

BUSINESS PLAN PROCESS

Executive Summary

The Executive Summary of a Business Plan is a one to three page distillation of your entire plan, and often is the last section to be written. A first-time reader should be able to read the Summary by itself, and know what your plan is all about. The Summary should stand alone and should not refer to other parts of your plan. Remember, most readers will never get any further than your Executive Summary, so make it count!

Executive Summary checklist:

- Does our Executive Summary capture the essence of our business plan?
- Does our Summary sell our distinctive competence for executing the plan? Does it sell our strategy for success?
- Do we use phrases such as "in this plan we will show that" or "our marketing strategy is described in the plan"? (If so, rewrite the Summary -- it should stand alone without reference to the larger plan!)
- Is our Summary clear and exciting? Does it make the reader want to wade in to the complete plan for more details?
- Do we cover all of the main elements of our plan (company, product, management, marketing and sales, development, operations, and finance)?

Company Overview

The Company Overview is a brief (one or two pages) description of the company you have founded or want to found. How will it be organized? Will it be a sole proprietorship, partnership, or corporation? What are your ambitions for the company? Will it always be a small company, or do you want to grow it into an international giant? Upon reading this section, the reader should have a good idea of where you are and where you are going with your company. Note that the Company Overview is the reader's introduction to your plan.

In the introduction to the Company Overview, answer the following questions in a single paragraph:

- What is the name of our company?
- Does our company currently exist, or will it be forming?
- Where is it located? Where will we grow?
- How is our company organized (e.g., sole proprietorship, partnership, corporation)?

Mission Statement

Your mission statement is a short (one sentence to one short paragraph) inspirational statement of the vision and goals you have for your company. Too many mission statements are vacuous exercises in ambiguity (e.g., "employees are our most valuable asset"). Be sure that your mission statement is succinct and content rich, and excites your readers.

History and Current Status

In this subsection, outline the history and current status of your company. If your company is just forming, you probably don't need to include this subsection.

Market and Products

In one or two paragraphs, answer the following questions:

- What market(s) needs will our company address?
- Who are our target customer's?
- What products and services will our company sell?
- What are our current sales and current products (if any)?
- What are the boundaries of our business?

Objectives

In this subsection, spell out the objectives of your company in a single paragraph:

- Where are we going with our company?
- What are our goals for the company (keep it small, grow it big, franchise it, etc.)?
- What is our exit strategy for ourselves and for our investors (sell to larger company, go public, buy out investors, etc.)?

Products and Services Description

The Product and Services section is a detailed description of the products and/or services you will be selling. You should not assume that the reader is familiar with your product/service, so be sure to explain and describe it carefully. Begin to sell your idea here by generating some excitement about your product/service. Be factual, but be enthusiastic. When readers have finished learning about your product or service, they should be primed to wade into the marketing and financial details of your venture.

Briefly describe the product or service:

- What exactly is our product or service? What isn't it?
- Who will purchase it? Why?
- What is unique about our product/service?
- What are its features and benefits?
- How will it be priced? What is your pricing strategy?

Market Comparison

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

- Who are our principal competitors?
- What are their products?
- Why is our product/service superior to the competition's, and how is it different?

Proprietary Rights

What proprietary rights do we have to the product/service? (For many products, there are no proprietary rights and this subsection can be deleted.)P

- Patents, copyrights, trade secrets, non-compete agreements?
- Other proprietary knowledge or skills?

Stage of Development

Briefly describe the current status of your product or service:

- Where is the product in its lifecycle (early, growing, mature, declining)?
- Is it ready for the market, or is it in development?
- If in development, how far along is it?
- What obstacles remain?

Industry and Marketplace Analysis

The Industry and Marketplace Analysis section dispassionately describes and outlines the industry and the marketplace in which you will compete. When finished with this section, you and your readers should understand the dynamics, problems, and opportunities driving your industry and marketplace.

