

Resource Guide for Successful Business Planning

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Table of Contents

Principles of Business Planning 3

Business Plan Outline 6

Specific Questions Your Plan Should Answer 9

Sources of Information/Assistance 12

Fundamentals of Creating a Business Plan

As an aspiring entrepreneur or someone who already owns a small business, you have no doubt had someone tell you the first thing you need to do is create a business plan or ask to see your existing plan. You may be wondering why you should spend the time writing a business plan and what's in it for you. The answer is quite simple: most businesses fail in their first two years, largely due to poor business planning. You can increase your chances of success through thoughtful planning. The better you plan, the better your chances are for success. Not only that, but **most financing sources –your private lender included – require a business plan as part of the loan application process.**

What is a business plan? A business plan is a written document that accomplishes two basic objectives: 1) a business plan identifies the nature and context of the business opportunity (why does such an opportunity exist?); and, 2) a business plan presents the approach the entrepreneur plans to use to take advantage of the opportunity. Essentially, it is a must for any business as it provides a guide for the opening of a new business or the continued growth of an existing business and is required for obtaining a business loan.

A business plan is an entrepreneur's blueprint for creating the new venture. It is a bridge between an idea and reality. It is a game plan that crystallizes your business dreams and hopes that provide your motivation. It should lay out your basic idea, describe where you are now, point out where you want to go, and outline how you propose to get there. Most business plans project out three to five years. *Business planning should be an ongoing process, however, and a business plan should be a flexible and living document that can be adjusted as your business changes.*

Why are business plans important? There are two primary reasons to write a business plan. First, a quality business plan will help you finance your venture. It should be used as a selling document, to sell your ideas and even yourself to others. It can be presented to customers and suppliers, for it will enhance your credibility with these stakeholders and increase the chances of them doing business with you. As stressed above, investors or creditors will not consider financing your business without a properly-prepared business plan.¹

Business plans are also vitally important because of their role as a planning tool. Good business plans provide a clearly articulated statement of business goals and strategies that can be used for internal purposes. The management team of the new business venture can use the plan to maintain discipline and focus, keys to the success of a small business. The business plan can also be used as a structure for communicating the mission of the business to new employees.

Who should create business plans? Every business should. It's not a question of whether you should plan, but to what degree. Time is precious for an entrepreneur, so

¹ This does not imply that a business plan serves as a legal document for actually raising needed capital from venture capitalists or other investors. This process requires a *prospectus* or *offering memorandum*.

the tradeoffs must be considered. Again, however, the better you plan and think things through, the better your chances for success. How much time you should spend planning depends on the:

- *Management style and ability of your management*- The extent of planning depends in part on the ability of the entrepreneur to grasp the multiple and interrelated dimensions of the business;
- *Preferences of the management team*- The amount of planning by a business also depends on the preferences of the management team, who may not care to be involved with planning activities. This may, however, lead to insufficient planning;
- *Complexity of the business*- The greater the complexity of your business, the greater the planning effort needed to be successful;
- *Competitive environment*- If you are operating your business in a highly competitive environment, where your business must be lean and tightly disciplined to survive, you will need to plan very carefully;
- *Level of uncertainty*- The greater the uncertainty and volatility of the market in which your business will be operating, the greater the amount of planning needed.

What features are investors looking for in a business plan? The quality of your business plan depends on the quality of the underlying business concept. In other words, a defective new venture idea cannot be rescued by good writing, but a good concept may be destroyed by writing that fails to communicate. Your business plan should be: *believable, accurate, comprehensive, and enthusiastic.*

Because of the nature of business financing and the number of funding requests that they see, investors and loan officers tend to have a short attention span with business plans. Your plan must be interesting enough that potential funders will want to read the entire thing, and it must avoid “no-no’s” that may cause readers to promptly throw your plan in the circular file. Certain features appeal to investors, while other are distinctly unappealing:

<i>Appealing Features of a Business Plan</i>	<i>Unappealing/Repelling Features</i>
• Clear and concise	• Excessively lengthy and does not deal in specifics
• Well organized	• Financial projections are at odds with accepted industry norms
• Market-orientation	• An infatuation with a product or service rather than a familiarity with and awareness of marketplace needs
• Appreciation of investor’s needs, through recognition of their particular financial-return goals	• Custom or applications engineering, which make substantial growth difficult
• Evidence of focus, through concentration on only a limited number of products and/or services	• Discussion of a number of products or services, making it appear that the business is spreading itself too thin and/or lacks focus
• Proprietary position, as represented by patents, copyrights, and trademarks	• Growth projections out of touch with reality

What hits do business experts give about writing business plans? The following tips are given by the public accounting firm Arthur Anderson and Company in its booklet *An Entrepreneur's Guide to Developing a Business Plan*:

