



BUSINESS PLAN

What is a Business Plan?

The Business Plan is perhaps the most important document an entrepreneur can create. The business plan helps guide the direction of the start-up company's first several years, as well as giving potential investors an idea of the company structure, goals and future plans.

What are the parts of a Business Plan?

The following information is taken from the "Business Plan Development Guide", written by Alex F. De Noble and Audrey B. Voyles

Section 1 - The Executive Summary

The purpose of the executive summary is to capture the interest of the investors/lenders so they will want to find out more about the venture. These investors are likely to spend no more than 3 to 5 minutes before making a preliminary decision about your proposal. Therefore, this section is first, and in some ways is most important. This section should emphasize key issues and be no longer than 2 to 3 pages. The following information should be addressed in the executive summary:

- ✓ Company profile
- ✓ Nature of the product/service being offered
- ✓ Size and growth trend of the market
- ✓ Make-up and background of the management team
- ✓ Financing requirements
- ✓ Key projections (sales, gross profits, net income)
- ✓ Proposed use of funds
- ✓ Proposed exit strategy including projected ROI
- ✓ The executive summary is written last, after the rest of the plan is completed.

Section 2 - Business Description

This section of the business plan should provide the reader with a more detailed overview of the company and the nature of the product/service offering. It should include the following:

- ✓ Mission Statement
- ✓ History behind the idea or current business
- ✓ Company's current or proposed legal form
- ✓ Proposed entry strategy and time line of events
- ✓ Description of the initial product/service (including any anticipated competitive advantages)
- ✓ Product research and development

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Section 3 - Market Analysis

The main objective of this section is to convince the reader that an explosive market opportunity exists, and that the entrepreneur understands it well enough to capture a share large enough to support the new venture. The entrepreneur can do this by addressing the following areas:

- ✓ Description of the industry
- ✓ Targeted markets
- ✓ Marketing research
- ✓ Competition
- ✓ Barriers to entry

Section 4 - The Management Team

The strength of the management team plays a key role in investors' and lenders' decision to fund a venture. The objective of this section is to convince the reader that the entrepreneur has a management team that can effectively manage the product/service into the market place and make the venture a success. The key areas to cover are:

- ✓ Background and primary responsibilities of the management team
- ✓ Organizational structure
- ✓ Board of directors/advisors
- ✓ Ownership

Section 5 - Operations

This section should provide an overview of the strategy for implementing the business plan. The objective here is for the entrepreneur to demonstrate that he/she has an understanding of how the plan will be implemented. Also, this section will help the entrepreneur focus on relevant costs associated with implementing the plan. The entrepreneur must remember to incorporate the assumptions made in this section into the assumptions in the financial section of the business plan. Depending on the type of business, the entrepreneur should address the following key areas:

- ✓ Marketing Strategy
- ✓ Production Plan
- ✓ Personnel
- ✓ Customer Support
- ✓ Future research and development plans

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Section 6 - Critical Risks

In this section the entrepreneur should identify potential problems that could have a significant adverse affect on the new company. By disclosing such possibilities, the entrepreneur is letting the reader know up-front that there are risks associated with the venture. Such an approach will contribute to a heightened respect on the part of the reader for the entrepreneur. The following areas should be covered:

- ✓ External Risks
- ✓ Internal Risks
- ✓ Insurance Provisions
- ✓ Contingency plans

Section 7 - The Financial Projections

The purpose of the financial section of the plan is to convince the reader that the venture makes sense from a financial standpoint. The entrepreneur must be able to translate the idea into a plausible set of financial projections which address procurement, allocation, return on investment, and cash management. The financial section should include actual performance data for at least the preceding three to five years. If the company has no operating history, then this section will deal only with financial projections. For existing and new companies, this section will include the following:

- ✓ First year financial projections by month
- ✓ First year financial projections by quarter
- ✓ Five year forecast
- ✓ Break-even analysis
- ✓ Ratio analysis
- ✓ Exit strategy
- ✓ Historical financial data

Section 8 - Appendix

The purpose of the appendix is to provide additional documentation that supports the business plan. This section gives potential investors the option of looking at more detailed information if they so desire. At a minimum you should make sure that you include in the appendix all information referenced in the plan. The following is a list of items that should be included.

- ✓ Details explaining the tax advantages associated with the proposed structure of the new venture
- ✓ Copies of patents, trademarks or copyrights that have been completed
- ✓ Reviews by independent firms, publications, or outside agencies
- ✓ Letters expressing an interest to buy the product or service
- ✓ Questionnaires used to collect data as part of your marketing research
- ✓ Detailed results of marketing studies that support your marketing assumptions
- ✓ Non-compete agreements signed by the management team and key contributors, particularly if they play a key role in the invention of the new product
- ✓ Resumes of the key management team and key technical advisors
- ✓ Price list of competitors
- ✓ Promotional brochures or advertisements that describe the product or service

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