

Business Plan Outline

Cover Sheet

Statement of Purpose

Table of Contents

- I. Business Plan Narrative
 - A. Description of the Business
 - B. Market Information and Strategy
 - C. Competition
 - D. Business Facilities and Operations
 - E. Management and Personnel

- II. Financial Section
 - A. Source and Application of Funds; Collateral
 - B. Capital Equipment List
 - C. Cash Flow Projections (Pro Forma)
 - D. Explanation of Assumptions in Financial Projections

- III. Other Supporting Documents
 - A. Income (Profit and Loss) Statements—3 years (Existing Businesses)
 - B. Balance Sheets—3 years (Existing Business)
 - C. Other (See List)

- IV. Mistakes to Avoid in Drafting Plan

The Small Business and Technology Development Center has provided this outline. We will, **at no charge**, assist you in completing your plan by reviewing your rough draft and offering suggestions and feedback, as well as help you assemble your budget into a computer spreadsheet for a professional looking presentation.

Call for an appointment.

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THE COVER SHEET

A simple cover for the proposal that identifies:

- Name and address of the business.
- Name, address and telephone number of the owners
- Date of the proposal or loan request
- Identification of the owner, or who prepared the plan

STATEMENT OF PURPOSE

The statement of purpose spells out the purpose of this proposal or what the reason is for preparing the request. It should include a very brief summary of the business as an introduction, then the basic points of the financing proposal. This section is frequently written last, after the main business plan has been prepared, and could be modified for different presentations. The statement is sometimes called an executive summary and should include:

1. What is the business? What are the objectives?
2. How is the business structured/organized?
3. Who are the principals involved?
4. What is the total amount of funding needed to implement the plans?
5. How will the funds be used and benefit the business?
6. How much of the funds are being requested from this funding source? At what terms?
7. What other sources of funding are being considered?
8. How will the funds be repaid?
9. Why does the loan or investment make sense?

I. BUSINESS PLAN NARRATIVE

A. Description of Business

The description of the business should enable a reader to become familiar with the business, and gain a detailed understanding of the product or service that will be provided. Remember to explain what the product or service does for customers, as successful businesses are customer-driven.

The goals and objectives of the enterprise should be indicated, and a summary of the history of an existing business (when, how, who started the business, major developments or milestones) can be included.

Some of the key questions that need to be addressed are:

1. What type of business is this enterprise (retail or wholesale merchandising, service, or manufacturing, etc.)? What are the industry trends and expectations?
2. Is the business a start-up, an ongoing concern, or a take-over (acquisition) of an existing business?
3. What is (will be) the business legal structure (proprietorship, partnership, or corporation)? Summarize the ownership of the business, and any previous capitalization (outstanding shares, management's investment of cash/property).
4. When did (will) the business open? What is the schedule of operation (hours/days of week store will be open, production schedule, special seasonal considerations)?
5. Describe materials and supply sources, methods of production, merchandising strategy, or how orders are received.
6. What will be special/unique about your business?

For a new business, or new owners of a business:

1. What experience do you have in this industry?
2. What do you know about the business, and what is the force of your knowledge.

In a take-over situation, additional questions must be answered:

1. Why is the owner selling the business? How was the purchase price set?
2. What have been the sales trend? How can you make sales more profitable?

B. Market Information and Strategy

This section summarizes the results of your market research, providing the basis for why you believe there is a market niche for your enterprise. You should describe the people who need your service or product – which is your target market, the customers most likely to patronize your store or purchase your products or service. This section should also deal with how you are going to sell your product – your marketing strategy. How have you identified potential customers, how will you contact them and sell your product or service?

Some of the questions that should be covered are:

1. Who is your market – primary and secondary customers?
2. Define the market area you have targeted. What is the growth potential?
3. What share of the market is your objective?
4. How will you attract this market?
5. What is your market strategy addressing:
 - Project – packaging, style, design.
 - Place – channels of distribution/delivery.
 - Promotion – media used to generate awareness.
 - What is your advertising plan (include the costs to produce, media placements and frequency)?
6. What are the planned sales methods, pricing policy, terms of sale, method of distribution, and customer service considerations?
7. Is your market seasonal or cyclical? Are there other factors or influences affecting sales?
8. Are there unique market considerations, and how will you address these concerns.

For both the MARKET and the COMPETITION sections, you should be able to provide enough detail to convince the reader that you really know the business and your strategy is reasonable to achieve the level of sales you are anticipating in the related financial projections.

C. Competition

Competition should be recognized and analyzed to understand their strengths and weaknesses, and how this may affect your share of the market. Most small businesses will not create additional demand for a particular good or service, but will obtain sales by attracting customers from existing businesses in the same market. Be honest in your analysis, and do not neglect consideration of indirect competition – alternative uses of the customers' limited dollars. You should clarify why you believe "there are compelling reasons why potential customers would choose to spend their money at your business instead of elsewhere".

Some key questions that should be asked are:

1. Who are the five closest competitors?
2. Where are they located in relation to your business?
3. Are there potential new competitors?
4. How is their business? Steady? Increasing? Decreasing?
5. What are their strengths/weaknesses and resources?
6. What have you learned from their operation?
7. What are the critical competitive characteristics, and how does your product compare in these factors: Price, Service, and Quality. Why will customers buy from you rather than your competition?

D. Business Facilities and Operations

For a retail store, the location can be critical to the success of the business. Other ventures may not need to be in high traffic areas, but there are still key considerations that should be addressed in a business plan:

1. What is the address (not just mailing but actual location) of your business. Why was this location selected? What are the advantages and recognized disadvantages? What are the zoning and deed restrictions?
2. What are the physical features (including age, condition, type of construction) of the building? Do you plan any improvements or renovations? What will this cost (based on actual quotes from contractors)? How does this building affect your operating costs (insurance costs, utilities, shipping or parking costs, etc.)? Are there opportunities to expand?
3. Will you own or lease the building? State the terms and conditions.
4. What kinds of businesses are in the area? Will they help the business?

