to offer companies end-to-end ecommerce solutions. As a small company with limited staff and no real client references, it was going to have difficulty landing new clients who would trust the firm to handle their complete ecommerce requirements. The sales cycles were long and the bids usually went to larger, more established firms. In looking carefully at their current capabilities and immediate opportunities, the founders noted that they had developed a superior "shopping cart" solution, which was an important component of a total ecommerce offering. Because their shopping cart integrated so seamlessly with numerous other ecommerce technologies, they identified this as an immediate opportunity. Over the next year, their shopping cart component was sold to over 100 businesses. By using this go-to-market strategy, the company became profitable, established a solid reputation in the marketplace, and created a platform for expanding into a broader ecommerce offering.

Identify the immediate opportunities for your business that will allow you to gain a profitable foothold in the market. Describe how these opportunities are immediate and why customers will buy from you today. Further, show how you will go after this slice of the market and use it to establish and then expand your business.

Section 8: Operating Plan

Brief Description

Your Operating Plan is where you account for all of the resources that will be required to make your products, or provide your services. The objective is to think through the requirements for every step and communicate in your plan how you will meet these requirements. The question to be answered by this section is, "Has the business owner anticipated everything that will be required to create a fully functional business capable of serving customers and generating revenue?" The concern would be that something was overlooked, only to become obvious after the business was started.

Most of us remember starting that first Kool-Aid stand with dollar signs in our eyes, only to realize after the table was set up and the sign was made that we would need Kool-Aid, a pitcher, ice and some cups. Something was always missing. An operating plan would have saved the day!

This Section of Your Plan Should Include:

- Overview of the Customer Engagement Process
- Labor Requirements
- Facilities Requirements
- Equipment Requirements
- Outside Resources (Suppliers, Outsourced Services)
- Critical requirements

Important Considerations

Overview of the Customer Engagement. In this section, you can refer briefly to your Sales and Marketing plan (which covers how you will generate new business), and quickly turn your focus to the point where a prospect becomes a customer. Describe the steps the customer will take to request, receive and pay for their purchase.

For example, if your business is providing bookkeeping services, your overview might say:

> *Our marketing plan identified how we will generate local inquiries for small-business bookkeeping services. Prospects will typically complete an online form requesting a call, or they will call us directly for more information. Prospects who become clients for our bookkeeping services will expect to be able to send us information related to their expenses on a daily basis, via fax and email. The information will need to be received, scanned and entered into the proper accounting records. Customers typically expect to be able to speak by phone to a knowledgeable person familiar with their books, the same day they call. On a monthly basis*

clients would expect someone to sit down with them individually and review the prior month's financial statements. Minor corrections are made, and final statements are reviewed by a senior accountant before being emailed to the client. An invoice is prepared and sent each month with the final statements. All client information has to be stored securely and backed up offsite on a daily basis.

In a succinct paragraph, we have addressed how customers send their information, the level of support they expect, how their work is processed, the quality control process, and billing. The reader can now follow along as you describe the required labor, facilities, equipment and outside resources.

Labor Requirements. Your labor requirements should describe a position, the number of people required in that position ,and a brief description that lets the reader link this person back to your overview. By looking at your labor summary, the reader should be able to see that every aspect of the product or service delivery has been addressed.

Using our previous example of the bookkeeping service, below is an example of the level of detail recommended for each position.

Finance Administrators, 2

Each finance administrator will have two or more years' experience with a major accounting software application, including data entry, reconciliations and preparation of financial statements. They will be the primary contact for up to 20 customers each.

Facilities Requirements. Our bookkeeping company indicated that they need to have a place to receive phone calls and email, perform accounting data entry, and meet with clients. Maybe all of this could be done remotely with client meetings held at the client's site. What is your plan? Show in this sub-section that you have the facilities to provide the products or services described in your business plan.

For manufacturing or retail businesses, this becomes much more important. You would want to show that you have the right location, the right size facility, proper zoning and any other requirements for physical space.

Equipment Requirements. Even in our simple example of the bookkeeping service, we indicated a need for a telephone system, fax capabilities, computers, secure data storage and backup capabilities. Will client meetings require a conference room? How will that room be equipped? Will the offices have access to wireless Internet? How will the team's computers be networked? What kind of tenant improvements will be required to prepare the office?

Again with retail and manufacturing businesses, the requirements will be more exhaustive. Will your business require delivery vehicles, special racks or storage equipment, climate control? Think through all of the significant requirements for your business and include them in this section.

Outside Resources. In today's competitive marketplace, businesses are turning more and more to outside resources for non-core activities. Here are just a few examples.

Ten years ago, a small-business phone system could easily have cost $5,000 or even double that. Today, a small business can set up a virtual phone system, with an automated receptionist, "follow-me" call routing, dial-by-name directory, voice mail, individual fax numbers and more for less than $100 per month.

Instead of having a delivery vehicle, a retail business might use an outside courier service for *local* deliveries. While that might not work for a pizza restaurant—where fast delivery is a core task—it might work extremely well for an upscale retail clothing store, or furniture consignment shop.

Some computer equipment makers never touch the products you might think they "make." Parts are manufactured by several suppliers, shipped to another outsource partner for assembly, and shipped directly to the customer without any component ever entering the company's warehouse.

Look for ways to make your business more efficient by outsourcing non-core tasks. This is not about "cutting corners;" rather, it's about finding ways to get the product or service to the customer better, faster or cheaper, while conserving cash.

Note the Critical Requirements. In the previous subsection we addressed outsourcing non-core tasks. In this subsection, identify the specific nonnegotiable, core requirements of your operating plan. If you're running a retail business, you could find a cheaper location, but talk about why the ideal location is essential. If you're opening a limousine service, support your decision to purchase or lease a specific type of vehicle. If you're a manufacturer, is low cost the primary driver of your component or ingredient selections, or will your strategy be driven by quality issues?

