

## VIII. Financials

- a. Risks
- b. Expenses and capital requirements
- c. Financial statements

## IX. Bibliography

## X. PowerPoint Presentation

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### **2. Business Plan Details**

For your small business to succeed, you need to know where you're going and how you'll get there. Creating a business plan forces you to set goals, determine the resources you will need to carry out your plan, and foresee problems that might otherwise broadside you.

#### **Part I. Cover Page**

How complicated can a cover page of a business plan be? Well, you might be surprised at how many business owners leave crucial information off of cover pages. Lenders report that they frequently have to call directory assistance to locate an entrepreneur who forgot to include a phone number and other contact information on their business plan.

The purpose of a cover page is to tell the reader what he or she is about to read and how to reach the writer. Your cover page is also a way to get your business plan noticed. Lenders see dozens, if not more, business plans a week and something as simple as putting your cover page on quality stock paper, may catch their eye.

Your cover page should say the words "Business Plan," and should include your:

- Your Name
- Business name
- Company logo
- Address
- Telephone number
- Fax number

- E-mail address
- Date

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## **Part II. Table of Contents**

Your table of contents provides readers with a quick and easy way to find particular sections of the plan. All pages of your business plan should be numbered and the table of contents should include page numbers. After you assemble your plan and number your pages, go back to the table of contents and insert page numbers. Be sure to list headings for major sections as well as for important subsections.

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## **Part III. Executive Summary**

The executive summary is what most readers will go to first. If it is not good, it may be the last thing they read about your company. Lenders in particular read executive summaries before looking at the rest of a plan to determine whether or not they want to learn more about a business. Other readers will also go first to your executive summary to get a snapshot of your business and to gauge your professionalism and the viability of your business.

Your goal in this section is to generate enough interest to make someone want to read further for more details. Remember that lenders and venture capitalists routinely have stacks of business plans to review, so make yours stand out by delivering a strong message right from the start. This section should answer briefly the basic questions a venture capitalist would ask.

- Who is on the team?
- What business is your company in?
- Why should we invest in your product or service?
- How will you achieve the potential in your business model?
- How much money is required?

The executive summary should be no more than three pages and should include highlights of the other sections of your plan. For this reason, it is often easier to write this section last.

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## **Part IV. Business Description**

Whether you're looking for money or simply creating an internal document, you must be able to present a clear portrait of what your company does. Your business description is your corporate vision, and

includes: who you are, what you will offer, what market needs you will address, and why your business idea is viable. It should describe exactly what you will be selling, and why people or businesses will buy it. How is your product different from similar items already on the market? Compare your product to similar products on the market. Why is yours better?

Too many business owners make the mistake of operating without a vision, a situation that hinders their business' ability to grow and prosper. A business owner without a vision will have difficulty describing his or her business and will provide a long, rambling description, a few stock phrases, or a collection of incomprehensible jargon when asked for one. A concise, easy-to-understand description of your company will not only help your business plan, but will benefit you in any number of other day-to-day situations - from networking to making cold calls to approaching a newspaper for an interview. A typical business description section includes:

### **An overview of your industry**

Begin your business description with a brief overview of the industry you will be competing in.

Ultimately, you want to demonstrate that you are in a "hot" industry with an excellent long-term outlook. You're also setting the stage for your company description by showing where you fit in the marketplace.

Discuss both the present situation in the industry, as well as future possibilities. Be sure to include any new products or other developments that will benefit or possibly hurt your business. Are there new markets and/or customers for your company/companies such as yours? What about national trends or economic trends and factors that will impact your venture?

- Feel free to be dramatic. You can describe your industry like you're telling a story. Grab the reader's attention with strong, exciting language that will get them interested in your industry and your business.
- Answering "why" makes any description stronger. Saying "the market will grow at 25% annually" may sound impressive. But what caused that rate of growth? Adding "...because a growing number of baby boomers now entertain at home instead of going out" makes it stand out.
- This is not a discussion of your competition. That information will come later in the competitive analysis portion. Instead, you are providing an overview of the industry where you and other companies will compete.

- Many business plans make the mistake of basing their market observations on conjecture. Instead, you will want to research your industry and back up your observations with facts. Be sure to note all sources. Trade associations are excellent sources of information about trends in your industry. To find the trade association for your industry, consult the Gale Encyclopedia of Business and Professional Associations (available on-line in the school library or through the public library with a library card). General business newspapers and magazines (like the Wall St. Journal or Business Week) and trade newspapers and magazines (those covering a specific industry) often report industry-wide trends as well. Don't be afraid to include negative information about your industry. Discussing the possible roadblocks your company might face shows you have a realistic view of the market.
  
