



Devine Write, LLC

Business Education
Technical Communication



Business Plan Basics

If you are thinking about starting a business, congratulations! Starting and running a business may be the most challenging, and possibly rewarding, thing that you will ever do. Along with home ownership, starting a business is one of the elements of the American dream. But there is a big difference between just starting a business and running a successful business. In the same way that no one *just builds* their dream house, no one *just starts* a successful business. Successful businesses, like superior houses, are planned.

Business plans are one of several keys that help ensure your business success, but the plan by itself is simply a tool. Some other elements in business success include:

- Knowing your strengths and weaknesses.
- Having solid time management skills.
- Knowing the fundamentals of running a business day-to-day.
- Having a good handle on money management skills, including bookkeeping.
- Being familiar with the regulation, tax, and legal requirements for your business.

Running a successful business isn't easy – if it was, we all would do it! Instead, only those willing to work hard and persevere will succeed, and a business plan can set you on the path to that success.

This document is designed to introduce business plan concepts to you and give you a basic outline of what information goes into a business plan. Although you could create a simple business plan using this introduction, you'd be much better off using a guide designed for just that purpose.



Why Write a Business Plan?

For many business owners, the key to starting a successful business is first creating a written business plan. A business plan is a document that describes, in some detail, exactly what the business is, how it will run, and why it will be successful. Think of it as your business' blueprint. Just as you wouldn't attempt to build a house without a blueprint, you probably shouldn't attempt to build a business without a business plan.

There are a lot of good reasons to write a business plan:

- A business plan lets you clarify your ideas on paper before you actually carry them out. Business plans are great for focusing your ideas on what is important.
- It lets you show, not just tell, others about the business you want to build.
- It lets you experiment on paper, so that you can avoid mistakes and discover ahead of time if there are any missing parts.
- If you need a loan to help get your business off the ground, it will help sell your business idea to a lender. Just as no bank would lend you money for a house without a blueprint, no reputable lender will provide capital for a business without a business plan. (Lenders love good business plans. Not only do they propose good business ideas, but they show that their writers have what it takes to make a business work.)

Starting and running a business will force you to make many decisions and answer many questions. Just as it would be difficult to decide how large you wanted your house to be as it was being built, it can be tough to make informed decisions for your business once it is up and running. Business plans force you to consider, research, and answer these questions ahead of time, so that when the issues arise for real, you'll be prepared.

This booklet is designed to help you learn what you'll be in for when it comes to building your plan. Chances are that you already have most of the skills required to construct your own business plan. However, writing a business plan, especially one that will be considered by a lender, isn't easy, and you should look for any help you can get. I would encourage you to seek out many sources of information, such as books, libraries, web sites, and your local SCORE, SBA,

and SBDC offices. Many other non-profit organizations also provide free or low cost business advice.

Let's look at some of the topics covered in a business plan, and some of the questions you'll be expected to consider.

Parts of a Business Plan

Because the goal of the business plan is to force you to think about and explain your plan, all business plans cover the same topics. However, not all business plans call their topics by the same name or present them in the exact same order. This booklet presents the topics in the order that makes the most sense, starting with the broadest, most general topics, and becoming more and more specific, reflecting your research and knowledge.

The order you write your plan will match the order of the plan itself, with one exception; one of the last things you will write is your Executive Summary, a topic that goes in the front of the plan. The reason is simple: you can't summarize what you haven't written.

Executive Summary

The executive summary is usually a one to two page summary of the entire plan. It fulfills two major purposes.

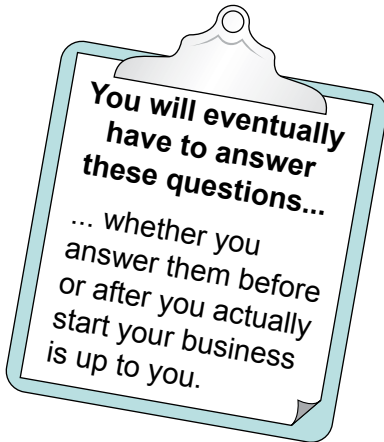
First, it summarizes the entire plan. It will briefly describe the business itself, your market analysis and competition research, your marketing and promotional ideas, your operations and management plans, and your financial position. It's the whole plan on one page.