- Provide a table of contents and tab each section for easy reference. Number your pages.
- Use typewritten 8 ½ x 11 format and photocopy the plan to minimize costs. Use a loose-leaf binder to neatly package the plan and to facilitate future revisions. Make a sure it will be easy for your readers to make copies of their plan for additional loan committee members, for instance, but make it very clear that they need your permission to do so.
- To add interest and improve comprehension – especially by prospective investors who lack the day-to-day familiarity with your management team has – *as appropriate*, use charts, graphs, diagrams, tabular summaries, maps and other visual aids.
- Indicate on the cover of the binder and again on the title page of the plan that all information is proprietary and confidential. Number each copy of the plan and account for each outstanding copy by filing the recipient's memorandum of receipt.²
- As you complete major sections of the plan, ask carefully chosen third parties – Small Business Development Center advisors, entrepreneurs who have themselves raised capital, accountants, lawyers, and others – to give their perspectives on the quality, clarity, reasonableness, and thoroughness of the plan. After you pull the entire plan together, ask these independent reviewers for final comments before you reproduce and distribute the plan.

What information should actually go into the business plan? The business plan for each new venture is unique, and that uniqueness must be recognized. However, a prospective entrepreneur needs a guide to follow in preparing a business plan. While no single standard format is in general use, there is considerable similarity in basic content among many business plans.

The following section summarizes the major segments common to most business plans, providing a bird's-eye view of the content of the end product. *Most lenders ask that you follow this outline as you prepare your plan.*

² If the information in your business plan is extremely confidential, as in the case of high technology advances, you should develop one document for internal use, extracting from that document to create a plan for outside use.

Abbreviated Business Plan Outline

Cover Letter: A cover letter, printed on your business letterhead, should accompany every distribution of your business plan. This letter should introduce you and your business, and should be tailored to the stakeholder to which you are sending the packet. The business plan itself should be a standard document that can be distributed to a variety of interested parties; the cover letter should be used to address the specific stakeholder. If the purpose of the distribution is to request a loan or equity injection, the letter should specify the following: the sources, amounts, and purpose of all funds (identifying the specific items to be purchased by the loan or other funding), working capital needs (if applicable) the term and source of repayment, and the collateral offered.

Title Page: The title page, or cover page, is the first page of the business plan and should contain the following information:

- Company name, address and phone number
- Logo, if available
- Names, titles, addresses, and phone numbers of the owners and key executives
- Date on which the plan is issued
- Number of the copy (to help keep track of how many copies are outstanding)
- Name of the preparer

Executive Summary: The executive summary is crucial for getting the attention of the one-minute investor. It is a one-to three-page overview of the total business plan. Written after the other sections are completed, it highlights their significant points and ideally, creates enough excitement to motivate the reader to continue.

General Business Description: The main body of the business plan begins with a brief description of the company. It explains the type of business and gives its history if it already exists. It tells whether it is a manufacturing, retail, service, or other type of business. This section also describes the proposed form of organization – sole proprietorship, partnership, or corporation.

This section should be organized as follows: 1) name of applicant, name and location of business; 2) company objectives; 3) nature and primary product or service of the business; 4) current status (startup, buyout, or expansion) and history (if applicable) and legal form of organization; and 5) timetable for business plan implementation.

Products and/or Services Plan: This section describes the product and/or service and points out its unique features and merit. It explains why people will buy the product or service. If a new or unique physical product is to be offered

and a working model or prototype is available, a photograph of it should be included.

This section should be organized as follows: 1) description products and/or services; 2) features of product/service providing a competitive advantage; 3) legal protection – patents, copyrights, trademarks; and 4) dangers of technical or style obsolescence.

Marketing Plan: This section is extremely important, for prospective investors and lenders attach a high priority to market considerations. A product may be well engineered but unwanted by customers. The marketing plan, therefore, must identify user benefits and the type of market that exists. It shows who the firm's customers will be and what type of competition it will face. It outlines the marketing strategy and specifies what will give the business a competitive edge.

This section should be organized as follows: 1) analysis of target market and profile of target customer (including market size, market's growth potential, and industry trends); 2) methods to identify and attract customers; 3) selling approach, type of sales force, and distribution channels; 4) types of sales promotion and advertising; 5) credit and pricing policies; and 6) identification of nearest competitors (overall competitive advantage).

It is not enough to say, "there is a big market" for your product or service. If yours is a start-up retail business, a potential customer survey with positive results may convince your reader that a strong market exists. If you're a wholesaler, a business-to-business operation, commitment letters from interested businesses will speak volumes.