When writing your critical operations requirements, look back to your SWOT analysis.

The Most Important Consideration for Your Operating Plan

When you've written and fine-tuned your operating plan, be sure that it is in sync with your financial projections. Everything you've outlined in your Operating Plan must be accounted for in your financial forecasts. As we said at the beginning of this section, the reader will want to be sure you've "thought of everything." Their next question will be, have you budgeted for it?

Section 9: Financial Projections

Brief Description

Your business plan needs to include a pro-forma balance sheet, income statement, and cash flow statement. The term "pro-forma" means projected or forecasted. Most future business owners who do not have experience with financial statements seek outside help to complete this part of their plan. Whether you plan to prepare your own financials or get outside help, this section is intended to make sure that you know what to include and that you will be well prepared to discuss your financial statements with a banker or investor.

If you're new to financial statements, here is a brief definition of each type of financial statement:

Income Statement: Also known as a profit and loss statement. Shows the company's revenue, expenses, and profit or loss. Key formula: Total Revenue – Total Expenses = Profit or Loss.

Balance Sheet: Shows the value of the company's assets, liabilities and owner's equity. Key equation: Assets = Liabilities + Owner's Equity.

Statement of Cash Flow: Maps inflows and outflows of cash. Sales and profit alone don't tell the whole story. It's important to know when money will come in and when money will be going out.

There are several key questions to be answered by this section of the plan. Lenders will want to know if the business will be able to repay the loan they are seeking. Investors will want to see if the longer-term growth trends represent a good investment for them. Both lenders and investors will want to see that the business is sufficiently capitalized so that it doesn't run out of money, and how fast the business can reach break-even and become profitable.

This Section of Your Plan Should Include:

- 3-Year Pro-Forma Income Statement
- Balance Sheet at the end of Years 1, 2 and 3
- 3-Year Pro-Forma Statement of Cash Flow

Important Considerations

Historical financial statements are different from those presented in a business plan. Historical financial statements report on a business's actual financial performance and are used, in part, to prepare income taxes. They must take into account tax laws regarding depreciation, revenue recognition and other matters. While the financial statements for a business plan must be thorough, they are used for different purposes and require a different level of detail.

The pro-forma financial statements in a business plan are meant to show how the execution of your business plan is expected to play out financially. Rather than reporting on how each and every dollar was accounted for during prior periods, these statements are meant to be a forecast. As such, pro-forma business plan financials generally do not address depreciation schedules for different classes of assets, revenue recognition issues and other tax-related matters.

There are two overarching considerations for your pro-forma financial statements: First, they must match what you say in your business plan. Everything referenced in the text of the business plan must be included in the financial statements. For example, if the business plan says that there will be 15 people on the payroll at the end of the first year, the payroll section of the income statement must show the payroll expense for 15 people at month 12. If your marketing section says there will be an advertising blitz just prior to the holidays, then the marketing expense line of your income statement must reflect that. Everything must match up.

The second overarching consideration for your financial projections is, “How reasonable are your expectations?” Since nobody knows if your forecasts are accurate, you will need to emphasize how reasonable they are. Here are three examples of trouble signs from financial statements from business plans we have reviewed (critiques are shown in italics):

- A company was applying for a business loan from a bank. The income statement forecasted that the business would still be losing money in three years. *It was not reasonable to expect a bank to lend money to this business when the financial statements projected they would not be able to repay the loan.*

- A startup was forecasting that their revenue would go from $0 to over $1 billion in 3 years, with an investment of just $250,000. *This revenue forecast was not realistic. Not even Google grew that fast in its first three years.*

- A business plan showed profit margins of 50% when the industry average for their type of business was 15%. *The profit margins are not reasonable. An experienced lender or investor would recognize that this person didn’t have a good handle on either operations costs or pricing, or both.*

Section 9b: Income Statement

Income Statement. Refer to the sample income statement at the end of this section. The income statement shows revenue and expenses, usually by month. At the bottom, total expenses are subtracted from total revenue to arrive at Net Ordinary Income—which is essentially profit, though in an actual business there will be some accounting and tax adjustments made to arrive at *true* profit. That's why profit is often referred to as "the bottom line." Your business plan should include a three-year forecast of your income statement. Here's a closer look at some specifics of the income statement, and guidance on how to prepare your own income statement.

Getting Started. It's much easier to think ahead for one year than it is for three. So, start with a one-year view. After putting together a reasonably thorough view of year one, it will be relatively easy to create years two and three by thinking of the changes that are expected to occur in the following years.

Notice how the income statement is organized. Each column is labeled and represents a time period (usually a month) with totals for the year in the far right column.

Review from top to bottom the leftmost column of the sample income statement, to see all the categories of revenue and expenses, plus some subtotals for organization.

Income. Again, looking at the sample income statement, notice that a separate line is used for each major revenue category. The sample company includes lines for Programming Services, Software Sales and Network Maintenance. Think of the significant distinctions in your areas of revenue and create your own categories. Remember at this point to keep it simple. As you put together your income forecast, think carefully about the timing (when sales will begin) and growth rates you project. You will be asked if the business is ready to support the sales you are forecasting and whether you will have done in advance the necessary things to drive the level of sales you're predicting in the time periods shown.

Cost of Goods Sold. Moving down the left column, look at the Cost of Goods Sold section, which is right below our Income categories. For companies selling products, the cost of the products being sold goes into this section. In our sample company, notice that in February they forecasted software income of $250, and there is a corresponding cost of goods sold of $150. This represents a product they purchase for $150 and resell for $250.

