

# BUSINESS PLAN GUIDE

By Charles H. Green

Business planning is a key management function for a business at any stage, and is most effective if started well ahead of the business actually beginning operations. Regardless, memorializing all the ideas, goals, and resources into a written **business plan** provides the company with a single document to proclaim its mission, define its business, detail its opportunity, chart its path, focus its resources, preview its risks, train its staff, quantify its profit potential, and be used as a benchmark to judge its success.

How do companies use business plans? Too often, business owners put a business plan together only when prompted to do so by a third party, typically when the business is seeking external financing from lenders or investors. Better-managed companies use a business plan as a tool that's reviewed and revised annually without being prompted by any third-party.

Business plans should provide information on the short-term and intermediate-term strategies for accomplishing long-term goals. They should provide details on how financial, operational, marketing, and human resources will be converted into a successful and profitable venture. Business plans should be thought of as a road map that describes the path to achieving business goals, including the metrics by which management will measure their success toward meeting those goals.

Readers might include everyone from the business owners, management, staff, investors, lenders, clients, vendors, or other interested parties, considering their pertinent need to know.

While no two plans are alike, there is really no 'right' or 'wrong' document. However there are plans that are organized better than others, based on management's attention to the plan's development and maintenance. The outline below is my recommended organization of a solid business plan, but it may be expanded or made smaller based on the specific needs of the organization writing it, or the current stage of business planning. And afterwards, there's a list of additional documents that can be helpful to include (or not) with the business plan, depending on who will be reading the document and their specific purpose for reading.

Neither the outline nor the suggested exhibits are comprehensive, as many companies might require information related to the specific nature of the business or a particular element of it.

## BUSINESS PLAN COMPONENTS

**Executive Summary** – Written at the *conclusion* of the plan's development, but placed at the beginning of the document, this portion of a plan provides a concise summation of the what, who, and how of the business operation. With nothing more than the most significant details, the summary drills readers to the essence of the business plan. The briefest discussion in the summary will be the financial portion, which will refer only to any amounts being raised, borrowed, or invested.

The summary should not be more than two pages, with one page being the preferred length. It should be a fact-filled brief overview of the plan that's interesting, not promotional, and give the reader confidence that the entire document is worth reading. The length might betray the importance of the executive summary, in that many lenders/investors won't read the full business plan if their interest is not captured in the executive summary.

**Mission** – While optional, I believe defining the 'mission' of the business in this plan is a useful exercise, but recognize that many people struggle with harnessing such a definition into few words. Admittedly it's not a required component, but the mission represents the heart of your business goal, distilled into one simple statement. In my view, if it's longer than 25 words, you don't have a clear mission.

Your mission should not be expressed as merely the personal ambition of the founder(s) sole benefit, such as "grow the company and sell for \$3 million." That sort of goal is of little interest to any non-owners, or a majority of the people reading it. But rather define the ambition of the *organization* from 30,000 feet. Consider the mission statement of a few recognizable companies:

Google: *"To organize the world's information and make it universally accessible and useful."*

Coke: *"To refresh the world, to inspire moments of optimism and happiness, to create value and make a difference."*

IBM: *"Dedication to every client's success, innovation that matters--for our company and the world, trust and personal responsibility in all relationships."*

The principal benefit of a mission statement is that it focuses every stakeholder—including the preparer—the essential business purpose, which should influence everything your team does and how they do it.

**Business Description** – The first major section of the plan will describe the business. The level of detail necessary to describe the business is a judgment call. The new niche of a little-known industry, such as aggregating biomass inventory to distribute to the stem-cell researchers, requires more explanation than a fairly common business venture, like opening a franchise restaurant. But a descriptive overview of the company is fundamental to a business plan, detailing exactly what it does or intends to do.

Explain the business enterprise in sufficient detail to provide the reader with enough information to understand how you will deliver a product or service to the market, who your customer will be, and on what terms you expect business to be transacted. This section is where you clearly identify the industry in which you will compete, but distinguish your business from peers and competitors.

