

A PRACTICAL GUIDE TO WRITING A BUSINESS PLAN



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Louisiana Small Business Development Center at Southeastern Louisiana University
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What is a business plan?

A business plan is a document that describes all aspects of the business venture in which you are currently involved or want to establish. It is very much like a proposal. There are literally hundreds of different business plan outlines and formats that one could use. The right one will depend on your style of writing, the industry you operate in or what you are trying to accomplish with the business plan. The business plan outline that follows is a generic one that you can customize to your needs.

Who requires a business plan?

- Bankers
- Investors
- Business Partners
- Venture Capital Investors

Why should I write a business plan?

- Provides a road map
- Assists in obtaining financing
- Raises questions that need to be addressed
- Establishes benchmarks to keep your business under control
- Helps identify your revenue and cost items
- Forces you to think through the business process
- Forces you to develop a sound marketing strategy
- Helps you develop pro-forma financial statements
- Helps you make the "Go or No-Go" decision

How long does it take?

Some business ventures can take years to plan, but for a small retail or service business, 3 to 9 months is average. The more skills and familiarity with business issues a person has the less time it takes to develop the business plan. Statistics show that 6 months or more in the business planning stage will significantly increase the success rate of a new small business.

Business Plan Outline

- 1) COVER LETTER
- 2) EXECUTIVE SUMMARY
- 3) THE COMPANY
- 4) THE PRODUCT
- 5) MARKETING
- 6) MANAGEMENT
- 7) FACILITY
- 8) FINANCIAL
- 9) APPENDIX

COVER LETTER

The following is an example of how a letter of introduction to a lender or investor could read.

Dear Lender,

My name is _____ and I am in the _____ business. The business has been (will be) operating (opening) _____. The location is easily accessible and the population base is appropriate for _____ (type of business).

I have determined the total asset need of the business to be \$_____. I will contribute _____% of the needed capital (\$_____). We are seeking debt financing in the amount of \$_____. The loan will be repaid in monthly installments of \$_____ over a period of _____ years. The proceeds of the loan will be distributed as follows: \$_____ for land, \$_____ for building improvements, \$_____ for equipment, \$_____ for inventory, and the remaining \$_____ will be held as working capital.

A current balance sheet, list of collateral, 12 month pro-forma income statement, 12 month pro-forma cash flow, two year pro-forma income statement, and break-even analysis are included in the attached business plan under the finance section. Your prompt consideration is appreciated. If additional information is needed, please contact:

Your Name
Your Address
Your City, LA 70____
(985) ____ - ____

Sincerely,

Your Name

EXECUTIVE SUMMARY

The executive summary is the last thing written and one of the first things read. The goal of the executive summary is to summarize each major section of the business plan. Try to limit your summary to one or two paragraphs per section. Do not introduce anything in this section that is not supported in the body of the plan. Remember, a summary just focuses on the main points that your intended reader wants of needs to know.

- Company Summary
Focus on ownership, structure, history, and size.
- Product or Service Summary
Focus on your products, what makes them better or different, pricing gross profit margin of goods, and any patents or other protection you have.
- Market Summary
Focus on your geographic market area, customer profile or target market, market opportunities, industry trends, and sales potential.
- Management Summary
Focus on the management expertise, who will be making the decisions and who will be running the business on a daily basis. Show that you have the right people doing the right things.
- Financial Summary
Focus on owner's equity injection, time and sales volume necessary to break-even, your financial needs and your ability to service the debt.

THE COMPANY

This is a profile of the company and is usually one or two pages. In a start-up company this should illustrate how you envision the company. In an existing company you should explain the “before” and “after” position of the company.

- When was the company founded? By whom?
Give company history and if a start-up, explain how and when you plan to be operational. If it an existing business, what events happened to need a bank loan or expansion, etc.?
- Ownership Structure. Is it a sole proprietor, corporation, partnership? Who are the owners and what is their ownership position? If a partnership then include a partnership agreement in the appendix.
- Mission Statement. Why are you in business? What are you trying to accomplish?
- What type of business?
Retail
Manufacturing
Service
- What type of products?
- What target markets do you intend to serve?
- How large is the company? You can use number of employees, average monthly payroll, sales, and number of units per month, etc. to illustrate the size of the company.

When the reader leaves this section he should know the company’s history, ownership, product offering, target market, and size of company.

THE PRODUCT

This section is designed to educate the reader about your product or service. Discuss in detail your product's specifications, patents, unique characteristics, costs, sales price, and other similar information. Organize this section according to similar product and service categories or departments. For example, a convenience store might have the following categories: gasoline, drinks, canned goods, alcoholic beverages, dairy, and snacks.