Some service businesses have costs associated with the services they sell. These would be treated in the same way, but would be called 'costs of sales' instead of costs of goods sold. Even sales commissions are sometimes included in the cost of sales category, both for product businesses and service businesses.

Whether it's a cost of goods sold or cost of sales, this section should include outside expenses that are incurred whenever a sale takes place.

Gross Profit. Gross profit is completely different from the more common term "profit." Gross profit is the total revenue, minus the cost of goods sold or the cost of sales. If your business sells furniture and you buy a desk for $300 and sell it for $500, your gross profit is $200. If you are a consultant and you invoice a customer for $500 and you have no cost of goods sold, your gross profit is the same as your sales ($500 sales minus $0 cost of sales = $500 gross profit).

The sample company sells mostly services, with some software sales. So their gross profit is quite high. Look, for example, at July and notice that they have $24,500 in total sales and cost of goods sold of $1,200. Why so low? Because the cost of goods sold is for software they purchase and resell. In July they had software sales of only $2,000. If we were to break it down further (this is not shown on the sample statement) they had software gross margin of $800 ($2,000 sales minus $1,200 cost of goods = $800 gross profit.)

Businesses that sell mostly products need to watch their gross profit carefully. What matters in this type of business is not how much you sell, but how much you keep—that's gross profit.

Expenses. The expenses for the sample company are broken down into 14 categories. The major categories are self-explanatory (payroll expense, rent, etc.). When creating the list of expense categories for your business, keep it simple, using as few as 5 and no more than 20. It's not critical whether you include the cost for small expenses in their own category, such as "office supplies," or in a more general category such as "Office Expenses" (which would also include telephone, Internet and similar expenses).. The important thing is that all of your expenses are accounted for in one category or another.

Pay special attention to payroll costs, marketing costs and rent. These are likely to be your largest expenses. In your business plan you have probably addressed adding staff and marketing activities. Be sure that the income statement reflects the expense for these things in the time period when you said you were going to initiate the activity (or in advance, to allow for preparation time). Also make sure that your rent keeps pace with your payroll or headcount. You would expect to need more office space for 10 employees than for 3. There will be other corresponding expenses that grow with head count.

Look carefully at your revenue, payroll expense and overall expenses to be sure they are all moving in a logical pattern. If you study this carefully , you will get in tune with what it's going to take to grow your business. You'll soon find that you're "living your business" on paper and able to make changes and decisions that will have a significant impact on your business. That's what it's about!

Net Ordinary Income. Net ordinary income is what is left when you subtract all of the expenses from all of the income:

Total Income – Cost of Goods Sold – Total Expenses = Net Ordinary Income

Since gross profit already subtracts the cost of goods sold from income, another way to calculate net ordinary income is:

Gross Profit – Total Expenses = Net Ordinary Income

So for year one in our sample company, the Total Income was $236,000, gross profit was $226,100, total expenses $204,597 and Net Ordinary Income was $21,503.

Wait a minute—isn't that profit? Almost. If these become your actual numbers, your accountant will add a few more lines to take into account taxes, depreciation and a few of those other details we said were not critical for small-business-plan financial statements. For your business plan, rather than forecast profit, stop here at Net Ordinary Income.

Statement of Cash Flow

Refer to the sample Statement of Cash Flow when reviewing this section.

It is a common small-business mistake to look at an income statement and conclude that a business is healthy because it is profitable. A profitable business, particularly a growing business, can still run into serious cash problems. A business that runs out of cash soon goes out of business. That's why your business plan must include a Statement of Cash Flow.

The statement of cash flow starts by looking at the beginning cash and then makes adjustments for things that happen during the period, which impact cash. Finally, the ending cash is calculated for the month. The current month's ending cash is next month's starting cash. Let's go to the sample statement of cash flow and step through it from top to bottom.

The starting point for cash flow is the Net Ordinary Income from the income statement. From there, we'll make adjustments to track actual inflows and outflows of cash.

Increase / (Decrease) in Accounts Receivable. This adjustment can seem counterintuitive at first. It is easiest to understand using the example of the first month of the new business. The income statement showed revenue of $1,000. Since the amounts were invoiced on terms of net 30, no cash has yet been received. Therefore, accounts receivable increased by $1,000.

On the sample cash flow statement, look at the January "(Increase) / Decrease in Accounts Receivable." To reconcile net ordinary income to cash, we have to subtract $1,000. The cash flow statement has to show the *change* in accounts receivable from one month to the next.

In our sample financial statements, we made the assumption that 100% of the previous month's sales will be collected in the next month, and none of the current month's sales are collected in the current month. Assumptions such as this are reasonable taken as an average and can be used to forecast this line item of your cash flow statement.

(Increase) / Decrease in Accounts Payable. Just as we made an entry above for changes in accounts receivable, we would have a similar entry for the change in accounts payable. If our accounts payable (bills owed but not paid) increase, we would have to *subtract* the amount of change to reconcile cash to net operating income. Most new, small businesses are required to pay their bills in the current month. As such, accounts payable stay at approximately $0. All bills are paid at the end of the month. With no change from month to month, no cash flow adjustment is necessary.

Let's continue with the other adjustments, which are more straightforward.

Deposits and Prepaid Expenses. A deposit or prepaid expense doesn't show up on the income statement because it is not a current expense. Yet it takes away from cash in the bank. When our sample business signed an office lease, it had to provide a security deposit of $2,000 in February. This isn't "rent," it's a deposit. You'll see this number again when we talk about the balance sheet. But for now, we need to subtract this amount, $2,000, in February to further reconcile net operating income to cash. You'll see this entry in February of our sample statement of cash flow under Deposits and Prepaid Expenses.

Capital Purchases. *For an understanding of how capital purchases and depreciation work together, read the capital purchases section and the depreciation section together (see below)*.

