

# Writing an Effective Business Plan

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This document is just one suggested format for a business plan. There are many ways to convey your information as long as you are clear and include all of the necessary elements. Thus, review this outline and select those elements that are the most appropriate for your business. Once you have finished the draft have someone very familiar with business management and the planning process review it for completeness, objectivity, logic, presentation and effectiveness as a communication tool.

Finally, business plans must be periodically updated to keep them useful. As your environment and your objectives change, update your plan to reflect these changes. As time passes, make sure that your plan has the most current information.

## **Business Plan Outline**

### **Executive Summary** (placed prior to the Table of Contents)

This section should not be a mere listing of topics contained in the body of your business plan, but should emphasize the key issues presented. It's important to communicate the opportunity and factors that will make your business successful in a competitive market. Your summary should be concise in length (less than three pages) and provide the reader with an overview of your entire business plan. You can write this section first to capture the essence of your business idea, but then revise it to reflect the final information developed throughout the plan.

### **Table of Contents** (start on new page)

### **Plan Contents:**

#### **I. Describe the Plan's Purpose**

- Attract investors (e.g., venture capitalists, angel investors, etc.)
- Obtain a bank loan
- Use internally for starting and operating your business
- Set goals and objectives for the company's performance
- Provide a basis for evaluating and controlling the company's performance
- Communicate a company's message to middle managers, outside directors, lenders and potential investors.

#### **II. Mission Statement**

Define your business at the most basic level: who your company is, what you do, what you stand for and why you do it. Consider it your "elevator" pitch, wherein you can explain it quickly.

- Your mission statement should be able to withstand the changes that occur over time in your product, service offerings or customer base. In other words, Don't "box" yourself in.
- Keep it short. The best mission statements tend to be three to four sentences long.

### **III. Market Analysis**

This section should reflect your knowledge of your industry and present highlights and analysis of your market research. Clearly explain the opportunity, the market need for your product or service, that you understand this need, and can meet it and be profitable. Detailed market research studies should be presented as appendices to your plan.

#### **A. Industry Description and Outlook**

- What is unique about the opportunity?
- Key success factors (product line, management & financial strength, distribution, costs, product performance, image, technological). What determines profitability?
- Size (historical, current, 5-years out, 10-years out), trends, growth potential, attractiveness, product life cycles, barriers to entry.
- Industry structure (current and potential competitors, substitute products, bargaining power of suppliers and buyers), cost structure (key points where value is added to the product), distribution channels.
- Major customer groups (e.g., government, business, consumers).
- Assess the five competitive forces (to determine the long-run profit potential for the industry as a whole -- each acts to reduce the profit potential of the industry):
  - The threat of new entrants
  - The intensity of rivalry among firms
  - The bargaining power of buyers
  - The bargaining power of suppliers
  - The threat of substitute products.
- Identify Barriers to Entry (e.g., economies of scale, product differentiation, capital requirements, switching costs (cost to customer for switching products), access to distribution channels and cost disadvantages independent of scale (proprietary products, existing supplier networks, learning curve effects)).
- Assess the competitive intensity of the industry (e.g., numerous or equally balanced competitors, slow industry growth, high fixed costs, lack of product differentiation or switching costs, lumpy capacity, diverse competitors, high strategic stakes, high exit barriers).

#### **B. Customer Profile / Target Market**

Distinguishing characteristics of your customers, primary target markets and market segments. Narrow your target markets to a manageable size. Efforts to penetrate target markets that are too broad are often ineffective.

##### **1. Customer Profile**

- Current // potential customers, largest customers, segments, size.
- Define what the customer's needs are and how needs are currently being satisfied.
- Define market factors that are creating the need for the customer (e.g. the need to control costs, to improve survival rates, regulatory requirements, etc.).
- Benefits sought, unmet needs, product attributes that are really important, objectives sought, current product satisfaction level,

problems experienced, motivations and changes in motivations occurring or likely to occur

- Demographics (e.g., age, gender, race, income level, etc.)
- Geographic Areas
- Seasonal / Cyclical Trends
- Define the customer's buying process. Identify the participants in the procurement process (include those that can influence the process). Identify the steps in the process (contacts, regulatory approvals, budget approvals, signature approvals). Estimate the time required for each step. Establish the critical path and duration. List and rank the factors that each person in the procurement process is likely to base their decisions on.