Industry Analysis

In this section, summarize the industry in which you will compete. Most of the research you do for this subsection will probably be in a library, and will come from government statistics and trade organizations. Other great sources of information about an industry are suppliers who sell to the industry, equipment manufacturers, and brokerage firm analysts. Upon completion, your analysis will provide a "big picture" overview of the size and scope of your industry.

- How do we define our industry? What is its NAIC code?
- How is the industry segmented? How are the segments defined?
- What are current trends and important developments?
- Who are the largest and most important players?
- What problems is the industry experiencing?
- What national and international events are influencing our industry?
- What are growth forecasts?

Marketplace Analysis

In your Market Analysis subsection you lay out for the reader the specific market in which you will be competing. Your market will probably be smaller than the entire industry defined above. For example, if you are opening a restaurant, your marketplace will be limited to the city, and perhaps a specific neighborhood, where you will be located. This is not the place to present your ideas and concepts, but to carefully and analytically describe the larger environment in which you will be participating. Much of the research you do for this subsection will be or talking with experts in the marketplace, including potential customers, competitors, sales representatives, wholesalers, distributors, and retailers. Be sure and identify voids in the market which are currently not served, and which you presumably will fill.

Marketplace Analysis checklist

- How do we define our marketplace?
- How large is it and how fast is it growing?
- How is our marketplace segmented?
- What companies currently service this market?
- What trends are important in our marketplace?

Customer Analysis

In this section, identify and segment the customers in your marketplace. Research you do for this subsection will be with customers and potential customers. It is imperative that you do sufficient customer research to convince potential investors (and yourself) that there is a unmet need in the marketplace.

- Who are the customers in this market?
- How is the market segmented?
- What motivates buying decisions?
- In what ways are customers dissatisfied with current offerings in the marketplace?

Competitor Analysis

In this section, identify potential direct and indirect competitors.

- Who are our potential customers? Which are direct competitors? Which are indirect?
- What are the attributes and characteristics of these competitors and their products/services?
- What is their size, location, target market, and other important characteristics?
- For their products or services, identify price, quality, features, distribution, and other important attributes.
- What problems and concerns to customers have with these competitors?

Marketing Strategy

The Marketing and Sales section of your plan will make or break the prospects for your venture. A great idea is meaningless if you cannot find customers. Carefully drafted and logical financial projections are irrelevant if nobody buys your product. In this Marketing Strategy section you must convince first yourself, and then the reader, that there is indeed an eager market for your product. The Marketing Strategy section is where you show how you are going to fit into the market structure you just finished

describing. What are unmet needs in the marketplace and how are you going to fill them? How will you differentiate your product or service from your competitors? What unique features, benefits, or capabilities will you bring to the marketplace? Who are our customers? Research you do for this subsection will be with customers and potential customers. It is imperative that you do sufficient customer research to convince potential investors (and yourself) that customers will indeed come flocking to buy your product or service. Customer research can include simply talking with potential customers to get reactions to your product idea, conducting focus groups, undertaking walk-up or mailed surveys, putting up a mock demonstration of your concept and soliciting customer feedback, and so on. Be creative in finding ways to get honest customer input about your product or service. And finally, don't inadvertently cook the books here. You are undoubtedly enthused about your concept. Customers will pick up on your enthusiasm and often reflect it back to you, leading to erroneous conclusions about customer acceptance. So be neutral and factual as you collect data.

Target Market Strategy

Explain your strategy for defining your target market. Describe the unmet needs of your target customers that your product /service fulfill or the problems that it solves.

- What segment of the market are we targeting?
- What characteristics define our target customers?
- How big is our target market? What share of the market will we capture?
- Who are our customers? End users? OEM's? Distributors? Retailers?
- What needs does our product fulfill with our target market?
- What problems are we solving for these customers?
- What evidence do we have that potential customers want our product?
- How will we position our product or service with our customers?
- What evidence do we have that our target market wants our product?

Product/Service Strategy

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

- What specific product/service design characteristics meet the needs of your customers?
- What differentiates our product in our target market?
- How does it differ from that of our competitors?
- What are the strengths of our product/service? Weaknesses?
- Why will customers in our target market buy our product rather than the competitions?
- How will we differentiate ourselves from our competitors?
- Why will customers switch to or select us?
- How quickly and how effectively can your competitors respond to our business?