When you purchase a piece of equipment, the impact on cash is immediate. However, the full expense only shows up on the income statement over a longer period of time. So once again, we have to make an adjustment to reconcile net operating income to cash. This is a two-part exercise. First we take into account the purchase and then the "depreciation," which is highlighted below.

To account for the purchase price of the asset, we make an entry for the full cost on the statement of cash flow in the Capital Purchases line. In our sample financials, you'll see that the business made furniture, equipment or other capital purchases of $12,000 in January, $5,000 in March and $3,000 in August. These are shown as negative numbers because they take away from cash.

Depreciation. When you purchase an asset such as a piece of equipment with a useful life greater than the current year, the government requires the asset to be written off over a longer period of time. You can't simply create an expense for the full amount in the current period. Why does the government care? They don't want businesses making large purchases just to reduce taxes. The rules governing depreciation are complex and vary by the type of asset. Here we're addressing only how depreciation affects cash flow.

In our sample company, our "sample accountant" has calculated a depreciation schedule for each type of asset and told us to spread out depreciation expense evenly over the course of the year at $1,000 per month. On the income statement, this keeps the expense even instead of creating a big hit in a single month. However, this depreciation isn't a cash expense, it's just a write-off against taxable income. On the cash flow statement, we have to add back depreciation to reconcile cash to net operating income. See the sample statement of cash flow where we've added back $1,000 in each month.

Net Cash from Operations. The sum of the net operating income and the adjustments to reconcile to cash (detailed above) equal the net cash from operations. This is a subtotal on our way to showing the month-ending cash balance.

Financing Activities. Since financing activities (all loans and capital investments) impact the cash flow statement much in the same way, we'll cover them all in this same paragraph. Each time you receive money for a loan or capital investment (whether by an owner or investor) the proceeds need to show up on your statement of cash flow. Money or "cash" comes into the business and it needs to be accounted for.

While interest on a loan is an expense and therefore found on the income statement, principal repayment is *not* categorized as an expense. Therefore, to reconcile the income statement to cash, we have to show these repayments on the statement of cash flow. Loan repayments take away from cash and are therefore shown as a negative number on the cash flow statement.

On the sample statement of cash flow, you can see that the business received loan proceeds of $40,000 in January, plus an investment from the owner (Capital Stock) of $15,000 also in January. Then, the company repaid $1,000 in principal each month of the year. These monthly repayments reduce cash.

Net Cash Increase / (Decrease)

Continuing down the Statement of Cash Flow, the *Net increase / (Decrease) in Cash* is the fully reconciled change in cash for the period. In other words, it takes into account net ordinary income, adjustments for changes in accounts receivable, deposits and prepaid expenses, capital purchases and depreciation. Next, the adjustments for financing activities are accounted for as described above. The sum of the net ordinary income and all of the adjustments is the net increase or decrease in cash.

Beginning and Ending Cash

In the sample financial statements, the Ending Cash for January is $37,175. Notice that the Beginning Cash for February is the same amount, $37,175. Beginning Cash for any period is simply the ending cash for the prior period.

To calculate the *Ending Cash*, you add the *Net Cash Increase or Decrease* to the *Beginning Cash*. In other words, take what you started with, take into account the change in the period, and what you have left is the ending cash. In our sample financials, in January the business started with nothing (since that's the month the business was started), and the Net Increase in Cash was $37,175. Therefore the Ending Cash for January was $37,175, or $0 + $37,175. As you can see, the business took out a loan, received a capital investment from the founder, made some capital purchases, and had a net ordinary loss.

Balance Sheet

The Balance Sheet shows what you own and what you owe to others, assets and liabilities. The difference between what you own and what you owe is what the business is worth. This simple formula sums up a balance sheet:

Assets = Liabilities + Owner's Equity

Which is the same as:

Owner's Equity = Assets – Liabilities

We'll step through the Balance Sheet from the Sample Financial Statements from top to bottom, just as we did with the others.

Assets. The Balance Sheet categorizes Assets into "Current" and "Long Term." Each is described below.

Current Assets. A Current Asset is something that is already cash, or is expected to be turned into cash within one year. In our sample financial statements, Current Assets include Cash, Accounts Receivable and Inventory.

Fixed Assets. Fixed Assets can be thought of as long-term assets. They are owned, but not expected to turn into cash within the next year. On the sample financials, we include Furniture & Fixtures and Equipment as Fixed Assets. These assets are listed at their purchase price, even if they have been owned for several years. To adjust the value, the Accumulated Depreciation is listed (as a negative number) with the Fixed Assets. This is the total amount of Depreciation Expense taken against the asset's value since the asset was owned.

Let's say that you owned a piece of equipment that cost $50,000. Your accountant advised you to take $10,000 in depreciation expense each year for five years. If this were your only asset, at the end of the third year the Fixed Assets section of your Balance Sheet would show:

Fixed Assets	$50,000
Depreciation	($30,000)
Net Fixed Assets	$20,000

Other Assets. Assets that do not fit neatly into Current or Fixed Assets, can be listed under Other Assets. An example is the rent deposit from our Sample Financial Statements. Since we don't expect the deposit to turn into cash in the next year, it's not a Current Asset. Similarly, it's not a Fixed Asset that gets depreciated over time. So, we list it under Other Assets.

Total Assets. Total Assets equal the sum of the Current Assets, Fixed Assets (adjusted for depreciation) and Other Assets. This is, in effect, the value of what the business owns.

Liabilities. Just as assets are categorized into Current and Fixed, Liabilities are classified into Current Liabilities and Long-Term Debt.