Management Plan: Prospective investors look for well-managed companies. Of all the factors that may be considered, the management team is paramount – it is even more important than the product or service. Unfortunately, the ability to conceive an idea for a new venture is no guarantee of managerial ability. The management plan, therefore, must detail the proposed firm's organizational arrangement and the backgrounds of those who will fill its positions. It identifies the key players – active investors, management team, directors, and cites the experience and competence they possess. This section should identify how the key aspects of the enterprise will be managed – sales/marketing, financial (bookkeeping, accounting, inventory management), human resources, customer service, legal, information technology, equipment maintenance. As an example, if you are a sole proprietorship, this section should identify your management skills and then specify how you will handle the areas in which you lack experience or expertise.

This section should be organized as follows: 1) description of management team, specifying who will manage each of the key areas listed above; 2) outside investors and/or directors and their qualifications; 3) outside resource people and their qualifications; 4) plans for recruiting and training employees (include number of employees, salaries, fringe benefits, training needs, etc); and 5) an organizational chart.

Critical Risk Factors: This section should address all the potential risks (both internal and external) that could affect your business. It is imperative that you identify the things that could go wrong with your business and develop a strategy to address them in advance. This strategy should be twofold: first, consider what steps you can take now to lessen the risk of these problems occurring. Second, what will you do if these problems do occur? For example: if your delivery truck breaks down, you could lose customers. You will want to ensure that the truck transportation should this happen. Suppose sales are not as high as anticipated. To lessen this risk, perhaps you will focus your energies on your marketing plan on the front end, possibly even hiring an outside consultant to analyze it. What will you do should sales not live up to expectations? Perhaps your strategy will be to implement additional marketing tactics or offer additional products or services. Problems are bound to occur; if you are able to anticipate as many as possible, you will be better prepared to deal with them.

This section should be organized as follows: 1) list as many critical risk factors as you possibly can; and 2) describe a brief plan to lessen each of those risks.

Operating Plan: The operating plan offers information on how the product will be produced or the service provided. The importance of this section varies from business to business. It explains the type of manufacturing or operating system to be used. It also describes the facilities, labor, raw materials, and processing requirements.

This section should be organized as follows: 1) operating or manufacturing methods; 2) description of operating facilities (location, space, and equipment); 3) quality-control methods; 4) procedures to control inventory and operations; and 5) sources of supply and purchasing procedures.

Financial Plan: Financial analysis constitutes another crucial piece of the business plan. It specifies financial needs and potential sources of financing. It presents projections of revenues, costs, and profits. It is vital that the financial projections be supported by well-substantiated assumptions and explanations of how the figures have been determined.

This section should be organized as follows: 1) historical financial statements for the last three to five years or as available; 2) pro forma financial statements (projections) for three to five years, including income statements, balance sheets,

and cash flow statements – monthly for first year and annually thereafter; 3) break-even analysis of profits and cash flows; 4) all planned sources of financing and planned uses (be specific; i.e. how much seeking from each source, for what specific purpose); and 5) collateral available for securing financing.

While most lenders recommend that you do financial projections as outlined above, for its loan applications, it requires profit/loss (income statements) projections for three years, cash flow projections monthly for year one and annually for years 2 and 3, all planned sources and uses of financing, and collateral available. See the attached spreadsheet for assistance.

Appendix: Provides supplementary materials to the plan.

This section should be organized as follows: 1) management team biographies; 2) other important supporting data (i.e. articles about the market/industry); and 3) ethics code.

Specific Questions to Answer in Your Business Plan

As you work through the outline presented above, consider the following questions (you should write in the narrative form, but use the following questions as a checklist to ensure that you are covering all of the vital issues):

1. General Business Description

- a. What type of business are you planning?
- b. What products or services will you sell (basic description)?
- c. What type of opportunity is it (start-up, part-time, home-based, expansion, seasonal, year-round, etc.)?
- d. What legal form of ownership will you choose?
- e. Overall, at what point is the business now and where do you plan to take it? In other words, what is your vision for the business?
- f. Why does the business promise to be successful?
- g. What are the growth opportunities?

2. Products and/or Services Plan:

- a. What products and/or services will you be offering (detailed description)?
- b. What are the merits and unique features of your products and/or services?
- c. Why will people buy your products and/or services?
- d. What legal protection do you have for your products and/or services (patents, copyrights, trademarks, etc.) ?

- e. How great is the threat that your products and/or services will be technically or stylistically obsolete?

3. Marketing Plan

- a. What is the size of your potential market?
- b. What are the recent trends in the industry?
- c. What is growth potential of your market?
- d. What is your target market (who are your potential customers)?
- e. How will you attract and hold your share of the market?
- f. Who are your competitors? How are their businesses prospering? What advantages will you have over these competitors (what is your competitive advantage?)
- g. What will your sales approach be? What type of sales force will you employ?
- h. How will you promote sales (advertising, public relations, promotions)
- i. What type of credit and pricing policies will you use?
- j. What distribution channels will you use? Who will be your best suppliers?
- k. Where will your business be located?
- l. What factors will influence your choice of location? What is the latest traffic count at this location?
- m. What features will your location have?
- n. How will your building contribute to your marketing strategy?
- o. What will your building layout feature?