- If you cite information from specific newspaper or magazine articles or research reports, you might want to include a copy in your business plan appendix.

### **Discussion of your business**

#### a. Mission Statement

The discussion of your company should begin with your mission statement - a two or three sentence description of the purpose of your business and to whom your product or service is targeted. Not being clear in your mission statement indicates that you are not clear about the purpose of your company.

A well-thought out, well-articulated statement can help you become a success with customers or anyone else. It will elicit additional questions and comments and get the ball rolling with prospects. It will show that you understand your business, are clear with its purpose, and know who your customers are. Describe Your Company

Once you have your mission statement, you can then discuss the more "technical" aspects of your company. Remember that you're telling your company's story, so even though there are specific areas you will need to cover, you will want to keep it lively and interesting. This section of the plan should include:

- i. The type of business you're planning to enter - Your business should fall in one of several categories. Is your business retail, wholesale, service, manufacturing, construction, professional, or import and export?
  
- ii. The legal structure of the business and why - There is no one legal structure that's best for all small businesses. Whether you're better off starting as a sole proprietor or choosing one of the

more complicated organizational structures such as a partnership or a corporation usually depends on several factors, including the size and profitability of your business, how many people will own it and whether it will entail liability risks not covered by insurance. **Use class notes to make this decision.**

iii. The business name

- **Make your name memorable.** A creative, distinctive name will not only be entitled to a high level of trademark protection; it will stick in the minds of your customers. Forgettable names are those of people (like O'Brien Web Design), those that include geographic terms (like Westside Health Foods) and names that literally describe a product or service (like Appliance Sales and Repair, Inc.). Remember, you want to distinguish yourself from your competitors.
- **Your name should be appealing and easy to use.** Choose a name that's easy to spell and pronounce, and that is appealing to both eye and ear. Try to pick a catchy name that people will like to repeat. Make sure that any images or associations it evokes will suit your customer base.
- **Avoid geographical names.** Besides being easy to forget, and difficult to protect under trademark law, a geographical name may no longer fit if your business expands its sales or service area. If you open Berkeley Aquariums & Fish, for instance, will it be a problem if you want to open a second store in San Francisco? Especially if you plan to sell products on the Internet, you should think twice about giving your business a geographic identifier.
- **Don't limit expanded product lines.** Similarly, don't choose a name that might not be representative of future product or service lines. For instance, if you start a business selling and installing canvas awnings using the name Sturdy Canvas Awnings, your name might be a burden if you decide to also start making other products such as canvas signs or vinyl awnings.
- **Get feedback.** Before you settle on a name, get some feedback from potential customers, suppliers and others in your support network. They may come up with a downside to a potential name or suggest an improvement you haven't thought of.

- iv. The business location - Choose the Location of Your Business Wisely - Whether you have a service, manufacturing, or retail business, selecting the location for your business will be one of the most important decisions you make. A good location can offset other errors in judgment, but a poor location will kill even the best business idea. Therefore, the real reason to analyze the location of your business thoroughly is not for the business plan but for the success of your business.

**\*\*\*\*\*Select the Appropriate Site\*\*\*\*\***

The important considerations that should go into the selection of an appropriate site for your business are traffic patterns and flow, competition, your customer profile, costs, barriers and access, and expansion potential.

- o **Traffic Patterns and Flow:**

It is extremely important to pay close attention to traffic flow and the patterns of the flow, particularly for retail establishments. Do not use traffic count information as the sole indicator of whether a location is a good one. It is important to look at how and when the traffic goes by. Is it flying by at 60 miles per hour or is it stopping? Is traffic flowing consistently during your business hours or only during rush hours? Does traffic pass by every day or only Monday through Friday? Is the flow of the traffic going in the right direction? If your business needs foot traffic, are people actually walking near the location or are they at the other end of the strip center? Are they browsing or simply darting in and out?

An entrepreneur opened a donut shop on what is probably one of the busiest streets I can think of. Traffic goes by at a nice slow pace giving drivers ample time to pull off for their morning donut and cup of coffee. At first glance, it would appear the donut shop was in an ideal location. What this entrepreneur had not considered however, was the side of the street. The donut shop was on the 'going home' side of the street rather than the 'going to work' side. No one was willing to cut across traffic in this congested area to get donuts on their way to work and the store soon closed.

It is recommended that you visit the potential location at several different times during the day and several different days of the week. Sit in the parking lot and observe the traffic patterns and flows to determine if they meet the needs of your business.