Current Liabilities. A Current Liability is one that is expected to be repaid within a year. The amount owned on a credit card bill, or loans due within one year should be listed as Current Liabilities. Notice on our Sample Financial Statements, Current Liabilities are listed as $0. As a startup business, the company has little or no credit with vendors and pays its bills in full each month. The loan the company has is not due within a year and therefore is not a Current Liability. So, it is accurate in this case to say that the Current Liabilities are $0.

Long-Term Debt. Long-Term Debt is any loan which is extended for a period of one year or more. In our Sample Balance Sheet, notice that at the beginning of the year, the Bank Loan was listed as $40,000. As of Dec. 31, the loan was listed as $29,000. The difference is the $11,000 of principal repayment that took place during the year.

Total Liabilities. Total Liabilities are the sum of the Current Liabilities and Long-Term Debt.

Owners Equity. Owners equity comes in two forms—that which the owner invested in the company, and the cumulative total earnings that the company has left in the business. Each is addressed below.

Owners Investment (or Owners Capital Account). This is the amount of cash that the owner has invested in the company. The cash itself would show up as a Current Asset, but the corresponding entry is not treated as a liability as a bank loan would be. Rather, it goes in the Owners Capital Account. In the grand scheme of things, if the business were unable to repay its obligations, the Owner's Investment ranks below Liabilities.

While the owner could make a loan to the company, which would be a liability, many times bankers or other investors want to see a founder have "skin in the game" by investing their own money as capital, not a loan. This tells them the owner is putting money in and leaving it in.

Retained Earnings. The amount of Retained Earnings is the cumulative Net Operating Income since the inception of the business. Our Sample Balance sheet shows at the end of the year Retained Earnings of $21,503, the same as the Net Operating Income. If the business earned the same amount next year and the funds were not paid out as taxes or dividends (or otherwise distributed), the Retained Earnings would be $43,006, or double the first year's amount. Conversely, if the business actually lost money in the first year (which is not unusual), the company could have negative Retained Earnings.

Our Pro-Forma Sample Financial Statements don't show any adjustments to Net Operating Income, as might be found in the historical statements of an actual company. These adjustments might include taxes or dividends paid to the shareholders. The company behind our Sample Financials is a "Sub-S" Corporation, and the tax responsibility flows through to the owners individually. As for dividends, it would be unusual for a startup company to forecast dividends—and it would not be something a lender or investor would want to see. They would want to see excess cash left in the business for contingency needs, or to accelerate growth.

Naturally, if the company accumulated a significant amount of earnings, there would be a discussion about what to do with the earnings. For now, though, nobody will be concerned that you might end up with too much cash.

Total Owners Equity. The Total Owners Equity is the sum of the Owners Capital and Retained Earnings. You can see in the Sample Financial Statements that our owner invested $15,000 and at the end of the year had Owners Equity of $36,503. The primary driver of the change was the Net Operating Income, or profitability of the business.

Total Liabilities and Equity. Since a Balance Sheet has to balance, Total Liabilities are added to Total Owners Equity and called just that, Total Liabilities and Equity. This amount should equal or balance with Total Assets. Recall the Balance Sheet Formula: Total Assets = Total Liabilities + Owners Equity.

Income Statement

Pro Forma

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Ordinary Income/Expense													
Income													
Programming Services	1,000	5,000	6,000	10,000	12,500	15,000	17,500	17,500	20,000	20,000	20,000	20,000	164,500
Software Sales	-	250	500	750	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	16,500
Network Maintenance	-	-	2,500	2,500	5,000	5,000	5,000	5,000	7,500	7,500	7,500	7,500	55,000
Total Income	1,000	5,250	9,000	13,250	18,500	22,000	24,500	24,500	29,500	29,500	29,500	29,500	236,000
Cost of Goods Sold													
Cost of Goods Sold	-	150	300	450	600	1,200	1,200	1,200	1,200	1,200	1,200	1,200	9,900
Total COGS	-	150	300	450	600	1,200	1,200	1,200	1,200	1,200	1,200	1,200	9,900
Gross Profit	1,000	5,100	8,700	12,800	17,900	20,800	23,300	23,300	28,300	28,300	28,300	28,300	226,100
Expenses													
Bank Service Charges	25	25	25	25	25	25	25	25	25	25	25	25	300
Computer Parts	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Depreciation	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Insurance	-	-	150	150	150	150	150	150	150	150	150	150	1,500
Interest Expense	-	342	350	358	367	375	383	392	400	408	417	425	4,217
Marketing Expense	400	400	600	600	600	600	600	800	800	800	800	800	7,800
Mileage Reimbursement	-	100	100	150	150	150	200	200	200	200	200	200	1,850
Misc / Uncategorized Expenses	400	400	400	500	500	500	500	500	600	600	600	600	6,100
Office Supplies	100	30	30	30	30	30	30	30	30	30	30	30	430
Payroll Expenses	4,600	4,600	9,200	12,500	12,500	12,500	12,500	15,000	15,000	15,000	15,000	21,500	149,900
Professional Fees	-	-	500	100	100	100	100	100	100	100	100	100	1,400
Rent	-	-	1,000	1,000	1,000	1,000	1,000	1,000	1,750	1,750	1,750	1,750	13,000
Repairs and Maintenance	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Utilities	-	-	250	250	250	250	250	250	250	250	250	250	2,500
Total Expense	6,825	7,197	13,905	16,963	16,972	16,980	17,038	19,747	20,605	20,613	20,622	27,130	204,597
Net Ordinary Income	(5,825)	(2,097)	(5,205)	(4,163)	928	3,820	6,262	3,553	7,695	7,687	7,678	1,170	21,503