Second, it serves as an invitation and incentive to read the rest of the plan. Typically no one is going to read your entire plan unless they are interested in it to begin with. And the way you spark their curiosity is by creating an executive summary that makes them want to read more.



Business Description

The Business Description section of your business plan helps answer some of the nitty-gritty questions about the details of your business. Someone who has only dreamed of running a business can briefly explain a business idea, but only someone who is serious and spent a lot of time thinking about their idea can write a good business description. If you haven't spent that time yet, use this opportunity to translate your mission into details.



In general, the business description explains the business idea in some detail, including why the owner is qualified to run the business, who the customers are, and why the business will succeed.

Questions:

- What is your product or service?
- What industry are you in?
- What is it about your product that will make customers like it?
- Who are your customers?
- What are the goals of your business?
- Why will a customer buy from you rather than the competition?

Market Analysis

A market analysis looks at three factors that will have a major impact on your business success:

- the industry your business is in;
- the market, or potential customers you may have;
- and your competition.

You should be able to research your market effectively enough to convince the reader that you are aware of market trends, that there is a healthy demand for your product, and that you can successfully distinguish yourself from your competition.

Questions:

- What desire does your customer have that your product can fulfill?
- What are the trends in your industry?
- Who are the major players in your industry?
- What are your customer's demographics? How do you know?
- How often would a customer buy from you?
- How will you use the elements of price, quality, and service to distinguish your product?
- Who are your main competitors? What are their strengths and weaknesses?
- How will you ensure quality?

Marketing Plan

Performing market research should give you a solid background into your customers and competitors. But market research is just the first step: your knowing that a market exists isn't the same as the market knowing you exist!

To let your market know that you exist involves another step: marketing. Marketing means two things; to let your potential customers know that you exist, and to keep the customers you already have. Every business must take these steps, because no customer will buy from you if they don't know how your business can fulfill their needs.

Often when people hear the word "marketing" the first thing they think of is advertising. Advertising is a form of marketing, but the types of marketing you'll do will depend on how much money you have, the type of business you are in, and who your customers are. No marketing plan is complete without a marketing budget, that establishes how much money you can afford to spend on this essential task.

Don't have much money? Then be prepared to spend a lot of time personally promoting your business. If you don't get out there and sing the praises of your product, who will?

Questions:

- How do you want customers to view your business?
- What features and benefits does your product have?
How do they compare to the competition's?
- How will you distribute your product to your customers?
- How will you promote your product?
- How much money do you have to spend on promotion?

Management and Operations

The management and operations section of your business plan requires you to explain in some detail exactly how you will operate the business. For example, if you manufacture a product, you should be able to explain your supply chain, how much you will pay for parts or raw materials, the process you go through to create your finished product, and how your product is packaged and distributed. If you run a service business, you should be able to explain how customers will contact you, your hours of operation, and where and how you will see customers. In all cases you should have a handle on these issues:

Questions:

- What business experience do you have?
- How does your education, training, and experience qualify you to run this business?
- Will you run the business alone or with others? If you have partners, do you have a written partnership agreement?
- Do you have any barriers to success? If so, how will you get around them?
- What is the process you use to manufacture or create your product?
- Do you need any permits or licenses for your business?

Financial Projections

Your business plan now gets to where the rubber meets the road: money. If you are like most business owners, chances are you want to make money, the more the better. Yet many businesses can't stay in business because they can't pay their bills. Everyone imagines that, once their business starts, the cash will just flow in. But the real world is usually a lot more difficult than that. You'll have to work hard to earn that money.

Your financial projects will explain in detail exactly how you expect your business finances will look for the next several years. You will explain:

- what financial assumptions you are making regarding your costs, expenses, and income;
- where the money will come from to start your business;
- what your breakeven sales and price will be;
- how you will determine the price of your product;
- and whether you need a loan to get started, and if so, how you will pay it back.

These financial projections are presented in the form of the three most common financial statements; the cash flow, profit and loss, and balance sheet. One of the skills all business owners should have is the knowledge of what these statements are and how they reflect the financial condition of your business.

Because financial projections are so important, and because for many business plan writers are the most complex parts of a business plan, we'll look at them in more detail. All three are required in order to get a complete, comprehensive view of the financial condition of a business.