Some topical headings under this section might be:

- Business name and product--explain what the business will do (does) or sell.
- Business physical address--explain why the business is situated in that particular place.

- Provide information about the location of business site.
  - Description of the business facilities, such as building or size of leased space.
  - Identify neighboring companies and whether any offer business opportunities.
  - Describe access and parking, and overall convenience of the building and location.
  - Describe any surrounding developments within at least a one-mile radius.
- Form of organization (proprietorship, corporation, partnership or LLC), & business owners.
  - Business management
    - Describe who will manage the business on a day-to-day basis.
    - Describe whether business will employ a manager in addition to the owner.
    - Detail the hours of operation and number of employees.
  - History of industry or business or details of planned start-up--explain the start-up timing and progress since opening, if applicable
  - Franchise information, if applicable, and full discussion of franchise history, brand, and opportunities as a franchisee.

**Feasibility Study** – The second major section might be the most critical areas of discussion for some business owners, particularly those planning to start or expand their business. Often third-party lenders/investors will inquire as to whether or not you have conducted a “feasibility study.” That term refers to a report based on local research that seeks to determine whether or not there is sufficient demand for the product or service a business intends to provide to a certain market, territory or user.

This report does not render an opinion as to whether you will actually be able to deliver the product or service, but rather whether there is a discernable demand for it, and quantifies that demand to the extent possible .

Questions about these studies come up most often when the business owner does not provide evidence as to how they know anyone will really buy what they have to sell, relying instead on their intuitive reasoning or confident illusion. Lenders/investors want hard evidence.

You can engage an appraiser or qualified consultant to produce such a study, or you can do the legwork yourself and include the results in your business plan. I advocate for the latter, in that the process of gathering the data leads to a much better understanding of the target market and the likelihood of acceptance of your product/service, which is much more important than whether you funder decides to agree. That study helps you adjust your planning to account for the actual market you find in your analysis.

To develop a comprehensive evaluation of your suppositions, gather pertinent data that provides unadulterated information and insights as to the probability of success. Good data to draw from includes:

- Traffic count surveys at the subject address and ancillary thoroughfares leading to it. (source: U.S. and state DOT)

- Area Demographics—The local population breakdown and household measurements, including gross count, average census per household, age distribution, income per capita, housing value breakdown, number of units, homestead vs. apartments vs. weekly rental facilities, average size home, number of new homes built over past three years, and any planned housing or commercial development. Compile this information for a 5-mile radius around your planned location, or adapted to account for your target market, which may be a larger area (Source: U.S. Census and Regional Planning Authority)
- Area or industry business population, how many people drive to the immediate area to work or school every day? What impact could that have on your business? (Source: State Economic Development Authority, Regional Commission, or Chamber of Commerce)
- Industry trends, growth patterns, innovations, leaders, challenges, and opportunities. Aggregate sales volume, broken down nationally, by state and local. (Source: trade associations)
- Competition, who are they, what is their capacity, estimated sales volume, competitive edge and vulnerabilities, clients, and proximity to your targeted clients (Source: trade associations, online surveys like Yelp!, Chamber of Commerce, web search, direct telephone inquiries, methodical drive-by tours of area, etc.)
- Consider target customer surveys, focus groups, or direct interviews regarding feasibility of your ideas

More specific information that relates to your business category should be added to this starter list, so to build more evidence of the likely success (or failure) of your thesis of a business opportunity, such as:

- How well is the area presently served by your industry?
- If a supervised industry, what are regulatory barriers to locating in this area?
- Where does the demand for your product/service go today to meet their needs?
- What value do you bring to the market that does not already exist?

And don't forget---*the conclusions you reach may not be what you want, but what is.* The goal is to learn the facts about the market's likely response to your business, not justify your bright idea. Use the results prudently.