Statement of Cash Flow

Pro Forma

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Net Ordinary Income	(5,825)	(2,097)	(5,205)	(4,163)	928	3,820	6,262	3,553	7,695	7,687	7,678	1,170	21,503
Adjustments to Reconcile to Cash													
(Increase) / Decrease in AR	(1,000)	(4,250)	(3,750)	(4,250)	(5,250)	(3,500)	(2,500)	-	(5,000)	-	-	-	(29,500)
Deposits & Prepaid Expenses	-	(2,000)											(2,000)
Capital Purchases (Subtract)	(12,000)		(5,000)					(3,000)					(20,000)
Depreciation	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Subtotal Adjustments to Cash	(12,000)	(5,250)	(7,750)	(3,250)	(4,250)	(2,500)	(1,500)	(2,000)	(4,000)	1,000	1,000	1,000	(39,500)
Net Cash from Operations	(17,825)	(7,347)	(12,955)	(7,413)	(3,322)	1,320	4,762	1,553	3,695	8,687	8,678	2,170	(17,997)
FINANCING ACTIVITIES													
Bank Loan	40,000	-	-	-	-	-	-	-	-	-	-	-	40,000
Principal Repayment	-	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(11,000)
Owners Capital Stock	15,000	-	-	-	-	-	-	-	-	-	-	-	15,000
Subtotal Financing Activities	55,000	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	44,000
Net Cash Increase / (Decrease)	37,175	(8,347)	(13,955)	(8,413)	(4,322)	320	3,762	553	2,695	7,687	7,678	1,170	26,003
Beginning Cash	-	37,175	28,828	14,873	6,460	2,138	2,458	6,220	6,773	9,468	17,155	24,833	
Ending Cash	37,175	28,828	14,873	6,460	2,138	2,458	6,220	6,773	9,468	17,155	24,833	26,003	

Balance Sheet

	1/1/2009	Pro Forma 12/31/2009	Comments
Assets			
Current			
Cash	55,000	26,003	
Accounts Receivable	-	29,500	Equal to sales in December
Inventory	-	-	No inventory in this business
Total Current Assets	55,000	55,503	
Fixed Assets			
Furniture & Fixtures	-	5,000	
Equipment	-	15,000	
Other Fixed Assets	-		
Minus Accumulated Depreciation	-	(12,000)	
Total Fixed Assets	-	8,000	
Other Assets			
Deposits	-	2,000	Rent security deposit
Other Assets	-	-	
Total Other Assets	-	2,000	
TOTAL ASSETS	55,000	65,503	
Liabilities & Owners Equity			
Current Liabilities	-	-	< - No current liabilities, business pays Its bills monthly
Long Term Debt			
Bank Loan	40,000	29,000	< - Difference was repaid during year
Loan 2			
Total Long Term Debt	40,000	29,000	
Total Liabilities	40,000	29,000	
Owners Equity			
Owners Investment	15,000	15,000	
Retained Earnings	-	21,503	
Total Owners Equity	15,000	36,503	
Total Liabilities & Equity	55,000	65,503	

Section 10: Capitalization and Use of Funds

Brief Description

The cliché is true: It takes money to make money. The various sections of your business plan spell out how you will go about finding new customers, creating products and services they need, and building your business. The details regarding the costs and revenues from your "word plan" make it to the "numbers plan" in the financial section. So what's left?

This section on Capitalization and Use of Funds summarizes how much money will be required for startup expenses and operating capital, and where you expect that money to come from. Show your financial needs for a minimum of one year into the future, or until your business will become cash-flow positive, whichever is longer.

This Section of Your Plan Should Include:

- Use of Funds
    - Startup Costs
    - Working Capital
- Sources of Funds
    - List All Sources
    - Structure (Debt, Equity)

Important Considerations

This section of your business plan is intended to provide an overview of the funds your business will require. The specific details regarding terms for investing in your company must be in a separate document, which will be governed by specific legal guidelines. By law, securities can be offered for sale or solicited only by a private placement memorandum, which is a formal legal document.

Use of Funds

The Use of Funds section of your business plan must include all of the startup costs required as well as the working capital to sustain your business until it becomes cash-flow positive. The startup costs are those costs required to open the business. Working capital is the money it takes to pay your bills (including labor) until your business is generating sufficient cash to fund itself. Your financial projections (Section 9) will have taken you through the hard work required to arrive at these numbers.

A simple table or spreadsheet should be used to show your startup costs. Summarize costs into major categories. Customize the example below for your business. Most importantly, include all expenses that are listed on your financial statements.

For the working capital number, look at your cash flow statement. If you had no funding whatsoever, how much money would your business consume before it starts to turn a profit or become cash-flow positive? That's how much working capital your business will need, plus a contingency fund.

Sample Startup Costs

Facilities	
Office Build-Out	$12,000
Prepaid Rent	$ 4,000
Office Equipment	$ 6,500
Marketing	
Grand Opening	$3,500
90-Day Ad Campaign	$5,100
Brochures	$ 750
Administrative	
Insurance	$1,200
Fees & Permits	$ 900
Total Startup Costs	**$33,950**

Working Capital

12-Month w/c	$48,000
Contingency	$12,000
Total Working Capital	**$60,000**

Total Use of Funds	**$93,950**

Sources of Funds

Now that you have laid out the financial needs of the business, where will that money come from? Ideally, at least some of that will be coming directly from you. Perhaps you'll even include a "family and friends" round of investment. The balance will be the amount you need to bring in either as loans or outside investments. Customize the example below to your business. Note that in this case, we are matching our needs to the "Use of Funds" example in the previous section.

Sample Sources of Funds

Owner's Cash Investment	$50,000
Family Investment (Equity)	$20,000
Loan Sought	$30,000
Total	**$100,000**

While you don't have to include it in your business plan, you should be prepared to talk about your collateral, or how you will guarantee that the lender will be repaid. Most financial institutions require a primary and secondary source of collateral. This topic is covered in Section 11: Exit Strategy or Payback Analysis.

