Writing a Successful Business Plan

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Purpose of a Business Plan

A business plan describes the venture that you will create to exploit a concept. It has traditionally three primary functions:

Action Plan A business plan can help to move you to action. You may have been thinking for years about starting a business or engaging in some venture, but the process may seem too daunting, too large and too complicated. A business plan will help you to pull apart the pieces of starting a business and examine each piece by itself. So instead of one large problem, you have a sequence of smaller problems. And by solving the small problems, the large problem is automatically solved. So writing a business plan can help to move you to action by breaking down a seemingly insurmountable task (starting a business) into many smaller, less intimidating tasks.

Road Map Once you have started your business, a business plan can be an invaluable tool to help keep you on track and moving in the direction you want to go. In the hurley-burley of daily business, it is very easy to lose sight of your objectives and goals -- a business plan can help to keep you focused. A business plan can also serve to help others to understand your vision, including suppliers, customers, employees, friends, and family.

Sales Tool A business plan can be used to convince people to become involved with your business. You may need outside financing to start your business, and a business plan is the tool you need to convince investors to come on board. You may want and need concessions from suppliers or customers -- a business plan can help you get them. It also can be used to recruit key employees, directors and advisors. Finally, you may need to convince family members, or even yourself, that your ideas will bear fruit.

Perhaps the most important reason to write a business plan is that it requires you to engage in a rigorous, thoughtful and often painful process that is essential before you start a the venture. You must answer hard questions about your venture. Why is there a need for your product service? Who is you target market? How is your product/service different than your competitor's? What is your competitive advantage? How profitable is the business and what are the cash flows? How should you fund the business?

An added benefit is that by virtue of going through this process you will have established a sound basis for verbally communicating the attractiveness of your venture. Your will be able to describe your business in a compelling manner and then to succinctly answer questions from investors is a critical skill. You can do this well only when you have made the venture a part of your soul. *Writing a Successful Business Plan* will help you do this.

Elements of a Successful Business Plan

Executive Summary (~1 page)

Company Overview (~1 page)
- Introduction
- Mission Statement
- History and Current Status
- Objectives

Product and Service Plan (~2 pages)
- Features
- Benefits
- Proprietary Rights
- Stage of Development

Market and Industry Analysis (~3 pages)
- Market Size and Growth
- Trends
- Entry Point
- Channels of Distribution
- Industry Structure
- Competitive Environment
- Competition
- Opportunity

Marketing Plan (~4 pages)
- Customer Research
- Target Market Strategy
- Channel
- Positioning
- Pricing Strategy
- E-commerce
- Communication Strategy
- Sales Strategy
- Revenue Model

Operations Plan (~2 pages)
- Operations Strategy
- Scope of Operations
- Ongoing Operations

Development Plan (~1 page)
- Development Strategy

Management (~1 page)
- Company Organization
- Management Team

Competitive Advantage (1 page)
- Sustainable Competitive Advantage

Financial Plan (~3 pages)
- Financial Projections
- Financial Summary
- Key Assumptions
- Risks

Funding (1 page)
- Funding Requirements
- Funding Strategies
- Offering
- Sources and Uses of Funds

Appendices (15 pages max)
Required
- Key financial assumptions
- 5 year Income Statements
  - By years
  - Monthly & Quarterly
- 5 year Balance Sheet
- 5 year Cash Flow Statements
  - By years
  - Monthly & Quarterly
- Break-even analysis
- Financial Comps
- Customer surveys and results
- Competition Matrix
- Competitor product/service matrix
- Resumes of founders and principals

Optional
- Operations layout
- Sample web pages, adverts, menus etc.

Executive Summary

The Executive Summary of a Business Plan is a one-page distillation of your entire plan, and often is the last section to be written. Despite the title, <u>it is not written for executives, nor is it a summary of the plan</u>. Its objective is to capture the reader's interest, so that they want to read the entire plan; even better to call you to arrange a meeting. It should be considered a chance to "sell" the reader on the business opportunity.

A first-time reader should be able to read the Summary by itself, and know what your plan is all about. The Summary should stand-alone and should not refer to other parts of your plan. Remember, most readers will never get any further than your Executive Summary, so make it count!

The Executive Summary should be a maximum of 2 pages. Ideally you should try to get it all on one page. This is very difficult to do, but being succinct has great benefits when trying to capture the attention of investors. The summary should address at least some the following elements of the plan:

- **Concept Description** Summarize the essence of your business.
- **Opportunity** Why is this a good opportunity? What evidence do you have to support the demand? What is the size of your market? What are the critical trends? What is the compelling need, i.e. what problems are you solving?
- **Product/Service** Describe the product or service. How will you differentiate it from the competition? How is the product or service to be produced and delivered?
- **Value Proposition** Who is the target market? What are benefits to the target market?
- **Marketing Strategy** What are the key elements of your marketing strategy?
- **Competitive Advantage** Who is the competition? What is your competitive advantage?
- **Management:** Who is the management team and why will they make a success of the venture?
- **Financial** How large will the company become, i.e. what revenues will be achieved in year 3 or 4? What is the expected profitability? When will the company breakeven?
- **Funding** How much funding is required? What will it be used for? What is the offering? What is the exit strategy?

Company Overview

The Company Overview is a brief (one page) description of the company you have founded or want to found. Will it be a sole proprietorship, partnership, or corporation? What are your ambitions for the company? Will it always be a small company, or do you want to grow it into an international giant? Upon reading this section, the reader should have a good idea of where you are and where you are going with your company.

Introduction

In the introduction to the Company Overview, answer the following questions in a single paragraph:

- What is the name of our company?
- Does our company currently exist, or will it be forming?
- Where is it located? Where will we grow?
- How is our company organized (e.g., sole proprietorship, partnership, corporation)?

Mission Statement

Your mission statement is a short (one sentence to one short paragraph) inspirational statement of the vision and goals you have for your company. Too many mission statements are vacuous exercises in ambiguity, e.g. "employees are our most valuable asset". Be sure that your mission statement is succinct and content rich, and excites your readers.