Retail businesses must consider –

The image of the area and how it complements or conflicts with your business, traffic count and demographics.

Manufacturing enterprises should address –

The production capacity of the site vs. planned sales.

Safety and environmental considerations.

Equipment – was leasing considered and was technology involved?

Subcontracting – how close, what arrangements were made?

Suppliers – delivery schedules, back-ups, terms.

Timing factors for material inventory build-up, sales, delivery and payments.

Shipping cost considerations/access.

E. Management and Personnel

If this plan is to be used to obtain financing from a bank or outside investors, the description of management may be the most important section of the proposal. It is imperative to show that the people planning to operate the business have the specific skills and competence needed to make the business a success. You should demonstrate that you have a clear understanding of all the skills/expertise needed to operate this business. If you are weak in particular areas you can show the steps taken to acquire the necessary expertise. Areas that need to be covered in the management section are:

1. Management Expertise – personal history of the principals stressing any related work experience or training (resumes of key personnel should be attached).
2. Key Personnel – duties and responsibilities – listing to show understanding of what is involved in managing this business and who is to be responsible.
3. Salaries and employment agreements for key staff to assure that you have a team that is on hand and qualified to implement the plan.
4. Other resources available to the business (consultants).

Besides management staff, it is important to indicate the personnel needed to operate the business, related to the planned level of production or hours of operation. Questions to be addressed are:

1. Present and future manpower requirements (number of employees/ job titles).
2. What skills are needed, and are qualified workers readily available?
3. Plans for recruiting, hiring and training, if appropriate.
4. Hours (full or part-time) and wages/compensation plan.

II. FINANCIAL SECTION

Careful preparation of the financial reports will provide the lender(s) with a clear perspective of the financial feasibility of the venture. The financial data section of the business plan should clearly demonstrate:

1. The funds needed for the planned business start-up or the proposed expansion or new effort, and where the money will come from (personal, bank, etc.)
2. The specific uses of these funds, including equipment lists estimates for construction and/or installation, inventory to be purchased, or start-up or operating costs to be incurred before break even status is achieved.
3. Where the money will come from to repay the loan or satisfy the return on investment (typically shown in the cash flow projections as Loan or Investment Repayment).
4. The collateral available to secure the loan.

A. Source and Application of Funds; Collateral

Summary chart of the sources of all funds required for the start-up or expansion planned. Identify source, amount of funds from each source, terms or conditions, and status of commitment.

Collateral (hard assets that the bank can sell in the case of business failure to recover their investment) must be provided by the business, or the business and the owners. Even for a corporation, owners must provide personal financial statements (assets and liabilities to the bank and may have to personally guarantee the loan.

B. Capital Equipment List

A listing of the specific equipment to be purchased, including the model or other description, cost per unit, source or supplier, whether new or used, anticipated useful life if not common knowledge, and other information to justify expense and need for funds.

C. Cash Flow Projections (3 years)

Monthly chart of expected revenues and other cash available (loans and investments) compared to payment of expenses. Obviously, "Happiness is a Positive Cash Flow" and the enterprise cannot operate long with a negative cash position.

D. Explanation of Assumptions Used in Preparing the Projections

Explains assumptions in sufficient detail so that the reader can understand where the numbers in the Pro Forma were derived from, and can assess the reasonableness of the estimated revenues and expenses.

III. OTHER SUPPORTING DOCUMENTS

For **Existing Business** additional Financial History (past three years) will be needed:

Income (P&L) Statements
Balance Sheets – latest no more than 45-days old

The following list suggests some of the other documents that might be included in a loan request or investor proposal:

1. Resumes of key personnel.
2. Credit information for existing businesses.
3. Quotes or estimates for equipment or construction.
4. Letters of intent/contracts from potential customers.
5. Lease or purchase agreements.
6. Maps showing location and market information.
7. Photographs of products, equipment or buildings.
8. Charts and graphs to support marketing data.
9. Articles/reports to support industry trends data.
10. Other legal agreements (patents, license to manufacture, employment contracts, etc.).

IV. MISTAKES TO AVOID IN DRAFTING PLAN

Here are errors in business plan preparation that almost certainly will result in denial of a loan application by a bank:

- Submitting a “rough copy”, perhaps with coffee stains on the pages and crossed-out words in the text. This tells the banker that the owner doesn’t take his idea seriously.
- Outdated historical financial information or industry comparisons will leave doubts about the entrepreneur’s planning abilities.
- Unsubstantiated assumptions can hurt a business plan; the business owner must be prepared to explain the “why” of every point in the plan.
- Too much “blue sky” – a failure to consider prospective pitfalls – will lead the banker to conclude that the idea is not realistic.
- A lack of understanding of the financial information is a drawback. Even if an outside source is used to prepare the projections, the owner must fully comprehend the information.
- Absence of any consideration of outside influences is a gap in a business plan. The owner needs to discuss the potential impact of competitive factors as well as the economic environment prevalent at the time of the request.
- No indication that the owner has anything at stake in the venture is a particular problem. The lender may expect the entrepreneur to have up to 30 percent equity capital invested in the business.
- Unwillingness to personally guarantee any loans raises a question: If the business owner isn’t willing to stand behind his or her company, then why should the bank?
- Introducing the plan with a demand for unrealistic loan terms is a mistake. The lender wants to find out about the viability of the business before discussing loan terms.
- Too much focus on collateral is a problem in a business plan. Even for a cash-secured loan, the banker is looking toward projected profits for repayment of the loan. The emphasis should be on cash flow.