- Detailed description of products or services
Are your products name brand products, or a mix of name brand products and generic products? How many different types of products, colors, styles, and models do you carry? If you manufacture your product, include a drawing or sketch as an exhibit. How is the product used? Is it used in conjunction with other products?
- Patents, Copyrights, and Trade secrets
- Your product's competitive edge or strengths
What makes your product or service different? Are you the only distributor? Why would anyone use your product over another product?
- R & D efforts and future products
Are you going to have other products on the "drawing board"? If so, discuss them.
- Product sales
What percent do you expect each category of products and services to contribute to total sales?
- Product margins
Describe the price-vs.-cost relationship. This information will help develop part of the pro-forma income statement. You can use the gross margin approach (price - variable costs = gross margin), or the mark-up approach (cost / sales price = mark-up).
- Inventory
Does this produce/service require an inventory? If so, how much inventory for each category of goods and how much will it cost? How many times in a year does it turn over? Is it perishable? What is the product's shelf-life?
- Suppliers
Who are your suppliers and what is the lead time on orders? If one supplier goes out of business are there other sources of supplies?

When the reader leaves this section they should know how you will make your revenue, how much gross profit margin each category of products or services will make, what percent of total sales each product will account for, and the products competitive strengths.

MARKETING

This section should present the facts to convince the investor or banker that your product or service has a market in a growing industry and can win sales from the competition. This is one of the more difficult sections to prepare. This section represents the most risk to a business plan early since all estimates of future sales come from the market analysis. Contrary to popular belief, a business does not sell to “everyone.” Therefore, it is important to accurately identify your customer base.

This section should address:

1) Market Size

- Describe the total geographic market area that you intend to serve.
- What does this total market look like in terms of demographic variables like age, sex, income, etc?
- Estimate the total market size by each market segment.

2) Industry

- What are sales for the industry as a whole?
- Identify any recent trends in the industry. Is demand for this product or service increasing, decreasing? If so, why?
- Are the sales seasonal? If so, what are the busy months?

3) Customer Analysis

- Describe your specific customers using a demographic profile. For example, age, sex, income, etc.
- Identify where your customers are located (city, zip code, neighborhood, etc)
- How many people fit your customer profile in the area you want to target? You can find this in demographic books at the library.
- Explain why your customers come to you instead of the competition (competitive advantage).

4) Potential Market

- Show how you calculated your total potential market. Include things like: how often they will purchase, which products/services they will purchase, and average amount of each purchase. Be sure to take into account the seasonality of sales. Some products are sold only at one time of the year (Christmas) and other are sold year round (gasoline).

5) Strengths and Weaknesses of the Competition

- Identify and discuss each major competitor and their market share.
- Do a S.W.O.T. analysis. That is, assess the competition’s **S**trengths, **W**eaknesses, **O**pportunity and **T**hreats. Knowing the competition’s strengths and weaknesses can help you develop a strategy that takes advantage of their weaknesses while avoiding their strengths. Your ability to take advantage of an opportunity in the market may threaten the competition and keep them off balance.

- You need to indicate who are the industry leaders in service, pricing, performance, cost and quality. Discuss any firms that have recently entered or dropped out of the industry.

6) Advertising Plan

- Are you going to find your customers or are they going to find you?
- How are you going to advertise to them? Radio, TV, mail, fliers, signs, yellow pages, etc. For example, advertising eye glasses on a youth oriented rock-n-roll radio station may not work well, but it might work on a more adult oriented radio talk show.
- When will you advertise and how often?
- How much will it cost to advertise?

7) Promotional Plan

- If retail business, how will you cultivate more sales? Will you use direct sales, direct mail, coupons, and promotions with other vendors?
- If a service company, how will you generate sales leads? Will you use seminars, trade shows, telephone sales, purchase client lists or customized mailing lists?

The reader should leave this section with a clear understanding of your geographic market, target markets, potential of each of those markets, your share of the potential market, and how you are going to communicate with those markets.

MANAGEMENT & LABOR

This section should identify owners with 20% or more ownership who could influence the business. This section should illustrate that the right people are in charge and doing the right things. The management should have experience in the industry or at the very least similar experience in a similar industry. If you do not possess the right skills then you may need to hire an employee or a consultant with those skills.