History and Current Status

Briefly outline the history and current status of your company.

Objectives

In this subsection, spell out the objectives of your company in a single paragraph:

- Where are we going with our company?
- What are our goals for the company (keep it small, grow it big, franchise it, etc.)?
- What is our exit strategy for ourselves and for our investors (sell to larger company, go public, buy out investors, etc.)?

Product and Service Plan

Guidelines for Preparing This Section
This section is a detailed description of the products and/or services you will be selling. You should not assume that the reader is familiar with your product/service, so be sure to explain it carefully. The use of photos, drawings and renderings are an effective way to describe your offering.

Begin to sell your idea here by generating some excitement about your product/service. Be factual, but be enthusiastic. When readers have finished learning about your product/service, they should be primed for the marketing, operations and financial strategies of your venture.

Sources of Information
- Technical specification and drawings
- Prototype
- Competitor product/service matrix
- Interviews - talk to experts in the marketplace, including buyers, suppliers, sales representatives, wholesalers, distributors, and retailers.
- Customer surveys
- SWOT analysis

Features

Describe how your product has been designed and tailored to meet the needs of your target customer. Provide photos, schematics or an image that convey exactly what you are doing. Address the following:

- Describe the key attributes:
    - Product ventures: function (speed, taste, cost reduction) durability, installation, ease of use, packaging, etc.
    - Service ventures: function (collect waste, workforce scheduling, pet care), environment, reliability, responsiveness, etc.
    - Retail ventures: the product offering, décor and layout, location, etc. Write a one-paragraph description that evocatively describes the experience of customers using your service.
    - Internet ventures: offering (e-tailing, communication and information, data interchange, B2B buying and selling), website design, networking, etc.
- Can you enhance the product/service with a unique process, delivery methods, resources, employee skills, systems, location, strategic partnerships, etc?

- How is the product/service going to be used?
- What is the depth and breadth of your product/service mix? What will be introduced initially? Over the next three years? To which target customers?
- Will you provide customer and tech support? Training? Delivery? Installation? Repair service? Warranty? Payment terms?
- What is unique about your product/service? How will it be differentiated from your competition?
- What are the strengths of your product/service? Weaknesses?
- What are the prices?
- For technology products, what are the major technical milestones that must be achieved? What is the basis for believing that they are achievable?
- What evidence do you have to support the demand for these features?

Benefits

If features are about the product/service, then benefits are about the customer and are often about their needs, desires and dreams. Your new bicycle may be fast and red, but these are not benefits. The benefits are that you can win competitions and look cool. Think about the impact on the target customer's emotions and/or pocketbook.

- How do the benefits address the needs of the target customer? Think beyond a generic description of benefits, e.g.
  - Best quality: do you mean appearance, durability, reliability, etc.?
  - Good service: do you mean on-time delivery, maintenance, tech support, etc.?
  - Efficiency: do you mean less time, easier to use, greater output, fewer resources, etc.?
  - Save time: to do what? It may not always be important to save time.
  - Convenience, for what?
- Are the benefits well understood by the target customer? What evidence do you have to support this?
- Prepare a features and benefits table. For each of the important features, describe the corresponding benefit.

Proprietary Rights

What proprietary rights do you have to the product/service? (For many products, there are no proprietary rights and this subsection can be omitted.)

- Patents, copyrights, trade secrets, non-compete agreements?

- Other proprietary knowhow or skills?

Stage of Development

Briefly describe the current status of your product or service:

- Where is the product in its lifecycle (early, growing, mature, declining)?
- Is it ready for the market? Do you have a head start that could give you first-mover advantage
- If in development, how far along is it? What obstacles remain? When will it be ready for introduction?

Market and Industry Analysis

Guidelines for Preparing This Section
The objective of this section is to prove that there is a good opportunity. Here you dispassionately describe the market you will enter and the industry in which you will compete. You may not even mention your business here, unless it is already a part of the industry. When finished with this section, you and your readers should understand the dynamics, problems, and opportunities driving your marketplace.

We are indebted to Jeff Mullins for some of the content of this section. We recommended the you read The New Business Road Test, 2008, Mullins, FT Prentice Hall.

Sources of information

- Secondary research - internet, library, trade associations and journals.
- Interviews - talk to experts in the marketplace, including buyers, suppliers, sales representatives, wholesalers, distributors, and retailers.
- Customer surveys
- Supply chain analysis
- Samples of competitor products
- Competitor brochures, catalogs, specifications, literature, websites, advertising and promotion materials

Market

Before looking at specific target customers, first evaluate the attractiveness of the overall market. Determine the following:

- How large is the market (numbers of customers, units sold or transactions, dollar value of purchases)?
- What are the historic and future growth rates?
- What are the trends that are driving the market? How is the market changing? Consider:
    - Economic, socio-cultural, political/legal, global, environmental, demographic and technological. For example, what is the impact of aging baby boomers, single parent families, e-commerce, etc?
    - Both positive and negative developments. Even negative trends can represent opportunities, e.g. in mature markets a consolidation plan could be viable.

Entry Point

In this section you will describe the specific market segment that represents your best point of entry. Explain why this segment attractive.

- As with the total market, determine the segment size (numbers of customers, units sold or transactions and dollar value of purchases), growth (historic and future) and trends.
- Are there customer groups or regions that are not adequately being served? Is there a segment where customers are dissatisfied?
- One of the most difficult questions that you must answer is what problem are you solving for your target market, i.e. why is there a need for your product/service?
- Do the customers in this segment understand the benefits and are they willing to purchase?
- What future segments could you enter? Why?

Segmentation
To determine the most attractive segment you should identify different groups of customers who are willing to buy your product/service to satisfy a need. Segmenting the market is the basis for deciding on both your initial and future markets.