## 2. Primary/Target Market Size

- Number of total prospective customers
- Annual purchases of products or services meeting the same or similar needs as your products or services
- Geographic area
- Anticipated market growth.

## 3. Market Penetration

Indicate the extent to which you anticipate penetrating your market and demonstrate why you feel that the level of penetration is achievable based on your market research.

- Market share
- Number of customers (base on estimated market share)
- Geographic coverage
- Rationale for market penetration estimates.

## 4. Pricing/Gross Margin Targets

- Price levels
- Gross margin levels
- Discount structure (volume, prompt payment, etc.).

## 5. Methods by Which Specific Members of Your Target Market Are Identified

- Directories
- Trade association publications
- Government documents.

## 6. Media to Communicate With Specific Members of Your Target Market

- Social Media / Internet
- Publications
- Direct Mail
- Radio/television broadcasts
- Networking
- Sources of influence/advice.

## 7. Key trends and anticipated changes within your primary target markets.

## 8. Secondary target markets and key attributes

- Needs

- Demographics
- Significant future trends.

C. Market Test Results

- Potential customers contacted
- Information/demonstrations given to potential customers
- Reaction of potential customers
- Importance of satisfaction of targeted needs
- Degree the product or service is shown to be a compelling purchase
- Test group's willingness to purchase products/services at various price levels.

D. Lead Times (amount of time between customer order placement and product/service delivery)

- Initial orders
- Reorders
- Volume purchases.

E. Competition

1. Identification (by product line or service market segment)
  - Existing
  - Market share
  - Potential (how long will your "window of opportunity" be open before your initial success starts new competition? Who will your new competitors likely be?)
  - Direct
  - Indirect.
2. Strengths (competitive advantages)
  - Ability to satisfy customer needs
  - Market penetration
  - Track record and reputation
  - Resources they control
  - Staying power (financial resources)
  - Key personnel.
3. Weaknesses (competitive disadvantages)
  - Inability to satisfy customer needs
  - Lack of market penetration
  - Lack of track record and/or poor reputation
  - Lack of staying power (financial resources)
  - Lack of key personnel.
4. Importance of your target market to your competition.
  - How will they respond to your decision to enter the business?
  - How will you respond to your competitors' response?
5. Barriers to entry into the market
  - Cost (investment)
  - Time
  - Technology
  - Key personnel

- Customer inertia (brand loyalty, existing relationships, etc.)
  - Existing patents and trademarks.
6. Exit Barriers
- Product support obligations
  - Specialized assets
  - Government restrictions
  - Emotional barriers
  - Mobility barriers.
- F. Environment / Regulatory Restrictions
1. The Macroeconomic Environment
    - The level of economic activity, inflation, exchange rates and interest rates
  2. Current / Future Government Rules and Regulations
    - Tax policy and rules about raising capital for a private or public company
  3. Current / Potential Technology
    - Define the limits of what a business or its competitors can accomplish.

#### **IV. Company Description**

Provide an overview of how all of the elements of your company will fit together without going into detail, since most of the subjects will be covered in depth elsewhere in the plan.

- A. Nature of Your Business
- Marketplace needs to be satisfied
  - Method(s) of need satisfaction
  - Individuals/organizations with the needs.
- B. Strengths (primary factors that will lead to your success)
- Sustainable competitive advantage (e.g., cost, differentiation, niche market)
  - Superior customer need satisfaction
  - Production/service delivery efficiencies
  - Track Record / Reputation
  - Staying Power (financial resources)
  - Key Personnel
  - Geographic location.
- C. Weaknesses (competitive disadvantages)
- Inability to satisfy customer needs
  - Lack of market penetration
  - Lack of track record and reputation
  - Lack of staying power (financial resources)
  - Lack of key personnel.

## **V. Marketing and Sales Activities**

Describe both general and specific activities that will allow you to meet the sales and margin levels indicated in your prospective financial statements.