- o **Competition:**

By now, you should have determined who your competitors are in a previous section of your business plan. Plot your competitors on a map around your potential location. Beware of the lack of competition. Lack of competitors can be good news or bad news. Ask yourself - Is there a reason why no other

business like mine is here? Conversely, if there are already several businesses like yours, can this area support another?

A while back bagel shops were very popular. One particular area had several that were thriving nicely. Another bagel shop opened in the same area. Despite the high customer demand for bagels that the existing shops were experiencing, the market simply was not large enough for another store. The new shop lasted only a short time.

- **Client Profile (Demographics and Psychographics):**

Determine who is most likely to buy your product by demographics (age, sex, income, profession, and marital status) and psychographics (beliefs, attitudes, and lifestyles). In other words, who buys your product or service and why? Although this may seem obvious, be sure you are locating in an area that matches your customer profile. If you are a manufacturer or wholesaler, your concern will be locating close to your key suppliers as well as your customers.

Even large companies have made the mistake of looking only at population and demographics and forgetting how psychographics plays an important role in the customer's purchase decision. A successful, well-known fast food chain once opened in a highly populated, high traffic location with no competition. Sales were poor and the store soon closed. It was later discovered that due to certain religious beliefs, family meals were highly valued and few people ate fast food. Knowing the beliefs of the population in advance would have helped avoid this expensive mistake.

- **Costs:**

Most business owners think of the cost of their location in terms of the monthly rent. While rent is certainly a cost of your site, it is by no means the only one. Look for hidden costs. One hidden cost is common area fees. Are there monthly maintenance fees? Who is responsible for building repairs or maintenance? Signage represents another cost. Must you conform to particular sign standards? Who pays for the cost of the sign above your door as well as the marquee? Utilities costs can often be surprising. Some areas have higher phone or electric costs than others. Do you know what yours will be? Labor is an often overlooked cost of a location. Are you locating in an area where labor is scarce or expensive? Take the time to learn about regulations and ordinances that affect your business. Do you know if the local or state government places special requirements on your business such as the installation of water sprinklers? Is the space ADA compliant?

Do your homework before you sign a lease. There was an entrepreneur who used all of his savings and credit as well as money from his family and friends to open a restaurant. Despite the significant startup costs, there was every reason to believe he would succeed. He had experience, the restaurant was conveniently located in a densely populated high-traffic area, the cuisine was perfectly matched to the

area population, and the food was excellent. Word-of-mouth spread fast and it seemed as if his restaurant would be a success until the air conditioner died. According to the lease agreement, all repairs, including the air conditioner, were the responsibility of the renter. The entrepreneur had used all of his cash, credit, and the good will of his friends and family to open his restaurant. Not being able to raise additional funds to replace the air conditioner, he was forced to close.

- **Barriers and Access:**

Identify any barriers to your potential location that will affect your business. Even if you locate very close to your customers, certain barriers may discourage them from frequenting your business. The necessity for your customer to cross a major intersection or railroad tracks, the lack of a crossover in the median, a one way street, too many stoplights clustered in a short distance, inconvenient parking, or even a school zone can all be barriers to your location. Consider visibility too. Is your location visible? More important, can customers see your business in time to slow down and enter your parking lot? Find barriers by driving to your potential location from various directions. Is it easy to access your location? Conversely for a service business, can you easily access your customers from your proposed location? For a wholesale or manufacturing business, the issue may be access to main roads or railroad facilities.

- **Expansion Potential:**

Take a look at your site with an eye toward expansion. Is the space large enough to fit you if your business grows? Look for a site with some flexibility or room for future expansion. It takes time for a business to become established in a location. Do not waste your time investment by growing out of your location too soon. Your customers may follow you, or they may not.

One last note on selecting your site. If you are a startup business and are planning to borrow money, lenders are generally more apt to lend you money if you plan to lease rather than buy your site. Buying real estate increases startup and maintenance costs and can significantly increase the loan amount. Purchasing your site adds to the risk of your endeavor.

Each business has its own set of criteria for selecting a location. An excellent location for one type of business might be a poor location for another. Please do extensive research before signing the lease or deed to be sure the location you are selecting is ideal for you. Invest your money and time up front, finding the right site. This cost will be small compared to the cost of opening the business, keeping it open despite poor sales, and closing it.

- **A description of the product or services you'll be offering**



The product description statement should be complete enough to give the reader a clear idea of your intentions. You may want to emphasize any unique features or variations from concepts that can typically be found in the industry.