This section should address the following:

- Ownership and owner's compensation
Who owns what percent of the company? What are the owner's responsibilities and how much are they being paid?
- Other investors
Who are they and how are they going to be paid back for their investment?
- If a corporation, list the board of directors.
- Key management and experience
Give names, resumes, and brief backgrounds on all key people. These people should know what they are doing and have experience doing it. What are their job responsibilities and how much will they be paid?
- Employees
Identify your labor needs. List the type and number of employees. Will they need any training, licenses or certification? What are their duties, estimated total labor hours, and how much will you pay them?
- Professional Advisors
Accountants
Attorney
Consultants

The reader should leave this section with some degree of confidence that the people in charge have assembled a team that will run the business profitably.

FACILITY

This section should discuss all issues pertaining to the facility.

- Location
Is the location appropriate for this type of business? Are there any complementary businesses near by? If so, discuss them. Are there other businesses located near you that will help attract customers to your business?
- Zoning
Is the location zoned for this type of commerce?
- Utilities
Is there adequate power for your needs? If not, how much will it cost to up-grade it?
- Hours of operations
What are the store hours?
- Lease or purchase
Will you purchase the building? If so, how much will it cost? If you will lease, how long and how much is the lease? Will you have to do any construction or improvements to make it ready for business?
- Parking
Is there adequate parking for your customers?
- Inventory
How much space do you need and can you accommodate it?
- Monthly fixed costs
What will be the fixed costs that you expect to incur on a monthly basis? Include things like rent, utilities, telephone, insurance, maintenance, salaries, etc.
- Overhead
How much will it cost to operate the facility per department, per hour, per product? That is, how much should each department or product be charged for its share of the overhead? (fixed monthly costs)?

The reader should leave this section with a clear understanding of the costs associated with running the facility.

FINANCIAL

The financial section consists of several pro-forma financial statements that are generated from the previous sections. In some ways, the other sections of the business plan are just supporting information for the financial section. To build the financial statements the previous sections of the business plan are combined with the following information:

- List of start up costs
- Capital equipment expenditures
- Depreciation schedule
- List of collateral
- Sources and uses of financing

The following are the typical financial statements found in a business plan financial section:

- 12 month projected cash flow statements on a month by month basis
- 12 month projected income statements on a month by month basis
- Three year projected income statements on a year to year basis
- Balance sheet after loan, expansion, or start-up
- Break-even analysis
- Ratio analysis
- Depreciation schedule
- List of collateral
- Assumptions used in financial statements

INCOME STATEMENT

Pro-Forma Income Statement

	Month	% of Sales	Month	% of Sales
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Sales

Department 1

Department 2

Cost of Goods Sold

Department 1

Department 2

Gross Profit

Operating Expenses

Accounting/Legal

Advertising

Insurance

Licenses

Phone

Office Supplies/Postage

R&M Building

R&M Equipment

Auto Expense

Payroll

Supplies (cleaning)

Security

Payroll Taxes

Rent

Utilities

Salaries

Depreciation

Misc.

Other

Total Operating Expenses

Net Operating Income

Interest Expense

Income Before Taxes

Net Income

CASH FLOW									
For the 12 months beginning _____									
	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>
Cash on Hand									
Cash Receipts									
Cash Sales									
Collections									
Loan Injections									
TOTAL CASH AVAILABLE									
OPERATING EXPENSES									
Purchases									
Rent									
Utilities									
Maintenance									
Office Supplies									
Telephone									
Printing									
Professional Dues									
Accounting/Legal									
Trade Shows									
Insurance									
Salaries									
Bank Note									
Travel Expenses Paid Out									
Auto Expenses									
Misc. Travel									
Payroll Taxes									
Other									
TOTAL CASH PAID OUT									
NET CASH POSITION									

BALANCE SHEET

Pro-Forma

ASSETS

DATES

Current Assets

Month

Month

Month

Cash

Accounts Receivable

Supplies

Prepaid Expenses

TOTAL CURRENT ASSETS

Fixed or Plant Assets

Equipment

Less: Accum. Deprc- Equip

Vehicles

Less: Accum. Deprc- Vehicle

Other fixed assets

Less: Accum. Deprc-other

TOTAL NET FEKED ASSETS

TOTAL ASSESTS

Liabilities & Owner's Equity

Current Liabilities

Bank Note Payable

Accounts Payable

Accrued Expenses

Other Current Liabilities

Total Current Liabilities

Long-Term Liabilities

Bank Note

Mortgage Payable

Other Long-Term liabilities

Total Long-term Liabilities

TOTAL LIABILITIES

Owners Equity

Total Liabilities & Owner's Equity

BREAKEVEN ANALYSIS

Sales Price Per Unit \$ _____

Variable Cost Per Unit

A. _____ \$ _____

B. _____ \$ _____

C. _____ \$ _____

D. _____ \$ _____

Total Variable Costs \$ _____

Sales Price Less Variable Costs =
Contribution Margin \$ _____

Contribution Margin Divided by
Sales Price = Contribution Ratio
_____ %

Fixed Costs

A. _____ \$ _____

B. _____ \$ _____

C. _____ \$ _____

D. _____ \$ _____

Total Fixed Cost \$ _____

Breakevens in Units=
Total Fixed Costs Divided by
Contribution Margin _____ units

Total Asset Needs Schedule (TAN)

THIS SHEET IS A BASIC CHECKLIST OF STARTUP AND FIXED MONTHLY EXPENSES THAT YOUR BUSINESS MAY INCUR.