For example, people need shoes to wear to work, go dancing, play sports and climb mountains. This is the footwear market and each of these represents a different segment. Within these segments there may be sub-segments, e.g. in the sports footwear market there are different segments for running, cycling, rodeo, etc. Consider the following when segmenting your market:

- Groups of customers: demographics, psychographics, e.g. baby boomers, grandparents, environmentalists, conservatives, etc.
- Sector: industrial (petroleum, construction, etc.), financial (retail banks, mortgage lenders, insurance, etc.), government (state, military, homeland security, etc.)
- Geography: local regional, national, international
- Product/service features: speed, performance, fragrance, etc.
- Benefits: enhance image, trend setter, improve sex life, save money, etc.
- Prices: premium, lowest cost, standard mark-up, etc.
- Distribution channel: retail, internet, door-to-door, etc.

Industry Structure

Describe how the industry is organized.

- How are goods and services produced and delivered to customers? Where are they produced? What is the level of integration?
- How do distributors, dealers, VAR's and systems integrators fit in?
- A good way to understand the industry is to analyze the supply chain from beginning to end. This should give you a good understanding of the competitive forces and where you fit in.
- How do your competitors perceive themselves? Obtain brochures, literature, and advertisements.

Competitive Environment

Competitive Environment - describe the competitive environment in your industry:

- How do the companies in the marketplace compete: service, quality, price, new product/service introductions, customer support, etc.?
- What is the degree of rivalry among competitors? A highly competitive industry means price competition. Most new firms can't compete on price.
- What is the response of competition to new entries into the market?
- What problems and concerns do customers have with these competitors?
- What is the size of the competitors? Is your market place dominated by a few companies that control a large share of the market? Unless these companies are SOT's (slow, old and traditional), you should not consider competing directly with them.

Barriers to entry - describe the barriers to entry that new companies face:

- Economies of scale: manufacturing, marketing, technological
- Customer loyalty: well established brands, long established relationships
- Agreements with customers, suppliers, strategic partners
- Control of the distribution channel
- Switching costs
- Capital requirements: high investment
- Access to distribution channels: exclusive distribution agreements, dominant position of competitors
- Intellectual property: patents, trade secrets, copyrights, trademarks, know-how
- Industry hostility to new entrants. Will competitors use all means to drive out new companies: pricing, legal, threats, spreading rumors.
- Government regulations: defense contracts, import restrictions
- Social

Control - how much control do you have over:

- Setting prices? How are prices established in your marketplace (major competitor, industry practice, value added, etc.)? What is the bargaining strength of customers?
- Determining your costs? Can you gain an advantage through technology, process design, resource ownership or access to raw materials, low cost labor, economies of scale (difficult for a start-up), and capacity utilization. What is the bargaining strength of suppliers?
- Entering channels of distribution? What channels of distribution exist? What access do you have to existing channels of distribution? Can you create new ones? What is the bargaining strength of channel companies?

Competition

Write a paragraph on each of the major competitors that describes what the company does; its position in the industry; strengths and weaknesses. Make sure that you consider all of the following sources competition:

- Direct: companies that produce same product/service; but, they may have different strategies to compete - price, quality, selection, performance, design, tech support.
- Indirect: companies that satisfy same need with different product/services.
- Future: companies that have the capability to enter your market; they may have the same customers, but use different technology or channels.

To help you write this section, prepare a competition matrix analysis that compares your venture with the major competitors. Consider the following factors for each competitor. Do not be restricted to these, as each industry will have its own.

- Product/Services
    - Product/Service offering – breadth and depth
    - Quality (define the type quality)
    - Detailed analysis of the key features. Obtain samples of the competitor’s products, or at the very least, specifications or drawings. For retail businesses visit the competitor’s locations, observe the environment and how customers interact with the business. For internet businesses evaluate the websites.
    - Location
    - Strengths and weaknesses of the product/service
- Marketing
    - Price range and policy
    - Target market
    - Channels of distribution
    - Marketing/advertising strategy
    - Sales strategy

    - Noteworthy marketing techniques (pricing, packaging, promotions, advertising, website, distribution, etc.)
    - Market perception of the company (branding strategy)
    - Market Share
- Management
    - Key management (backgrounds and experience)
    - Strategic alliances
- Operations
    - Manufacturing and location
    - Level of integration
    - Outsourcing of production, customer/tech support
- Financial
    - Company size (revenues, number of customers, number of employees, etc.)
    - Financial history (profitability, cash flow, financial soundness)
    - Financial resources (ownership, funding, investors, etc.)
- Strengths and Weaknesses of the company

Opportunity

Describe succinctly what the opportunity is and why it is attractive. Here is where you need to draw conclusions based on the research you have conducted. You must make a compelling case that there is attractive opportunity for your venture.

- Why this a great market to enter.
- There is a compelling need. A real problem is being solved.
- How we will compete successfully in the market.

Marketing Plan

<u>Guidelines for Preparing This Section</u>
The Marketing Plan will make or break the prospects for your venture. A great idea is meaningless if you cannot find customers. Carefully drafted and logical financial projections are irrelevant if nobody buys your product. In the Marketing Plan you must explain to the reader how you will convince the customer to buy your product/service.

<u>Sources of information</u>
- Market and Industry Analysis
- Customer surveys
- Interviews with experts

Customer Research

It is imperative that you do sufficient customer research to convince readers that customers will indeed come flocking to buy your product/service. The primary source for this information is to talk to your customers. There are many ways to achieve this: showing your product to potential customers to get reactions and suggestion; conducting focus groups; undertaking walk-up, mailed or email surveys; putting up a mock demonstration of your concept and soliciting customer feedback, and so on. Be creative in finding ways to get honest customer input about your product or service.

A well designed and conducted survey provides a firm foundation for the marketing plan. This may be the most credible information that you can develop to support the viability of the venture.

- Do customers recognize that they have a need for your product or service?
- Are the features that you are considering of compelling interest to customers?
- How do customers make buying decisions?
- How much would they pay?
- Why would they not buy your product/service?
- Do they really understand the benefits of your product/service compared to all of the competitors in the market?

Don't inadvertently cook the books here. You are undoubtedly enthused about your concept. Customers will pick up on your enthusiasm and often reflect it back to you, leading to erroneous conclusions about customer acceptance. So be neutral and factual as you collect data.

