

## BUSINESS PLAN

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One of the first steps in a new venture is the development of a business plan. The business plan describes the business: its product or service, market, people and financing needs. A well-prepared business plan serves several purposes:

- For the new business, it helps the owner determine the feasibility and desirability of pursuing the steps necessary to start a business.
- For the company seeking financing, it is an important sales tool for raising capital from outside investors.
- For an existing company, the business plan forms the basis of a more detailed operational plan and thus becomes an important management tool for monitoring the growth of the firm and charting future directions.

This outline represents a generalized approach. Business plans always should be tailored to the specific circumstances of the business and should emphasize the strengths of the proposed venture and address the potential problems and challenges to be faced. Although it is possible to prepare a business plan by merely “filling in the blanks” from a template (such as those available on the Internet), the likelihood of achieving desired results from doing so is small (e.g., how often do you respond to form letters?). Business plans prepared in connection with a loan application or for the purpose of obtaining venture capital financing will emphasize financial data and characteristics of the management team. The business plan should comply with the format requirements of the lender or venture capitalist.

Several organizations offer assistance in preparing business plans. These include Small Business Development Centers, SCORE organizations, Small Business Management programs and others described in the section of the Small Business Assistance Office publication, *A Guide To Starting A Business In Minnesota* titled “Sources of Information and Assistance.” Addresses and telephone numbers of these organizations are provided in the Resource Directory section of the *Guide*.

## SAMPLE BUSINESS PLAN FORMAT

### Summary

The summary should concisely describe the key elements of the business plan. For the firm seeking capital, the summary should convince the lender or venture capitalist that it is worthwhile to review the plan in detail. The summary should briefly cover at least the following items:

- Name of the business.
- Business location and plan description.
- Discussion of the product, market, and competition.

- Expertise of the management team.
- Summary of financial projections.
- Amount of financing requested (if applicable).
- Form of and purpose for the financing (if applicable).
- Purpose for undertaking the project (if financing is sought).
- Business goals.

## **The Company**

This section provides background information on the company. It commonly includes a general description of the business, including the product or service and may describe the historical development of the business, legal structure, significant changes in ownership, organizational structure, products or lines, acquisitions, subsidiaries and degree of ownership, and the principals and the roles they played in the formation of the company.

## **The Product or Service**

This is a detailed description of product or service lines, including the relative importance of each product or service to the company. Include sales projections if possible. If available, include product evaluations, comparison to competitors' products or product lines, competitive advantages over other producers, and the elasticity or inelasticity of demand for this product (i.e., does demand respond to factors other than price?). Possible sources of information for this section include competitors' websites, business directories and census data like that published in the *U.S. Industrial Outlook*.

## **The Project**

If financing is sought for a specific project, describe the project, the purpose for which it is undertaken, its cost, and the amount, form and use of the financing.

## **Management**

Discuss the firm's management. Provide an organizational chart. Discuss key management and supervisory personnel having special value to the organization. Describe their responsibilities and provide resumes describing their skills and experience as they relate to activities of the business. State their present salaries, including other compensation such as stock options and bonuses. Discuss planned staff additions. Describe other employees, including the number of employees at year end, total payroll expenses for each of the previous five years (break down by wages, benefits, etc.), method of compensation, and the departmental or divisional breakdown of the workforce.

## **Ownership**

Provide names, addresses, and business affiliations of principal holders of the firm's common stock and other types of equity securities. Discuss the degree to which principal holders are involved in management. Describe principal non-management owners. Provide the names of the board of directors, areas of expertise, and the role of the board. Specify the amount of stock currently authorized and issued.

## **Marketing Strategy/Market Analysis**

Describe the industry and the industry outlook. Identify the principal markets (commercial/industrial, consumer, government, international). Include industry size currently as well as its anticipated size in the next ten years. Explain the sources of your projections. Describe major characteristics of the industry and the effects of major social, economic, technological or regulatory trends on the industry.

Describe major customers, including names, locations, products or services sold to each, percentage of annual sales volume for each customer over previous five years, duration and condition of contracts in place.

Describe the market and its major segments. Describe principal market participants and their performance. Identify the firm's target market. For each customer, include the requirements of each and the current ways of filling these requirements. Also include information on the buying habits of the customers and the impact on the customer of using the product or service.

Describe the companies with which the business competes and how the business compares with these competitive companies. This is a more detailed narrative than that contained in the description of the product or service, above.

Describe prospective customers and their reaction to the firm and any of the firm's products or services they have seen or tested.

Describe the firm's marketing strategy, including overall strategy; pricing policy; method of selling, distributing and servicing the product; geographic penetration, field/product support, advertising, public relations and promotion; and priorities among these activities.

Describe how the firm will identify prospective customers and how and in what order the firm will contact the relevant decision-makers. Also, describe the sales effort the firm will have (e.g., sales channels and terms, number of salespersons, number of sales contacts, anticipated time, initial order size) and estimated sales and market share.

Sources of information include census data (on both industries and on consumer demographics), business directories, specific industry reports (either from government or private sources), and competitors' websites.

## **Technology**

Describe the technical status of your product (i.e., idea stage, development stage, prototype stage, etc.) and the relevant activities, milestones, and other steps necessary to bring the product into production. Discuss the firm's patent or copyright position. Include how much is patented and how much can be patented (i.e., how comprehensive and effective the patents or copyrights will be). Include a list of patents, copyrights, licenses or statements of proprietary interest in the product or product line.

Describe new technologies that may become practical in the next five years which may affect the product. Also describe new products the firm plans to develop to meet changing market needs. Describe regulatory or approval requirements and status, and discuss any other technical and legal considerations that may be relevant to the technological development of the product. Include a discussion of research and development efforts and future plans for research and development.

## **Production/Operating Plan**

Explain how the firm will perform production or deliver its service. Describe capacity and status in terms of physical facilities: are they owned or leased; size and location; sales volume and unit capacity; expansion capabilities; capital equipment. Include a facilities plan and description of planned capital improvements and a timetable for those improvements.

Describe suppliers including name and location of principal suppliers; length of lead time required; usual terms of purchase; amounts, duration and conditions of contracts; and subcontractors. Also describe the current and planned labor supply, including number of employees; unionization; stability (seasonal or cyclical); and fringe benefits (insurance, profit sharing, pension, etc.).

Provide a profile of key patents and describe technologies and skills required to develop and manufacture the products. Provide a cost breakdown for material, labor, and manufacturing overhead for each product, plus cost vs. volume curves for each product. Provide block and workflow diagrams of the manufacturing process where appropriate, and provide a schedule of work for the next one to two years. Describe the production or operating advantages of the firm. Discuss whether they are expected to continue.

## **Financial/Administrative**

Provide name and address of key advisors, including auditor, legal counsel, and banker.

Describe financial controls including the cost system and budgets used. Describe cash requirements, now and over the next five years, and how these funds will be used. Specify financial needs to be raised from debt and from equity. Discuss plans to "go public." Relate this to future value and liquidity of investments.

Provide financial statements and projections for next five years. These should include profit and loss or income statements by month at least until breakeven and then by quarter; balance sheets as of the end of each year; cash budgets and cash flow projections; capital budgets for equipment

and other capital acquisitions; include key assumptions you have made in your *pro formas* and how these assumptions reflect industry performance.

If financing is sought, most lenders and venture capitalists will require a funding request indicating the desired financing, capitalization, use of funds, and future financing; a financial statement for the past three years; current financial statements; monthly cash flow financial projections including the proposed financing for two years, and projected balance sheets, income statement, and statement of changes in financial position for two years including the proposed financing.