Cash Flow

Maintaining sufficient cash at all times is essential for your business' health, so you should know ahead of time whether or not your business can generate the cash required to keep your business afloat. A cash flow statement looks at the cash coming into and out of the business on a continuous basis to ensure that you will always have enough.

Cash flow looks at just that: cash. For small businesses, cash is like blood; having enough is essential to good health. Lose too much and you're dead. It doesn't really matter if can make a profit or not this year if you can't pay your bills today.

Example Cash Flow Projection

Month	April	May	June	July	Aug	Sept	
Beginning Cash Balance	\$7,000	\$5,550	\$6,360	\$7,260	\$8,040	\$9,340	
Cash Inflows (Income):	+						
Sales & Receipts	\$3,750	\$4,000	\$4,500	\$4,500	\$4,500	\$4,500	
Total Cash Inflows	\$3,750	\$4,000	\$4,500	\$4,500	\$4,500	\$4,500	
Cash Outflows (Expenses):							
Advertising	\$500	\$240	\$240	\$200	\$120	\$100	
Insurance	\$250			\$250			
Inventory Purchases	\$1,000	\$500	\$500	\$600	\$600	\$600	
Permits & Licenses	\$100						
Professional Fees	\$500			\$200			
Rent or Lease	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	
Telephone	\$250	\$100	\$100	\$100	\$100	\$100	
Utilities	\$150	\$150	\$160	\$170	\$180	\$190	
Estimated Taxes	\$250		\$400			\$500	
Owner's Draw	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	
Total Cash Outflows	\$5,200	\$3,190	\$3,600	\$3,720	\$3,200	\$3,690	
Ending Cash Balance	=	\$5,550	\$6,360	\$7,260	\$8,040	\$9,340	\$10,150

Note that the Ending Cash Balance for one month becomes the Beginning Cash Balance the next month.

You would establish the value of these estimates in your plan. For example, the advertising amounts would come from your Marketing plan.

This business is doing well by maintaining a positive cash flow.

Profit and Loss

The Profit and Loss projection (P&L) (also called an Income Statement or a Revenue Statement) looks at how much money comes into and out of the business over a period of time. Unlike your cash flow, the P&L looks at all forms of income and expense, not just cash items. And it evaluates your business over time, such as a month, quarter, or year.

Example Profit and Loss Projection

Month	April	May	June	July	Aug	Sept
Revenue:						
Cash Sales	\$3,750	\$4,000	\$4,500	\$4,500	\$4,500	\$4,500
Credit Sales						
Other						
Net Sales	\$3,750	\$4,000	\$4,500	\$4,500	\$4,500	\$4,500
Cost of Goods Sold:						
Material	\$800	\$500	\$500	\$600	\$600	\$600
Labor						
Cost of Goods Sold	\$800	\$500	\$500	\$600	\$600	\$600
Gross Profit (Loss)	\$2,950	\$3,500	\$4,000	\$3,900	\$3,900	\$3,900
Expenses:						
Advertising	\$500	\$240	\$240	\$200	\$120	\$100
Depreciation	\$100	\$100	\$100	\$100	\$100	\$100
Insurance	\$250			\$250		
Permits and Licenses	\$100					
Professional Fees	\$500			\$200		
Rent or Lease	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Telephone	\$200	\$100	\$100	\$80	\$80	\$80
Utilities	\$150	\$150	\$160	\$170	\$180	\$190
Total Expenses	\$3,000	\$1,790	\$1,800	\$2,200	\$1,680	\$1,670
Net Income (Loss)	(\$50)	\$1,710	\$2,200	\$1,700	\$2,220	\$2,230

Note that all sources of income and expense are typically shown on a P&L, but cash-only outflows, such as an owner's draw, are not.

This business projects has a modest loss the first month, which is actually pretty good.

This business is turning a small profit every month. How can we tell where this money is going? The Balance Sheet will give us a clue.

Balance Sheet

A Balance Sheet presents the broadest picture of the health of your business. It looks at your assets (what you own), your liabilities (what you owe), and your equity, or net worth. Your equity is the difference between your assets and liabilities, and represents how much of the business is yours, and how much you owe someone else.

A balance sheet must balance, meaning that your assets must equal your liabilities plus your owner's equity. If it doesn't balance, somebody made a mistake.