Pricing Strategy

Explain your pricing strategy and why it will be effective with your target customer in your marketplace.

- What is our pricing strategy? Why?
- How does our pricing strategy compare with our competition?

- What evidence do we have that our target market will accept our price?

Distribution Strategy

Describe your distribution strategy and explain why it is the best for your marketplace.

- How will we distribute our product or service?
- What distribution channels will we use? Why?
- How will we gain access to these channels?

Advertising and Promotion Strategy

Explain your advertising and promotion strategy. It is critical that you inform your target market about the availability of your product or service, and that you continue to communicate your benefits to that market.

- How will we advertise and promote our product or service?
- How will we communicate with our customers? Advertising? Public relations? Personal selling? Printed materials? Other means of promotion?
- Why will this strategy be effective in reaching our target customer?

Sales Strategy

Depending on your business, sales may be a critical component of your success. Remember, "Nothing happens until the sale is made." An effective sales strategy is critically important for most manufacturers, publishers, software firms, and many service providers. Don't overlook the importance of formulating an effective sales strategy!

- How will our product or service be sold? Personal selling? TV infomercials? Direct mail?
- Who will do the selling? An internal sales force? Manufacturer's representatives? Telephone solicitors?
- How will we recruit, train, and compensate our sales force?
- How will we support our sales effort? (e.g. internal staff, service operations, etc.)

Marketing and Sales Forecasts

Based on your previous customer, competitor, and market analyses, develop marketing expense, sales expense, sales volume, and revenue forecasts for your planning horizon (usually 5 years).

Operations

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

quality, best on-time performance, and most flexibility in your industry all at the same time. Often, higher quality means higher costs, lower costs means less variety and less flexibility. Be careful how you make these trade-offs so that you can deliver products to the market in accordance with your marketing plan!

Operations Checklist

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

Operations Strategy

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

- How will we use operations to add value for customers in our target market?
- How will we win in the marketplace on the dimensions of cost, quality, timeliness, and flexibility?
- Which dimensions will we stress and which will we de-emphasize?

Scope of Operations

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

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

Ongoing Operations

How will your company operate on an ongoing basis? Include detail in an appendix, as necessary.

Operations Expenses

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

Development

In this section, you will outline how you intend to ramp-up your business. This section is often woefully under-developed in many business plans. Assuming you have a dynamic marketing plan and customers do indeed come flocking for your product or service, you must be able to deliver it to them.

The Development section is a road map of how you are going to get from where you are now to where you want to be in the future. If you are starting a business, what are all of the steps that you need to accomplish to get the business up and running? If you are expanding a business, what do you need to do

to make it grow? These steps can be as routine as securing retail space, or as critical as applying for and getting a patent on key technology. Don't go into too much detail here. For example, the need to get business cards printed probably does not belong in a development plan (although you might include it in a detailed checklist in the appendices). Use your judgment.

Development Strategy

What work remains to launch our company and our products? What factors need to come together to make our concept work? What are we doing to bring them together? What are the risks to the successful implementation of our development plans? Are they technological risks (e.g., we can't make our product work)? Cost risks (e.g., it costs more than we figured)? Competitive risks (e.g., we are preempted in the market by a competitor)? How will you mitigate these risks?

Development Timeline

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

Development Expenses

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

Management

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

Company Organization

Describe how your company will be organized.

- How will we be organized? What does our organization chart look like?
- What is the ownership structure of our company?
- Will we have a board of directors? Who will be on it? What will be their role?

Management Team

Describe the founders and principal managers who will run your firm.

- Who are the key managers? (Include resumes in the Appendix)
- What will be their duties and responsibilities?

- What unique skills do they bring to the venture?
- How will they be compensated?
- What additions to the management team do we plan? When?

Administrative Expenses

Include here a description of administrative expenses that appear in your financial statements.