### **A. Overall Marketing Strategy**

- Marketing penetration strategy
- Growth strategy
  - Internal
  - Acquisition
  - Franchise
  - Horizontal (providing similar products to different users)
  - Vertical (providing the products at different levels of the distribution chain)
- Distribution channels (include discount/profitability levels at each stage)
  - Original equipment manufacturers
  - Internal sales force
  - Distributors
  - Retailers
- Communication
  - Social Media
  - Promotion
  - Advertising
  - Public relations
  - Personal selling
  - Printed materials (catalogues, brochures, etc.).

### **B. Sales Costs / Strategies**

- Sales Costs
  - Average dollar size per sale
  - Cost to acquire a customer
  - Cost to support a customer
  - Cost to retain a customer
- Sales force
  - Internal vs. independent representatives (advantages and disadvantages of your strategy)
  - Size
  - Recruitment and training
  - Compensation
- Sales activities
  - Identifying prospects
  - Prioritize prospects
  - Number of sales calls made per period
  - Average number of sales calls per sale
  - Time needed to acquire a customer
  - Time required before a customer pays.

## **VI. Products and Services**

Special attention should be paid to the readers of your business plan as you develop this section. Providing too much detail will have a negative impact on most external users of the plan.

- A. Detailed Product/Service Description (from the user's perspective)
  - Specific / unique benefits of product/service
  - Ability to meet needs
  - List the product/service features that differentiate the product/service from existing ones and list the customer benefits associated with each feature. What would customers pay extra for?
  - Note substitute product/service and key discriminating factors. How does the customer view the product/service in relation to other available choices?
  - Estimate sensitivity of demand to price
  - Competitive advantages
  - Current stage of concept (idea, prototype, small production runs, etc.).
  
- B. Product/Service Positioning (identify primary strategy)
  - Differentiation (e.g., performance, brand loyalty, name recognition)
  - Low Cost
  - Focused Market (niche).
  
- C. Product Life Cycle
  - Description of the product/service's current position within its life cycle
  - Factors that might change the anticipated life cycle.
  
- D. Copyrights, Patents and Trade Secrets
  - Existing or pending copyrights or patents
  - Anticipated copyright and patent filings
  - Key aspects of your product / service that cannot be patented or copyrighted
  - Existing legal agreements with owners and employees
    - Nondisclosure agreements
    - Non-compete agreements.
  
- E. Research and Development Activities
  - Activities in process
  - Future activities (include milestones)
  - Anticipated results of future research and development activities
    - New products or services
    - New generations of existing products or services
    - Complementary products or services
    - Replacement products or services
  - Research and development activities of others in your industry
    - Direct competitors
    - Indirect competitors
    - Suppliers
    - Customers.

## **VII. Operations**

Be certain that the level of detail included in the plan fits the specific needs of the plan's readers. In some cases, a simple paragraph or two may be sufficient.

### **A. Production and Service Delivery Procedures**

- Internal (make)
- External (buy)
- Material Processes (procurement, inspection, storage, control, packaging and shipping)
- When does the business have to buy resources, such as supplies, raw materials and people? When does the business have to pay for them?
- Capital equipment required to support a dollar of sales
- Cost to produce the product or service.

### **B. Production and Service Delivery Capability**

- Internal (make)
- External (buy)
- Anticipated increases in capacity
  - Investment
  - New cost factors
  - Timing
- Cost to deliver the product or service.

### **C. Facility / Office Requirements**

- Location
- Size
- Required features / functions.

### **D. Operating Competitive Advantages**

- Techniques
- Experience
- Economies of scale
- Lower direct costs.

### **E. Suppliers**

- Identification of the suppliers of critical elements of production
  - Primary
  - Secondary
- Lead-time requirements
- Evaluation of risks of critical element shortages
- Description of the existing and anticipated contractual relationships with suppliers.

### **F. Manpower Requirements**

- List required personnel by skill / function (e.g. management, marketing, sales, engineering, finance, accounting, legal, manufacturing, service, etc.).



## **VIII. Management and Ownership**

If you are going to use your plan to attract investors, this section must emphasize your management's talents and skills, and indicate what distinctive capability they possess that cannot easily be replicated by your competition. To be successful, your team needs to include individuals that have industry experience as well as business management skills. Your plan should answer: your team member's experience, who they know, if they're known, whether they've worked together before, etc. Also, describe each team member's knowledge of the new venture's product or service, its production processes, the market, its competitors, and customers. If you need to hire key players, then discuss.