Describe the conclusions of customer surveys. Give a brief summary of how the research was conducted. A complete description of the results and methodology should be included in the appendix. If the survey is conducted properly you should be able to estimate what percent of the potential customers would buy your product/service? This is very useful when constructing the revenue model described below.

Target Customer Strategy

The objective here is to prove that you really understand the customer. How does the target customer behave? And, most important, what must you do to convince them to buy your product/service.

- Provide a profile of the customer that are you targeting to launch the product/service. Describe the characteristics that define your target customer:
  - Consumers:
    - Demographics (gender, sex, age, race, education, occupation or profession, income, location, etc)
    - Psychographics or life style (attitudes, beliefs, opinions, interests, values, etc.)
    - Social status (infers certain behavior: middle class values education, family activities, etc.)
  - Businesses or Organizations: characterize the organizations that purchase the product/service. What industry or sector are they in: automotive, e-commerce, state governments, nonprofit, etc.? What is the size, e.g. revenues less than $100 million, 50 to 100 employees, Fortune 100 company, etc.? Where located?

- Describe how the target customers perceive the product/services currently in the marketplace. What is the level of satisfaction? How willing are they to change?

- Describe how buying decisions made. Who makes the decision? Who influences the decision? Are buying decisions based primarily on price, quality, service, convenience, or others?
    - In the case of business customers there are additional considerations. Are there different approval levels? Are decisions made centrally or decentralized? What is the budgeting cycle? At what level is the ultimate responsibility for approving expenditures?
    - What is the sales cycle?

- Identify the criteria that are used to make buying decisions: price, service response, customer support, distance to travel to make purchase, etc.

Where does the Target Customer look for information and advice, e.g. WebMD, Oprah, sales person, etc.?
    - In the case of business to business how important are: global reach, ISO 9000, design capability, range of products, just-in-time, inventory levels, etc.?

- Where does the customer purchase the product or service? Are purchases typically made from retailers, internet, directly from the supplier, through wholesalers, distributors, or other?

- When are purchases made? Daily, weekly, annually? Is there repeat business?

- Does your customer immediately understand the benefits that your product/service provides? If they don't, then how will you convince them? An even more important issue is how will you motivate them to actually spend money to buy it? Are the benefits sufficient to overcome brand loyalty and associated switching costs?

- How do customers pay? Do customers pay cash or by credit card? Make a down payment? Require credit?
    - For business customers what are the standard payment terms? If credit terms are required, are discounts for early payment expected, e.g. 2/10, net 30 days? What is the actual payment practice?

When describing your target customer strategy it is important to keep in mind that the consumer of the product/service may be different than the buyer, e.g. disposable diapers are "consumed" by babies, but are purchased by mom; cad cam software is "used" by design engineers, but may bought by the purchasing department. Remember that the customer is always the person or entity who pays you money, but may not be the only one involved in the decision to buy.

Channel Strategy

Describe how your product/service will reach your customers. Unless you plan to sell directly to consumers there are many different channels that you could use, depending on the industry in which you are competing.

- Potential channels
    - Retailers
    - Distributors, wholesalers
    - Original equipment manufacturers (OEM's), system integrators and value added retailers (VAR's)
    - TV infomercial
    - Auctions

    - Out of your trunk
    - E-commerce
- Should you use a multi-channel strategy? E-commerce can complement other forms of distribution.

When deciding on a distribution strategy you must consider the same buying behaviors as described above in the Target Customer Strategy.

Positioning

Prepare a statement that positions your product/service in the minds of the target customer. The statement describes the market you are considering, identifies the target consumer/user, describes important features and explains why the he/she/it should care (benefits). Consider the following:

- What does the target customer need to believe about your offering?
- What attributes and benefits of your product/service are most persuasive in getting the target customer to act?
- What is the name of your company and why has it been selected?
- What are the company characteristics (essence of personality, tone and manner)?

Explain why you have chosen to position your company in this way. Does this give you an advantage over the competition?

Pricing Strategy

Explain your pricing strategy and why it will be effective with your Target Customer.

- Consider the following strategies for determining prices:
    - Commodity pricing
    - Set by the market
    - Supply and demand
    - Based on competitor(s) price
    - Value pricing - how much the consumer/user is willing to pay for value received
    - Payback period – depends on impact on company profit
    - Industry rule of thumb – keystone pricing is common in retail businesses and equals purchase cost + 100% markup
    - Introductory low price to get customers to use
    - Cost plus + markup
    - Razor & razor blade
    - Internet – transaction fee, advertising, intermediary commission, affiliate commission fee, subscription fee, click-throughs

    - A la carte

- List the prices for each of the products/services that you offer. How will prices change in the next three years? Why?

- What is the channel pricing, i.e. what discount does each element of the channel receive at each stage. For example, the consumer of salmon pays to the retailer $20.00 per pound; the retailer pays the wholesaler $15.00 per pound; the wholesaler pays the salmon company $10.00 per pound.

- How does your pricing strategy compare with your competitors?

- What <u>evidence</u> is there that the Target Customer will pay your price?

Internet Strategy

All businesses must decide how they will use the internet. Whether you sell direct to consumers or through distribution channels, e-commerce should be an integral part of your marketing strategy. Consider the following:

- Websites to provide information, product descriptions and pricing; customer and technical support; conduct transactions; enhance branding
- Search engine optimization
- Data collection
- Social networks
- Chat, user groups
- Blogs
- Brand building through affiliate programs and email marketing lead generation through search engines and affiliate programs
- Extranets to provide coordination with customers

Communication Strategy

It is critical that you inform your target market about the availability of your product/service, and that you continue to communicate the benefits. You should consider the following:

- Media advertising (TV, radio, newspaper and magazines)
- Direct response advertising (mail, email, text messaging, infomercials)
- Outdoor advertising (billboards, posters, cinema, vehicles)
- Brochures, catalogs, specifications, manuals
- Point-of purchase
- Trade and consumer promotions
- Sponsorships and event
- Exhibitions, conferences and trade shows

- Public relations (publicity)
- E-commerce
- Guerilla tactics
- Viral marketing or buzz

What messages need to be communicated to establish your brand? What is the visual identity (brand name, logo, tagline, packaging, color palette)?