Section 11: Exit Strategy or Payback Analysis

Brief Description

Your business plan must demonstrate that you will be able to make timely payments on your loan. If you are seeking investors, they will want to know how they will recoup their investment. This section of your business plan needs to include a narrative addressing these issues.

This Section of Your Plan Should Include:

For Loans:

- State when the company will be able to start making loan payments
- Refer to your financial statements, which must show the ability to make payments at the time indicated.

For Equity Investments:

- A statement about how and when investors should expect to be able to sell their stock, or your *exit strategy*
- Whether or not it's included in the plan, be prepared to talk about the feasibility of your exit strategy,

Important Considerations

For Loans

If you're seeking a loan, you should understand the terms expected by the lender, even before preparing your financials. This can be learned through preliminary meetings, which are recommended in any case to start building rapport with your banker or lender. Some lending organizations might be content to accept no payments for 6 months. Others might accept interest only for the same period. Still others will want payments of principal and interest to begin immediately.

By knowing how your lenders work with clients, you can incorporate this information into your business plan financials. For example, if the lender agrees to no payments for the first six months, it will have an impact on the amount you will need to borrow.

In the end, your financial statements need to show that the business is expected to generate sufficient cash to make the required payments on time. Since your loan will likely be collateralized by your own personal assets, it will be essential to you that these forecasts prove to be accurate.

Many entrepreneurs who sign a personal guarantee don't understand that the bank will be entitled to take every dollar that the business owner has—including personal funds—before the bank loses one dollar of its own money.

For Equity Investments

If you are seeking an investment instead of a loan, investors want to know how they will one day sell their stock. This is called your "exit strategy." You might be content to work in your business for the rest of your career, but investors want to know how they will get their money back sooner. The most common exit strategy is building the company to a point where another company comes along and buys your firm. If this is your exit strategy, you would want to briefly describe the milestones the company would have to achieve before becoming attractive to another company. If you say you expect the company to be acquired within 5 years, what will you have accomplished that will make the company an attractive acquisition target?

The other once-common exit strategy is to take the company public through a public stock offering. For a small company, going public has become increasingly more difficult, bordering on impossible. Particularly for a startup company, it is almost a credibility-breaker to say that you are going to eventually take the company public, unless you are forecasting at least $50 million in revenue and have a team experienced in taking companies public or running public companies.

The description of your exit strategy does not have to be long and detailed. It can be as simple as a few paragraphs indicating that you expect the company to be acquired after achieving certain milestones. Be sure to list the most significant milestones, and specify why the business would be attractive at that point. You should also include a description of the types of companies that acquire firms like yours. Would it likely be a customer? A competitor? A private equity firm? You don't have to name specific companies, but it's not wrong to do so either.

Professional investors will want an exit strategy. If your investors are family and friends, they might be content to expect dividend payments instead of an exit strategy. The reason that professional investors are not usually enticed by such promises is that they know growing businesses consume cash, and any dividend payments take away from the company's ability to grow.

Section 12: Notices and Disclaimers

While this section is on Notices and Disclaimers for your business plan, first we must include an important disclaimer from Allied Focus, LLC and GreatBusinessPlans.com: We are not attorneys and cannot give you legal advice. This section is intended to highlight areas you should review with an individual licensed to practice law in your state.

Brief Description

When you are raising capital, it's important to pay attention to legal requirements, which vary by state. It would not be uncommon for a lender or investor to want to include your business plan as part of a contractual agreement between the parties. Because a business plan is focused on what the entrepreneurs expect to happen, certain disclaimers should be included. Consult an attorney for specific advice for your business plan in your state.

This Section of Your Plan Should Include:

- Confidentiality Statement
- Notice of Forward Looking Statements
- Significant Risks
- Notice that the Business Plan is Not an Offer to Sell or a Solicitation for Securities
- Other Notices and Disclaimers Advised by Your Attorney

Important Considerations

The types of disclaimers found in almost all business plans include those noted above, but this list is by no means exhaustive. You should ask your legal advisors about the need for these and any other disclaimers and notices for your state and type of business. Your legal advisors will also be able to provide you with specific language that should be used for each type of notice or disclaimer.

Confidentiality Statement. Every business plan should be marked "CONFIDENTIAL." We recommend including your confidentiality notice in a footer on every page of your business plan.

Notice of Forward Looking Statements. Your business plan will include information about things that have already happened and things you expect to happen. Discuss with your legal advisors the appropriate language to put readers on notice that the business plan includes "forward looking statements," or statements about things you expect to happen.

Significant Risks. Explicitly address that there are significant risks associated with the business plan. For this section, you should separate your enthusiasm for the business and focus only on managing any personal liability, by disclosing significant risks. These typically include competitive risks, risks due to the economy, failure of significant sales expectations to materialize, the health and well-being of a few key individuals, and availability of raw materials. Lenders and investors will have seen these dire warnings on dozens or even hundreds of business plans.

Not an Offer to Sell or a Solicitation for Securities. There are strict state and federal laws governing the sale of ownership (stock, equity) even in a small business. A business plan is not intended to be an offer to sell ownership; rather, it is a document designed to gain interest in the business. An offer to sell ownership in your company must be done thorough a separate document, typically a Prospectus or Private Placement Memorandum. Your disclaimers should make this clear, using the legal language required or advised in your state.

Other Notices Advised by Your Legal Advisor. Consult with your attorney on these and other notices and disclaimers required or recommended in your state, for your type of business.

Now that Your Plan is Complete

Congratulations on completing your business plan! Now it's time to put it to good use.