4. Management Plan

- a. Who will manage the business?
- b. What qualifications will you look for in a manager?
- c. Who are the outside investors and/or directors of your business and what are their qualifications?
- d. What are your plans for employee hiring, salaries and wages, benefits, training, and supervision (human resources)?
- e. How will you manage finances?
- f. How will you manage recordkeeping?
- g. How will you manage your legal affairs?
- h. How will you manage information technology?
- i. How will you manage equipment maintenance?
- j. What consultants or specialists will you need? Why will you need them?
- k. What licenses and permits will you need?
- l. What regulations will affect your business?

5. Critical Risk Factors

- a. What critical risks (both internal and external) could affect your business?

- b. What strategies will you take to lessen the risk of these problems occurring? What will be your plan should these obstacles present themselves?

6. Operating Plan

- a. How will your product be produced or your service provided?
- b. What manufacturing or operating system will you use?
- c. What will your operating facilities be like (location, space, and equipment)?
- d. What quality-control methods will you employ?
- e. What procedures will you use to control inventory and operations?
- f. What will be your sources of supply and your purchasing procedures?

7. Financial Plan

- a. What is your total estimated business income for the first year? Monthly for the first year?
- b. What will it cost you to open the business and sustain it for eighteen months of operation?
- c. What will be your monthly cash flow during the first year?
- d. What will your personal monthly financial needs be?
- e. What sales volume will you need in order to make a profit during the first three years?
- f. What will be the break-even point?
- g. What will be your projected assets, liabilities, and net worth on the day before you expect to open?
- h. What will the capital value of your equipment be?
- i. What will your total financial needs be?
- j. What will your potential funding sources be?
- k. How will you use the money from lenders or investors?
- l. How will loans be repaid? How will loans be secured?

Where to go for More Information/Assistance

You, the founder of your business, are most likely a do-er, a person who makes things happen. Such people sometimes lack the breadth of experience and know-how, and possibly the inclination, needed for planning. Consequently you may need to supplement personal knowledge and skills by obtaining assistance from outsiders or by adding individuals with planning skills to your management team. Securing help in plan preparation does not mean that you don't have to be involved with planning. On the contrary, you must be the primary planner. However, after you have the basic ideas clarified, other people may be able to give you assistance in preparing the business plan. Calling on outside help to finish and polish the plan is appropriate and wise. Outside sources of assistance are listed below:

- **University of Wisconsin-Cooperative Extension (UWEX)** can provide a variety of resources for you business planning needs. <http://www.uwex.edu/topics/business/>
- **Wisconsin Entrepreneurial Network (WEN)** One-stop access and integrated statewide assistance to entrepreneurs in all industries and developmental stages. <http://www.wenportal.org/>
- **Small Business Development Centers (SBDC)** provide free counseling for small businesses and have locations throughout the state. They also offer seminars and courses that are held throughout the year and require a tuition fee. Call the Madison office small business access line at (608) 263-7680 or visit their site at www.uwex.edu/sbdc to locate the nearest SBDC.
- **Service Corps of Retired Executives Association (SCORE)** provides free business counseling out of offices throughout the state. Call 1-800-794-1110 to locate the nearest SCORE office.
- **The CAP-Net Virtual Incubator** at www.virtualincubate.com is an online source for all kinds of useful information related to small business start-up in Wisconsin.
- **Regional and Local Economic Development Offices** can also provide general assistance. Contact your municipal or county government offices or your local Chamber of Commerce to locate the appropriate organization. County economic development corporations will often provide individual business plan and general business counseling.
- **Computer software** has been developed specifically to assist entrepreneurs in developing business plans. Some recommended packages are: *Inc. Business Plan*, developed by *Inc.* magazine; *How to Write a Business Plan*, developed by the American Institute of Small Business; *Business DISC Entrepreneur's Kit*, developed by Maryland Institute Technologies; and *BizPlan Builder: Strategic Business & Marketing Plan Software*, developed by South-Western Publishing.
- **Attorneys** can make sure that your business has the necessary patent protection, can review contracts, consult on liability and environmental concerns, and advise on the best form of organization for your business.
- **Accounting firms** can guide you in developing the written plan, assist in making financial projections, and advise in establishing a system of financial control.
- **Marketing specialist** can perform market analysis and evaluate market acceptance of a new product (business students at your local college, university, or technical school may also be able to do this service as a school project at no charge or for a small fee).
- **Engineering and production experts** can perform product development, determine technical feasibility of products, and assist in plant layout and production planning.

Sources for this guide:

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