For each strategy you choose prepare an action plan for at least the first two years.

- If you plan to use media advertising, what newspaper, magazine, TV, or radio will you use?
- What will the ad look like? How frequently will it be shown? What is the expected response rate?
- What is the expected cost: design, production and advertising rates?

Sales Strategy

Nothing happens until the sale is made. Describe how your product/service will be sold:

- Personal selling? TV infomercials? Direct mail? Telemarketing?
- Who will do the selling? Company sales force? Manufacturer's representatives? Telephone solicitors?
- How will you generate leads?
- How will you recruit, train, and compensate the sales force?
- What sales commission will you pay?
- How will you support the sales effort (e.g. internal staff, service operations, etc.)?

Revenue Model

Prepare a table that forecasts the revenue of your venture over the next 5 years. Determine your revenue drivers. These are different for each market. Consider the following:

- Market potential
    - Size of the market in units, number of customers or transactions
    - List of potential customers. For each one determine the potential business for your product/service, i.e. how much is purchased every year? What competitors currently supply the customer and how much? Who is the main contact? When do you expect to get an order and for how much?
    - Growth rate

- Market share
  - Penetration rate of the total market, based on your customer research. Do not use the following logic: the market is $100 million; we will easily capture 10%; therefore, we will be at $10 million company. This is correct arithmetically, but sales do not happen this way.
  - Better, is to identify which customers on the prospect list you will capture and when.
  - Roll-out strategy
- Product and services offered
  - Range & mix
  - New products or services
  - Obsolescence
- Prices for each product line based on your pricing strategy
- Frequency of purchase
  - Number of purchases per week, month
- Capacity utilization
  - Hours operated
  - Turns
- Channel strategy
  - Distribution channels
  - Discount

Operations Plan

Guidelines for Preparing This Section
The Operations section describes how you will run your business and deliver value to your customers. Operations is defined as the processes used to deliver your products and services to the marketplace and can include manufacturing, outsourcing, transportation, logistics, customer and technical support. The objective is to decide how you can use operations to gain a competitive advantage.

Be sure that you carefully link the design of your operations to your marketing plan. For example, if high quality will be one of your competitive advantages in the marketplace, then design your operations to deliver high quality, not low costs. Remember that you will probably have to make trade-offs with your operations. It is impossible to have the lowest costs, highest quality, best on-time performance, and most flexibility in your industry all at the same time. Often, higher quality means higher costs, lower costs means less variety and less flexibility. Be careful how you make these trade-offs so that you can deliver products to the market in accordance with your marketing plan.

Sources of information
- Supply chain analysis
- Interviews with industry experts, process and production engineers, civil engineers
- Thomas Registry
- Yellow pages
- Industry trade publications

Introduction

Write a brief introduction to the operations section. This can also be a good place to include a more colorful and evocative description of how you will use operations to add value for your customers.

Operations Strategy

Describe how you will fulfill your marketing strategy using operations:

- Describe the process for producing and delivering your product/service.
- How will you use operations to add value for customers in your target market?

- How will you win in the marketplace on the dimensions of cost, quality, timeliness, and flexibility? Which dimensions will you stress and which will you de-emphasize?
- Does your process or way of doing business give you a competitive advantage e.g. Southwest Airlines or Amazon?

Scope of Operations

Outsourcing is an important strategy for many ventures and may be used to reduce costs and capital investment; focus on the core business; gain access to expertise; or develop new markets. Describe which operations you will do in-house and which you will subcontract. Why does this make sense for your business? You should keep in-house those functions that are essential to the success of the venture. Include details in an appendix, as necessary. Consider the following:

- Product development
- Production
- Website design and hosting
- Order fulfillment
- Customer service
- Warehouse and shipping
- Tech support
- Installation
- Warranty service and repairs

Ongoing Operations

Describe how your company will operate on an ongoing basis? Include detail in an appendix, as necessary.

- Identify the key vendors, suppliers, strategic partners, and associates. What arrangements have you discussed with them? What price agreements have you reached?
- Provide a process flow analysis of the production or service process. Put this in the appendix.
- Based on your sales forecast, estimate how much production or service capacity is required over the next five years. This is usually expressed as some rate per hour, day, week, month or year. For example, 100 lighting fixtures per month or 150 meals per day for a restaurant. This is critical to answering the following questions:
  - What type of facility is required: size, type of space (office, customer service, development, laboratories, production, warehouse and shipping).
  - Where will you be located? Why?

- What capital assets do you require? Describe the major items (equipment, vehicles, buildings, fixtures, decorations, servers, computers and software, etc.) and how much each will cost. Will you lease or purchase?
- Where will be bottlenecks when you grow?

- Determine your manpower requirements to produce and deliver the product/service. What types of employees are needed (skilled, technical, supervisory, manual, etc.)? How much will you pay them? What benefits will you provide?
- Can you use extranets to provide coordination with vendors and strategic partners?
- Determine how much inventory is required to support the marketing strategy. Express it in terms of days or turns. Keep in mind that it is very difficult in the early stages of a new business to operate a just-in-time system. The order quantities are too small for suppliers to produce economically in small batches and deliver to your warehouse every day. Lead times from receipt of order can also be quite extended for small quantities.

Development Plan

Guidelines for Preparing This Section
In this section, you will outline how you intend to ramp-up your business. Assuming you have a dynamic marketing plan and customers do indeed come flocking for your product or service, you must be able to deliver it to them. The Development section is a road map of how you are going to get from where you are now to where you want to be in the future.

The objective is to identify the key steps that you need to accomplish to get the business up and running? These steps can be as routine as securing retail space, or as critical as applying for and getting a patent on key technology. Don't go into too much detail here. For example, the need to get business cards printed does not belong in a development plan.