Example Balance Sheet Projection

Balance Sheet as of Month 1, Year 1			
Assets:		Liabilities:	
Current Assets		Current Liabilities (current year)	
Cash	12,000	Accounts payable	1,000
Accounts receivable	+	Loan payments	+
Inventory	2,000	Total Current Liabilities	3,000
Other current assets	=	Total Long Term Liabilities	+
Total Currents Assets	16,000		9,000
		Total Liabilities	=
			12,000
Fixed Assets		Owner's Equity	
Land, buildings	+	Cash or asset value invested	+
Equipment	4,000	Retained earnings (or loss)	8,000
Other fixed assets	=	Total Owner's Equity	=
Total Fixed Assets	4,000		8,000
		Total Liabilities and Owner's Equity	+
Total Assets	20,000		20,000

On a balance sheet, all of the assets (what you own) get added up on one side.

Remember, a balance sheet means assets must equal liabilities plus owner's equity!

All of the liabilities are added, then combined with your owner's equity.

Startup Checklist

As we mentioned at the start of this booklet, a business plan is only one of the elements to getting a successful business off of the ground. To help you with planning, here is a basic checklist to help you get an idea of what steps most businesses will have to take to get a up and running. This is a basic list; in reality there will be hundreds of steps you will have to take, and this is just an outline.

Note that a business plan is at the start of the list. Having a plan before you start your business will help ensure that you do not take one step back for every two steps forward.

Whatever decision you make regarding your future business, I wish you good luck and healthy profits!

Basic Startup Checklist

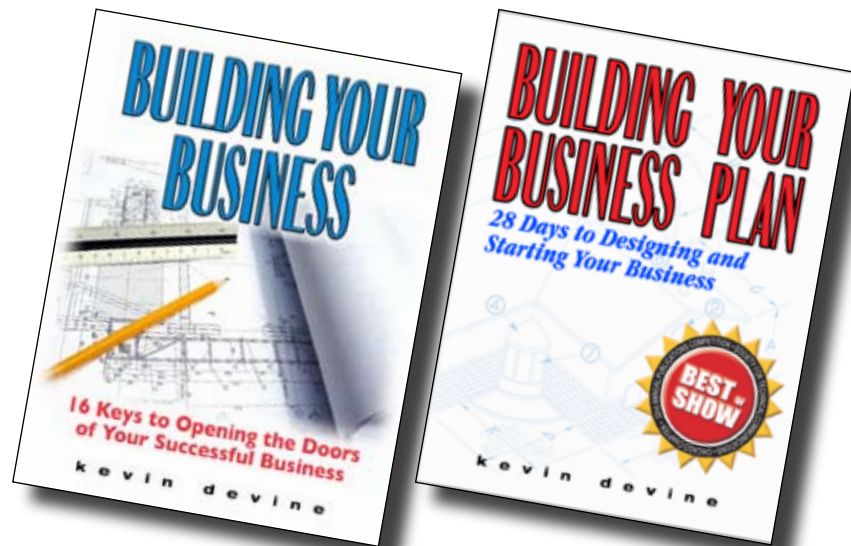
- Develop a business plan
- Prepare all the necessary legal documents, as applicable:
Complete paperwork for your entity:
 - LLC
 - Partnership
 - CorporationObtain tax forms:
 - Federal taxpayer identification number (SS-4, IRS)
 - State sellers and tax ID permit
 - Estimated taxes (Form 1040-ES)
 - Industry specific licenses
- Open a business checking account, and select and implement a financial record keeping system
- Purchase adequate insurance
- Find a location for the business:
 - Check zoning requirements
 - Negotiate a lease if outside the home
 - Design the layout of the business
- Arrange for phone service
- Promote the business in following your marketing plan
- If hiring employees
 - Prepare job descriptions

- Advertise, interview, hire and train applicants
- Write policy manual
- Order supplies such as business cards, stationary and checks

Ongoing operations:

- Prepare quarterly payroll returns and pay estimated taxes
- Prepare monthly or quarterly financial statements
- Join industry associations and groups

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Written in the same easy to understand, step-by-step style as this booklet, **Building Your Business** presents everything you need to know as you plan and start a business. **Building Your Business Plan** is the award-winning book that can help you complete turning your business dreams into reality!

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