### **A. Management Staff Structure**

- Management staff organization chart
- Narrative description of the chart.

### **B. Key Managers (complete resumes should be presented in an appendix to the business plan)**

- Name
- Position
- Brief position description, including primary duties
- Primary responsibilities and authority
- Unique skills and experiences that add to your company's distinctive competencies
- Compensation basis and levels (be sure they are reasonable—not too high and not too low).

### **C. Planned Additions to the Current Management Team (include the same as above).**

### **D. Legal Structure of the Business**

- Corporation
  - C corporation
  - S corporation
  - LLC
  - Non-Profit
- Partnership
  - General
  - Limited
- Proprietorship.

### **E. Owners**

- Names
- Percentage ownership
- Extent of involvement with the company
- Form of ownership
  - Common stock
  - Preferred stock
  - General partner
  - Limited partner
- Outstanding equity equivalents
  - Options
  - Warrants

- Convertible debt
- Common Stock
  - Authorized
  - Issued.

F. Board of Directors

- Names
- Position on board
- Extent of involvement with the company
- Background
- Contribution to the company's success
  - Historically
  - In the future.

**IX. Required Funding and Use**

Any new or additional funding reflected in your prospective financial statements should be discussed here. Make sure that you disclose any other funding, investors or grants that you currently have along with the amount and form of capital that you are seeking.

A. Current Funding Requirements

- Amount (e.g., startup, operating, etc.)
- Timing
- Type
  - Equity
  - Debt
  - Mezzanine
- Terms

B. Funding Requirements over the Next Five Years

- Amount
- Timing
- Type
  - Equity
  - Debt
  - Mezzanine
- Terms.

C. Use of Funds

- Capital expenditures
- Working capital
- Debt retirement
- Acquisitions.

D. Long-Range Financial Strategies (liquidating investors' positions)

- Going public
- Leveraged buyout
- Acquisition by another company
- Debt service levels and timing
- Liquidation of the venture.

## **X. Financial Data**

Contains the financial representation of all the information presented in the other sections. Various prospective scenarios can be included. Make sure that you keep detailed notes on the assumptions you make in your financial information.

### **A. Historical Financial Data (past three to five years, if applicable)**

- Annual statements
  - Income
  - Balance sheet
  - Cash flows
- Level of CPA involvement (and name of firm)
  - Audit
  - Review
  - Compilation.

### **B. Prospective Financial Data (next three to five years)**

- Next year (by month or quarter)
  - Income
  - Balance sheet
  - Cash flows
  - Capital expenditure budget
- Final two to four years (by quarter or year)
  - Income
  - Balance sheet
  - Cash flows
  - Capital expenditure budget
- Summary of significant assumptions
- Type of prospective financial data
  - Forecast (management's best estimate)
  - Projection ("what-if" scenarios)
- Level of CPA involvement
  - Assembly
  - Agreed-upon procedures
  - Review
  - Examination.

### **C. Analysis**

- Historical financial statements
  - Ratio analysis (NPV, IRR, etc.)
  - Trend analysis with graphic presentation
- Prospective financial statements
  - Ratio analysis (NPV, IRR, etc.)
  - Trend analysis with graphic presentation
- Risk Assessment (technical risks and mitigation, business risks and mitigation, net assessment).

## **XI. Implementation Plan**

Define future actions required, supported by charts, schedules, milestones, etc.

## **Appendices or Exhibits**

Any additional detailed or confidential information that could be useful to the readers of the business plan, but is not appropriate for distribution to everyone receiving the body of the plan, can be presented here. These should be bound separately from the other sections of the plan and provided on an as-needed basis to readers.

- Resumes of Key Managers
- Pictures of Product
- Professional References
- Market Studies
- Pertinent Published Information
  - Magazine articles
  - References to books
- Patents
- Significant Contracts
  - Leases
  - Sales Contracts
  - Purchase contracts
- Partnership/ownership agreements
- Stock option agreements
- Employment/compensation agreements
- Non-compete agreements
- Insurance
  - Product liability
  - Officers' and directors' liability
  - General liability.

## Referenced Materials

- Ernst and Young LLP. "Outline for a Business Plan." Article 21. 1997: 122-129
- Sahlman, William. "How to Write a Great Business Plan." Article 20: 114-121