Sources of Information
- Product/Service Plan
- Marketing Plan
- Operations Plan
- Management Plan
- Financial Plan

Development Strategy

Describe five to ten key steps that must take place for your venture to succeed. The focus should be over the next 2 to 3 years. For each milestone indicate the completion date. Consider the following:

- Product and process development
- Prototype development
- Intellectual property
- Marketing strategies, e.g. advertising launch, catalog mailing
- Exhibition or conference to launch a new product
- Website launch,
- Agreements with key customers, distributors or suppliers
- Strategic alliances
- Roll-out strategies, e.g. by regions, new products, new channels
- Facility construction and equipment installation
- Market tests or beta tests of the product/service
- Key hires, e.g. sales manager
- Funding

Management Plan

Guidelines for Preparing This Section

Investors often assert that the most important attribute of a successful start-up is management. Many claim they will invest in a strong management team with a mediocre idea, but will decline to fund a weak management team with a great idea. The purpose of the Management section therefore is to convince the reader that you have a great management team to complement a great business concept.

This is not the place for modesty or self-deprecation. Be honest, but highlight your accomplishments and your capabilities while mitigating any obvious shortcomings or weaknesses. For example, if you are young and inexperienced, describe how you will mitigate this by hiring people with the relevant experience; or by recruiting strong board members or advisors. When readers are finished with this section, you want them to be confident that your venture is in good hands and will be competently managed.

Sources of Information

- Resumes
- Interviews with investors

Management Team

Describe how your company will be organized:

- Write a short paragraph on each of the founders and key managers, describing their background and experience (include resumes in the Appendix). What will be their duties and responsibilities?
  - What unique skills do they bring to the venture?
  - How will they be compensated?
- Is there a significant "hole" in the team? How do you propose to fill it?
- Provide a simple organization chart.
- Do you plan to have a stock option plan? If so, describe how the plan will be organized and how large a pool of shares is needed.

Boards

Boards can be of great help in providing credibility and advice to a management team.

- Will you have a board of directors? Provide a brief description of their background and experience.
- Will you have a board of advisors? Provide a brief description of their background and experience.
- What is the ownership structure of your company? What percent of the company does each of the founders own?

Competitive Advantage

Guidelines for Preparing This Section

One of the most difficult, but essential, tasks that entrepreneurs face is to explain their competitive advantage. This results primarily from an inability or unwillingness to look honestly at the competitive environment. If you have conducted an industry analysis as suggested in this Plan, then you should be in a good position to define your competitive advantage.

A second reason this is difficult is that by virtue of you being successful you will create competitors. How can you sustain your competitive advantage when strong competitors appear?

Sources of Information

Interviews
Industry Analysis
Competitive Matrix

Sustainable Competitive Advantage

When defining your competitive advantage, consider the following:

- Identify the venture's resources:
  - Financial: access to capital (equity & debt), cash reserves, government grants, etc.
  - Physical assets: plant & equipment, raw materials, location, working capital, etc.
  - Human: social, employee knowledge, experience, accumulated wisdom, labor cost and skills, etc.
  - Intangible: patents, trade secrets, know-how, copyrights, databases, etc.
  - Organizational: culture, contacts, policies, Boards of Directors & Advisors, suppliers, service providers, etc.

- Identify the venture's capabilities:
  - World class management (serial entrepreneur)
  - Well developed, high-quality, accessible contacts that take years to build
  - Sales and marketing experience
  - Science or technology expertise
  - Supply chain expertise
  - Product/service design expertise
  - Sales & distribution organization

- Total operational approach (e.g. Dell, Wal-Mart)

- What barriers can you establish that would restrict entry into of competition?
  - Intellectual property: patents, trade secrets, copyrights, trademarks, etc
  - Switching costs to your target market
  - Customer loyalty
  - Agreements with customers, suppliers, strategic partners
  - Control of the distribution channel

The following are potential competitive advantages to consider. All of these are not equal because they are not sustainable or can be easily duplicated by your competitors:

- Strong Competitive Advantages
  - Intellectual property
  - Agreements with customers or suppliers
  - Long term contracts
- Credible Competitive Advantages
  - Control of costs
  - Control of prices
  - Location
  - World class management
  - Expertise
- Difficult Competitive Advantages
  - First to market
  - Development lead time
  - Brand
  - Quality
  - Service
  - Execution
  - Relationships

Financial Plan

Guidelines for Preparing This Section
The Financial Projections section should be frosting on a cake. You've outlined a great business concept, demonstrated a real need in the marketplace, shown how you will execute your ideas, proven that your team is just right to manage the venture, and now you will show how profitable the venture will be and the cash flow. Note, however, that if your business concept is weak, or there is not a market, or if your execution is poor, or if your management team is incompetent, then your financial plans are doomed to failure. If you haven't convinced your readers by now in the strength of your concept, then they won't be convinced with your financials.

Having said this, it is important that you have strong, well-constructed financials. If you can't show that your great concept is going to make money, your readers will quickly lose interest.

Sources of information

- Product/Service Plan
- Marketing Plan
- Revenue Model
- Operations Plan
- Development Plan
- Management Plan
- Financial Comps

Financial Projections

Create *pro forma* income statements, balance sheets, and cash-flow projections for 3 to 5 years. As a rule of thumb, your financial projections should extend far enough into the future to the point where your business has achieved stable operations. You may want to consider a Financial Projections Model developed by Frank Moyes and Steve Lawrence specifically for this task developed. This may be downloaded from:
http://leeds-faculty.colorado.edu/moyes/html/resources

Be sure that your financial projections are in congruence with the other sections of your plan. For example, if you say you will open 3 stores in Year 2 and your financials show you opening 5 stores, readers will quickly lose confidence in your plan.