- IN SOME CASES, NOT ALL OF THESE EXPENSES WILL APPLY TO YOUR BUSINESS
- YOUR BUSINESS MAY HAVE OTHER COSTS ASSOCIATED WITH IT THAT ARE NOT LISTED HERE
- THIS LIST IS INTENDED TO SERVE AS A GUIDELINE, NOT AN EXHAUSTIVE LIST OF ALL INITIAL OR MONTHLY COSTS

The following expenses are startup costs that your business may incur. These are one-time expenses that are necessary in order to begin operations.

Start-Up Costs (one-time or initial costs)

Facility:

1. Building Purchase 1. _____
2. Lease Deposit 2. _____
3. Leasehold Improvements 3. _____
4. Furniture and Fixtures 4. _____
5. Installation of Equipment, Furniture & Fixtures 5. _____
6. Sign 6. _____
7. Other Facility Costs 7. _____

Utilities (Please specify if fee or deposit)

1. Electricity (extra wiring, installation fee, deposit) 1. _____
2. Telephone (installation fee, fax line, "800" line & fee) 2. _____
3. Water (extra plumbing, installation fee, deposit) 3. _____
4. Other 4. _____

Insurance (Include all prepayments or initial policy fees)

1. Liability 1. _____
2. Fire 2. _____
3. "Slip and fall" 3. _____
4. Auto 4. _____
5. Other 5. _____

Equipment:

1. Vehicle 1. _____
2. Vehicle Modifications (painting, magnetic sign, etc.) 2. _____
3. Production Equipment 3. _____
4. Office Equipment (computer, fax, calculators, phones, etc.) 4. _____
5. Other 5. _____

Land:

1. Purchase 1. _____
2. Modifications 2. _____

Advertising (grand opening)

1. Telephone Directory 1. _____
2. Newspaper 2. _____
3. Magazine 3. _____
4. Billboard 4. _____
5. Television (local and cable) 5. _____
6. Radio 6. _____
7. Specialty (trinkets and trash) 7. _____
8. Other 8. _____

Legal and Professional Fees:

- 1. Attorney 1. _____
- 2. CPA 2. _____
- 3. Consultant 3. _____
- 4. Other 4. _____

Licenses and Permits:

- 1. Occupational Licenses 1. _____
- 2. Articles of Incorporation 2. _____
- 3. Liquor 3. _____
- 4. Firearm 4. _____
- 5. Other 5. _____

Initial Inventory:

Working Capital (3 to 6 months of fixed costs estimated below)

Total Start-Up Costs:

Monthly Fixed Costs

The following represent monthly costs that will remain relatively constant regardless of sales levels.

These estimates should be as accurate as possible. Any and all financial analysis will be based on these estimates.

Monthly Fixed Costs: (occur every month regardless of sales levels)

- 1. Rent 1. _____
- 2. Loan Payment 2. _____
- 3. Insurance 3. _____
- 4. Advertising 4. _____
- 5. Phone 5. _____
- 6. Electricity 6. _____
- 7. Water 7. _____
- 8. Garbage Disposal 8. _____
- 9. Office Supplies 9. _____
- 10. Repairs and Maintenance 10. _____
- 11. Legal and Professional Fees 11. _____
- 12. Payroll 12. _____
- 13. Payroll Expense 13. _____
- 14. Workman's Compensation 14. _____
- 15. Owner's Withdrawal 15. _____
- 16. Car, delivery, travel, fuel 16. _____
- 17. Postage and Freight 17. _____
- 18. Dues and Subscriptions 18. _____
- 19. Miscellaneous 19. _____

Total Monthly Fixed Costs:

APPENDIX

The appendix is where you put supporting data that does not easily fit into the business plan narrative.

- Market research data
- Resumes' of key owners and managers
- Personal financial statements of owners with 20% or more ownership
- Patent or product information
- Leases
- Contracts
- Articles of incorporation or partnership agreement
- Newspaper or magazine articles relating to the product or industry
- Other supporting data