Summary of Financials

The Summary of Financials section should be frosting on a cake. You've outlined a great business concept, demonstrated a real need in the marketplace, shown how you will execute your ideas, proven that your team is just right to manage the venture, and now you will show how much money everyone is going to make. Note, however, that if your business concept is weak, or there is not a market, or if your execution is poor, or if your management team is incompetent, then your financial plans are doomed to failure. If you haven't convinced your readers by now in the strength of your concept, then they won't be convinced with your financials.

Having said this, it is important that you have strong, well-constructed financials. If you can't show that your great concept is going to make (lots of) money, your readers will quickly lose interest. To construct your financials, we highly recommend that you start with your development and operations plan to create a schedule or timetable of development and operational activities. From these development activities, you can then create cash-flow projections, income statements, and pro forma balance sheets for at least three years into the future, and sometimes five. As a rule of thumb, your financial projections should extend far enough into the future to the point where your business has achieved stable operations. The first year of your financial statement projections should be month-by-month since cash flows are critical in the early stages of any startup. Second and third year financial statements should be quarterly, and fourth and fifth years should be annual. If possible, it is useful to include best case, expected case, and worse case scenarios with your financials. This allows you and your readers to explore the upside potential and downside risks of your venture. Be sure that your financial projections are in congruence with the other sections of your plan. For example, if you say you will open 3 stores in Year 2 and your financials showing you opening 5 stores, readers will quickly lose confidence in your plan.

The Summary of Financials section should be a discussion and description of your financial projections -- put the actual financial spreadsheets in the Appendices. Describe the timing and amount of investment that you will require to achieve your plans. Then demonstrate that this investment is a good one by showing that profits, assets, and ROI are all favorable as the business progresses. When readers are finished with this section, they should be anxious to invest. You bait your hook in this Summary of Financials section, then set the hook in the Offering section described next!

Financial Assumptions

What assumptions have you made in putting together your financial forecasts? Summarize here - include detail in an appendix, if required.

Financial Forecasts

Summarize your financial forecasts. Include detailed statements in appendices, including cash flow and income statements, and balance sheets. Generally, included statements for five years into the future. The first year should include forecasts by month, the second year should include quarterly forecasts, and the final three years should be annual forecasts. You may also wish to include other financial documents such as a break-even analysis, valuation calculations, et cetera. You may also wish to include best case, expected case, and worst case scenarios.

Capital Requirements

How much new capital do you need? What is the timetable for new capital infusion? How much do you need?

Financial Risks

What financial risks are inherent in your plan? How do you plan to minimize these risks? How will you avoid financial pitfalls? What is the worst-case scenario and how will you respond?

Exit Strategies

What is our preferred exit strategy? Go public? Sell out? Operate and grow? What is our exit strategy if the business does not develop as we hope? How can we get out?

Offering (Funding Request)

The Offering (or Funding Request) is where you make your pitch for money. If you have decided to seek equity capital, then you need to offer a potential investor (F&F, VC, angel, alliance partner) a specified piece of your company in return for a specific amount of money. If you are seeking a loan, then you need to request a potential lender (F&F, bank, customer) for a specific amount of money in return for a specific return. In either case, it is important that you be specific with your funding needs, that you clearly spell out and sell the advantages of your proposal to the investor, and make it clear how investors can eventually get their money back out of your venture. Also, it is important that you persuade investors that the deal you are offering is fair to them and is supported by the facts. Finally, remember that everything is open to negotiation, so don't give away the farm on the first round!

Investment Requirements

Using your cash flow analysis, what investments do we require to achieve our plans? What is the timing?

Valuation of Business

What is the value of our company? How do we calculate this value?

Offer

What is the structure of the deal we are offering or seeking? How much money do we want? How much of the company are we willing to give away? How much interest are we willing to pay?

What collateral do we have for a loan? What is the planned exit strategy for investors? What is the anticipated return on investment for investors?

Appendices

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

Appendices checklist

- Do we have support for our assumptions, trends, and comparisons
- Do we have support for our development plan?
- Have we included relevant financial projections?
- Cash flow statement
- Income statement
- Balance sheet
- Have we included any other documents needed to support our plan?