Prepare the following projections and place them in the Appendix:

- Income Statement by years for 3-5 years; by months for years 1-2 and by quarters for years 3-5
- Balance Sheet years for 3-5 years
- Cash Flow by years for 3-5 years; by months for years 1-2 and by quarters for years 3-5
- Break-even Analysis
- Financial Comps
  To help to validate your financials, compare critical financial measures from your plan to peer companies in your industry (see the Financial Projections Model, COMPs section). Be able to explain and justify significant differences.
  - Understand where and why there are differences – differences are perfectly acceptable *if* they can be explained and justified.
  - If you cannot justify significant differences, adjust your financial statements to bring them more into line with your industry.
- Assumptions
  What assumptions have you made in putting together your financial forecasts? Describe in detail in the Appendix.
  - Revenue forecasts (prices, volume, discounts, margins)
  - Cost of Revenue (materials, labor, major indirect expenses)
  - Margins: based on the first two sets of assumptions, what is the gross margin and contribution margin? What happens over time to prices and costs?
  - Sales & Marketing expenses (numbers of people, key salaries, customer acquisition costs, commissions, exhibitions, advertising and promotion)
  - Research & Development expenses (numbers of people, key salaries, subcontract, major expenses)
  - General & Administrative expenses (numbers of people, key salaries, profit sharing, rent, major expenses)
  - Extraordinary income and expenses
  - Tax rate
  - Capital Expenditures: prepare a detailed list of fixed asset items (equipment, vehicles, buildings, fixtures, decorations, computers and software, etc.) and how much each will cost. What are the depreciation rate assumptions?
  - Working Capital (accounts receivable, inventory, accounts payable)
  - Funding (amount and timing of equity and debt, interest rate)
  - Other key assumptions

Financial Summary

Prepare a summary of your financial projections to be included in Financial Plan. The following format is recommended:

Summary of Financial Projections
($)

	Year 1	Year 2	Year 3	Year 4	Year 5
Summary Financials					
Revenue	1,000,000	5,250,000	9,750,000	16,250,000	26,000,000
Gross Profit	(116,464)	1,723,836	4,066,571	6,936,714	12,002,857
EBIT	(711,131)	(152,064)	768,515	1,591,781	3,803,390
EBITDA	(667,750)	(20,350)	1,012,610	1,965,400	4,313,200
Net Earnings	(711,131)	(212,064)	720,515	1,009,141	2,273,634
Net Cash from Operating Activities	(810,830)	(534,510)	868,850	878,760	1,964,444
Capital Expenditures	280,000	500,000	550,000	650,000	750,000
Interest Income/(Expense)	0	(60,000)	(48,000)	(45,000)	(14,000)
Dividends	0	0	0	0	50,000
Cash	409,170	374,660	593,510	822,270	1,786,714
Total Equity	(211,131)	(423,195)	297,319	1,306,460	3,530,094
Total Debt	0	500,000	400,000	300,000	200,000
Growth					
Revenue Growth Rate - CAGR:		425%	86%	67%	60%
Net Earnings Growth Rate - CAGR:		Nil	Nil	40.1%	125.3%
Ratios					
Current Ratio	4.2	2.0	2.0	1.9	2.2
Debt to Capital (LT Debt + Equity)	0.0	0.3	0.2	0.1	0.0
Profitability					
Gross Profit %	-11.6%	32.8%	41.7%	42.7%	46.2%
Operating Expenses %	55.0%	35.7%	33.8%	32.9%	31.5%
Net Earnings %	-71.1%	-4.0%	7.4%	6.2%	8.7%
Returns					
Return on Assets	-73.9%	-9.2%	22.1%	20.0%	27.3%
Return on Equity	-90.1%	-19.7%	40.1%	36.0%	45.2%
Return on Capital (LT Debt + Equity)	-90.1%	-13.4%	32.8%	32.5%	43.5%

Key Assumptions

Explain in this section of the plan 2 or 3 key financial drivers that will determine the success of the venture. This is different than the comprehensive list of financial assumptions described above. Consider the following:

- Revenue projections: market penetration, new products, response rates, prices, sales cycle, etc.
- Margins: gross profit and contribution
- Customer acquisition costs. It is very important that you know this and can explain it to investors. What are the major expenses, e.g. advertising, web developments, promotions, etc?

- Product and process development expenses, e.g. prototype, beta testing, etc.
- Large marketing expenses, e.g. advertising, roll out strategy, etc.
- Major operations or administrative costs, e.g. lease expenses, patent application, etc.
- Capital expenditures. What are the key items and how much does each cost.
- Working capital assumptions: accounts receivable days, inventory turns, and accounts payable days.

Risks

What are the risks to the successful implementation of your plans? You might wonder why you should even mention risks in the plan – won't investors be frightened off if you point out potential problems? The reality is just the opposite. All businesses face risks and investors want to be assured that you understand what they are and, most importantly, what you are going to do to mitigate them.

Identify the major risks that your venture faces. Focus on risks that are important and critical to your business, not the ordinary operating risks faced by any business. The natural tendency is to consider what can go wrong, but equally important is what must go right.

Briefly describe each risk and then explain what steps you are going to take to eliminate, or at least minimize, the risk. Consider the following:

- Market
    - Size of market
    - Competitor's response
    - Long sales cycle
    - Price that customers are willing to pay
    - Closing window
- Strategic
    - Establishing strategic agreements
- Operational
    - Large number of interrelated components
    - Costs target
    - Quality level
- Technology
    - Will it work?
    - Patentability
    - Time and cost to develop
    - Scalability
- Financial
    - Exchange rates

    - Interest rates
- Macro-economic
    - Volatile industry
    - Government approval
    - New regulations and laws
    - State of the economy

Funding

Guidelines for Preparing This Section
In this section you will determine how much funding you require and how you will use it. Then, decide what type of funding is appropriate for your venture and prepare the offering that you will make to investors or lenders.

Sources of Information
Interviews with investors and bankers
Small Business Valuation Formula Multiples, 2007 edition, Bizcomps
Financial Comps
Pro forma 5 year financial projections of the Income Statement, Balance Sheet and Cash Flow

Funding Requirements

The Cash Flow projection is the basis for determining the required amount and timing of funding needed to execute your plan.