A Work in Progress

Completing the entire first draft of your business plan should give you a well-deserved sense of accomplishment. It *is* an accomplishment, and one that will lay the groundwork for the success of your business. Yet a business plan is always a work in progress, and is never really *done*. While you can't let it consume all of your focus, your business plan wasn't meant to be completed and stamped with an expiration date either. In the process of creating your business plan, it is likely that you developed a new, more comprehensive way of thinking about your business. This new way of thinking will serve you well. Keep your business plan up to date as your business thinking evolves.

After your first draft is complete, check and double-checked the obvious things like spelling, grammar and formatting. New features, such as automated spell-checking, taunt us all into forgetting to review our documents as carefully as we should. Your business plan should reflect that you are thorough and that you pay attention to details.

Find a small number of trusted individuals who would be willing to review your business plan and give you their feedback. Look for "value added" individuals whose opinions you respect. Try to include people with a range of skills, including finance, marketing, and running a small business. Encourage them to be candid in their feedback (if you really want to make this point, hand out your business plan along with a red marker and say, "Let me know if you run out of ink"). The least value will come from those who simply hand back your business plan and say, "Looks good."

You'll be the one to determine how to weigh and incorporate the feedback you receive. But you never want a banker or investor to be the first one to challenge or ask for clarification on some aspect of your business plan. So, you're not just getting feedback, you're preparing yourself to anticipate and respond to questions about your business. In the process, you'll be building your confidence.

Sending Out Your Business Plan

You can easily prepare an Executive Summary of your business plan from the work you did in Section 1: Introduction and Overview. Together with the cover page, copy and paste this section into a new "Executive Summary" document. It's no accident that this section was created to advertise the rest of your business plan. Your Executive Summary will be read by more people than your business plan itself, so take the time to make it stand on its own as a polished, professional document.

Do your homework and identify lenders and investors who work with businesses like yours. For example, some banks work extensively with retail businesses, and investors almost always have a "sweet spot" where they like to invest. Avoid sending your business plan to just anyone who invests or lends.

> *The absolute best way to have your plan read is to have it submitted on your behalf by an attorney, accountant, or respected business consultant who knows the individuals personally at the organization where it is being submitted. Call on the professionals in your network to ask, "Who do you know that invests in this type of business, whom you would feel comfortable asking to read my business plan?"*

After you've exhausted your personal network for introductions, prepare to do some additional legwork on your own. Once you have identified an organization that's a good target for you, call to find out their process for lending, investing and most specifically, reviewing business plans. You can be sure they have a process, and knowing it will help you set the proper expectations while meeting the expectations of the organization you're targeting.

Always identify a specific individual who will review your business plan—never just "throw it over the wall," or it will land in a pile with all the other unsolicited business plans. Ideally, you will speak with the person who will be reviewing your plan. Often this person is well guarded, and you won't be able to speak to him or her up front. Don't take it personally. These aren't big, mean, nasty people (okay, some are, but not most), they are just busy. Find out from someone on the support staff when the person is expected to be in the office, and if you send your materials today, how soon you could expect some feedback.

Lead with your Executive Summary. It takes less time for the reader and is more likely to create some initial dialog and interest on the part of the investor. You want to either determine that they have some interest, or stop spending time with them. The Executive Summary can help you figure that out and can transform the dynamic to one where they are asking *you* for something, as in, "Ms. Jones read your Executive Summary and would like to see your complete business plan."

Again, get something in return. To build on our previous example of Ms. Jones requesting your plan, you could say, "I'd like to send the business plan when Ms. Jones has some available time. If I send it today, could we schedule a 15-minute call for later in the week, so that we can speak shortly after Ms. Jones will have had time to review the plan you're requesting?"

Avoid the shotgun approach where you send your plan to numerous targets early and all at once. You'll improve your approach, your style and your business plan even after the first few "outings." With that in mind, you might not want your very best targets to be your first targets.

Next Steps

You now have the tools to raise money for your business. In addition to the business plan itself, prepare a short PowerPoint presentation (12 to 15 slides is ideal) to summarize your business plan, with one slide for each section. The idea is not to tell everything about your business, or everything that is in your business plan. Rather, you want to present just enough information so the audience can start to ask questions. Even if you never use the actual PowerPoint presentation, the exercise of putting it together will help you sharpen your skills and ability to talk about your business plan in concise terms.

Finally, go back to your elevator pitch created in Section 1. Don't just practice it, memorize it. If you have other people working with you on your business, they should memorize it too. Look for opportunities to make the pitch. There are people all around you who could benefit your new business (and benefit *from* your business), but only if they know about it.

Take pride in your new business, and take every opportunity to give the pitch. You never know when you're going to meet the person who will become your investor, mentor or next big customer.

About GreatBusinessPlans.com

GreatBusinessPlans.com is a division of Allied Focus, a boutique business consulting firm led by Jim DeLapa. Jim works exclusively with business owners and CEOs. Allied Focus maintains a number of strategic partnerships to meet our clients' project-specific needs. This allows us to serve clients' full range of needs, while minimizing their investment.

Mr. DeLapa is a recognized business leader whose career spans more than 20 years of entrepreneurship and includes founding companies, investing in start-ups, raising both angel and venture capital rounds, board leadership, hands-on management and successfully negotiating the sale of companies to both public and private firms. He has run two-person companies and companies with more than 40 employees. Jim has dealt firsthand with every facet and challenge that goes with this territory.

Most importantly, Jim has the judgment to help entrepreneurs identify what's most important right now—and the experience to help them overcome what is truly keeping them from attaining greater success.

We would welcome your call or email and the opportunity to help accelerate your success!

Contact Information

GreatBusinessPlans.com, Division of:

Allied Focus, LLC
3525 Del Mar Heights Road, Suite 454
San Diego, CA 92130
858.429.5755

http://greatbusinessplans.com

info@greatbusinessplans.com

Telephone: 858 429 5755