Be specific in showing how you will give your business a competitive edge. For example, your business will be better because you will supply a full line of products; competitor A doesn't have a full line. You're going to provide service after the sale; competitor B doesn't support anything he sells. Your merchandise will be of higher quality. You'll give a money-back guarantee. Competitor C has the reputation for selling the best French fries in town; you're going to sell the best Thousand Island dressing.

a. **Stress Your Products Uniqueness (UPS – Unique Selling Proposition)**

This information sets your product or service apart from your competition. If you are using your business plan to solicit funds, this is what your reader will want to see. Without a USP, your product or service will appear drab and there will be no compelling reason for people to buy it.

What would some USPs be? For a food product, it could be a proprietary recipe (like Kentucky Fried Chicken's secret recipe) or a special way the food is served (like Boston Market's hand-carved turkey). OXO Good Grips, a maker of kitchen gadgets, set itself apart by using ergonomically designed grips and handles on all its products. Tower Records' USP would be its broad selection of all types of music and its knowledgeable floor staff.

- Focus on your success factors. In other words, think about how you are going to turn a profit. Why will your products or services be successful in the marketplace? There are any number of reasons you can use - it's a well-organized business, we use state-of-the-art equipment, our location is exceptional, the market is ready for our product, its a great product at a fair price, etc.
- If you are selling a product, you may want to include full specifications. If available, include a quality photograph as well.
- Be specific in describing your competitive edge. Don't just say something like "we intend to provide better service." Explain how you will do so, and why that sets you apart from your competitors. Be sure to answer the following:
  - What you are selling?
  - How your product or service will benefit the customer?

- Which products/services are in demand; if there will be a steady flow of cash?
- What is different about the product or service your business is offering?

### **Determine your company's Position.**

Position is your identity in the marketplace: how you want the market and your competitors to perceive your product or service. While your USP is based on features of your product or service, your positioning is based on your customers and competition. Federal Express positioned itself as a reliable and dependable overnight delivery service for businesses. MTV and VH1 play many of the same music videos, but MTV is positioned as the choice for young, hip viewers, while VH1 is considered the station for more mature viewers.

If you run a dry cleaning business you can be the fastest, the most dependable, the cheapest, or the business providing the best service. A mail-order gift business can emphasize price, convenience, a flexible returns policy, unique products, or some combination of these. A hairdresser may be positioned as hip, traditional, pampering, inexpensive, or convenient. You may think that positioning is based on image. Develop your position by answering the following questions with brief, direct statements:

- What is unique about your product or service?
- What customer needs does your product fulfill?
- How do you want people to view your products or services?
- How do your competitors position themselves?

Research your competitors by shopping their stores or calling them to see what they offer and what they charge for it.

To create a list of your competitors' strengths and weaknesses, look at areas such as distribution, pricing, value, service, and timeliness. A dry cleaner would look at reputation, pricing, location, services such as delivery, hours of operation, quality of their cleaning, whether or not they are computerized and if they provide services such as tailoring and mending.

### **Determine your company's Pricing Strategy.**

Discuss what you will charge for your product or service and how you derived the price. For example, a luxury gift importing business sets prices not only to cover costs and make a profit but to position

products as luxury items. A printing shop with a good location charges slightly more than its competition because it has a convenient location and it has determined that the market will bear the higher price.

Once you have briefly explained your pricing and rationale, discuss where this pricing strategy places you in the spectrum of the other providers of this product or service. Next, explain how your price will: get the product or service accepted, maintain and hopefully increase your market share in the face of competition, and produce profits.

- Investors are used to seeing (and rejecting) business plans in which an entrepreneur says the product or service they want to create will be higher in quality and lower in price than those of their competitors. This makes a bad impression because it's usually unrealistic. If you really do have a higher quality product, it will appear that you may plan to under-price it, and consequently undersell it.
- Costs tend to be underestimated. If you start out with low costs and low prices, you leave yourself with little room to maneuver, and price hikes will be difficult to implement.
- If you charge more than competitive existing products, you will need to justify the higher price on the basis of newness, quality, warranty, and/or service.
- If a price will be lower than that of an existing, competing, product or service, explain how you will maintain profitability. This may happen through more efficient manufacturing and distribution, lower labor costs, lower overhead, or lower material costs.

Discuss how higher prices may reduce volume, but result in high gross profit.

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## **Part V. Market and Industry Analysis**

This section is designed to provide enough facts to convince an investor, potential partner or other reader that your business has enough customers in a growing industry, and can earn sales DESPITE the competition. It is one of the most important parts of the plan, taking into account current market size and trends, and may require extensive research. Many of the sections that follow - from manufacturing to marketing to the amount of money you need - will be based on the sales estimates you create here.

You must make a number of assumptions when completing this section. For example, the percentage of available customers that you expect will pay for your product or service, called potential market penetration, is a key estimate in determining the amount of money you will make if every potential