- Review the Cash Flow projections to determine the amount of cash generated or required for each year.
- Review the monthly and quarterly cash flows to determine the impact of seasonality or one time expenditures.
- Determine the amount and timing of cash infusions needed to prevent cash balances from going negative.
- Add a cash safety cushion to anticipated cash needs to protect against unexpected expenses or delayed income. A cushion of 20% is a good starting point in many situations.
- Develop a funding strategy that is consistent with your cash needs. For example, if you need cash in year one and again early in year two, it may make sense to seek funding in one lump sum in year one. Alternatively, if cash is needed in year one and again in year three, it makes sense to seek funding in two tranches: the first in year one and a second in year two.

Funding Strategies

Determine the most appropriate source(s) for the type of funding you seek:
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- Sources of equity funding. Equity funding is appropriate for most start-up businesses with moderate to large cash needs.

- Entrepreneur’s savings and assets: if you have the personal resources it is preferable to “prove the concept” and add value to the venture before going to outside funding.
- Friends and family: suitable for smaller businesses with modest cash needs, and that will eventually be able to pay dividends or buy back shares. Or, seed stage for high growth ventures.
- Angel investors: suitable for potentially moderate sized business with moderate cash needs and good growth potential. Most angels require an exit strategy, but some may look for a cash flow payback. Sometimes angels will provide seed stage funding for high growth ventures, but it is assumed that the next round will be large and will come from venture capital.
- Venture capital: suitable for large potential businesses high large cash needs, extraordinary growth potential, and a clear exit strategy (will go public or be acquired).

- Sources of debt financing. Debt may be appropriate for existing businesses with a financial track record and assets, or for start-up businesses with modest cash needs.
  - Banks – suitable for businesses with established credit records, ongoing operations, and/or physical assets to use as collateral.
  - Leases – lease rather than purchase equipment; cash flow must permit regular lease payments.
  - Small Business Administration – government guaranteed loans made by banks. The criteria are less stringent than a traditional bank loan, but the terms are more expensive.
  - Credit cards, second mortgages, consumer debt – may be suitable when cash requirements are small and the business will quickly begin to throw off cash.
  - Friends and family – may be suitable for small businesses with modest cash needs, and with the ability to make loan payments on a timely basis.
  - Many businesses get started using the entrepreneur’s credit cards, personal loans, mortgage on the house or their first born child as collateral.
- Sources of non-traditional financing. Non-traditional financing may be appropriate when customers or vendors are willing to participate in the business.
  - Customers:
    - Companies that see a potential benefit from your product/service may agree provide cash, e.g. an advance to fund product development.
    - Companies may purchase an equity stake in the business to secure needed product and reliable source of supply.
  - Suppliers:

        - Vendors who see a potential benefit to their business may extend special credit terms, e.g. payment in 90 days.
        - Vendors may furnish equipment and/or supplies in return for an equity stake in the business to secure initial and follow-on sales.
    - Strategic partners: established players in a market are always looking for companies with interesting technology, product/services, market segments, etc. that could benefit their business. An agreement with such a company could involve one of more of the following: equity, licensing, purchasing, selling, joint marketing, co-branding, and manufacturing. While there are downsides to having a strategic partner, this is very important avenue for an early stage venture to consider.
    - Grants: research grants (SBIR, Defense Dept., Homeland Security, NIH, etc.), state economic development programs, corporations, foundations, etc.
    - Other creative arrangements – sources of non-traditional financing are limited only by the creativity and ambition of the entrepreneur.

Offering

The Offering (or Funding Request) is where you make your pitch for money.

- Equity: describe the type of security being offered (common, preferred, warrants, etc) to the investor and what share of your company they will receive for a specified investment.
    - To calculate what percentage of the company to offer, you will need to place a value on the business. It is important that you persuade investors that the deal you are offering is fair to them and is supported by the facts. There are many approaches that can be used; you should investigate which method(s) are appropriate for your industry. From your interviews with industry experts and secondary research find out what valuations are being negotiated for companies of your size, stage and industry.
    - A valuation model is included in the Financial Projections Model.
    - What is your exit strategy? How can investors realize a return on their investment? Go public? Sell out? Operate and grow? What is your exit for investors if the business does not develop as you hoped?
    - Remember that everything is open to negotiation.
- Debt: If you are seeking a loan, then you need to indicate to the lender the term of the loan, repayment schedule, interest rate, collateral, and how it will be repaid.

- In either case, it is important that you clearly spell out the key terms of the proposal and sell the advantages to the investor/lender, and show how they can get a satisfactory return.

Sources and Uses of Funds

Prepare a Sources and Uses statement.

- Sources of Funds: determine the amount, source and timing of funding that you have chosen for the venture: equity, debt, or non-traditional financing.
- Uses of Funds: based on the projection of the funds required and timing, describe how the funds would be used. For example:
  - Product or process design and development; web design
  - Marketing actions, e.g. major advertising campaign, catalog, grand opening
  - Intellectual property protection
  - Key hires
  - Capital expenditures, e.g. new machine, major renovation, information system
  - Working capital

Appendices

The appendices are where you should collect all of the documentation that supports your business plan. Include those documents that are required (financial projections), those that are helpful (results of marketing research), and those that assist in selling your idea (purchase orders or letters of intent from potential customers). Don't include lots of tangential information such as newspaper clippings or tables of data unless they serve to bolster your plan. One way to deal with information that is voluminous and/or lengthy (such as a large market research study) is to summarize it, and note in the plan that the complete document is available upon request.

Required items

- Financial Statements
  - 5 year Income Statement
    - Annual projections
    - Monthly and Quarterly projections
  - 5 year Balance Sheet
  - 5 year Cash Flow Statements
    - Annual projections
    - Monthly and Quarterly projections
  - Break-even analysis
  - Financial assumptions
- Customer survey methodology and results
- Competition matrix
- Management resumes

Optional items

- Development timeline
- Operations layout
- Sample menus, web pages, advertisements, etc.
- Anything else that will help to illuminate and/or sell your plan