**Marketing** – The third major section will discuss how the business will market itself. How it will find buyers for its products or services? Who is the target audience?

Some topical headings under this section might be:

- Detailed list of the products/services sold, manufactured, or distributed
- Who are the customers?
- Profile of your typical client/customer

- Demographics of your target market
- Who is the competition?
- What is the competitive advantage for the subject business?
- How will you grow and maintain your customer base?
- Describe pre-opening advertising blitz.
- Describe ongoing advertising/marketing strategies.
- Outline the marketing and advertising strategy, detailing the multiple channels through which you will seek to reach prospects and develop clients.
- Description of your sales strategy to convert prospects to revenues and how it can grow.
- Analysis of how you will develop brand recognition and how it will grow over time.
- Analysis of how you will build initial market share and increase it over time.
- List of additional long term ideas, if any, you may have to grow internally with existing client base, and externally with alternative revenue streams.

Discuss marketing activities you plan to engage within your target market in the pre-opening period and specifically how you will attract the attention and following of new clients for the business. Describe all of the planned efforts to build awareness of the business ahead of opening and converting that awareness into new client revenues.

For all of the different marketing strategies that are planned (such as advertising, media, public relations, signage, direct mail, direct contact, email, social media, etc..) write at least a paragraph defining:

- a. How you will use each of them
- b. Whom will be targeted by each of them
- c. When the marketing message will be delivered
- d. What are the results you expect for each tactic
  - i. Example: 10,000 emails = 800 opened emails = 40 inquiries = 4 sales.

These kinds of details will help support your projected number of clients and/or unit sales during the first 12 months.

**Management** – The fourth major section will discuss everyone important to the success of the business. More than inserting resumes (although including resumes in the plan’s appendix is a good idea), this section identifies the founders, owners, management, and significant staff members. Details about what makes each person qualified and vital the business hopefully helps the current stakeholders get comfortable that the company can achieve its goals.

Add granular information about each person to support your assessment of how their experience includes the development of the skills needed to accomplish the mission and goals of the business. How does your past education/business experience relate to this business?

An organization chart helps sort all of these people out as to how they fit together to form the business, and the ranking of everyone in the scheme of things. Definitely include one and watch it grow.

Resumes provide a more rounded and deeper view of all of the parties mentioned, and provide reader with context to analyze someone's value to the business based on their past experienced. An important note is to make sure every resume is consistent in style and appearance. It is distracting and poor construction to have six different fonts, type styles or designs included, not to mention varying lengths. All resumes need to conform to the same template look and level of detail.

Use of a curriculum vitae is acceptable in certain industries, such as education and medical research, but may be overkill in most others.

**Financial** – The fifth major section will discuss the capital resources that are needed to start-up or sustain the organization. How much will it take? Detail what these costs include and explain the source of funding to cover them, including the founder/owner's investment. Don't forget that the business will need working capital to get started to cover expenses until revenues and profits are sufficient to cover expenses and replenish capital goods and labor.

If you are seeking third party funding, you must present a detailed breakdown of how their money is to be used, and then what the likely results will be. If it doesn't add up in your plan, it won't get funded. If you don't know what a balance sheet is or what it's for, or can't articulate the difference between 'cash flow' and 'profit/loss', you should do some remedial accounting study before finishing your plan. Otherwise you risk appearing to be a poor manager to those who can provide funding.

Some topical headings under this section might be:

- Historical financial results
- Projected monthly operating cash flow for next 12 months (see example attached)
- Projected financial results annualized for next two years (five years for investors)(see example attached)
- Pricing and revenue expectations compared to competitors vying for the same clients.
- Revenue assumptions in detail, such as monthly sales volume, product mix and pricing range.
- Discuss any anticipated "ramp-up period" and be sure it's reflected in revenue and cash flow estimates.
- Will sales be seasonal? If so, describe how you will survive for the remainder of the year.
- Is an owner salary included in projections? Lenders look beyond the projections to determine whether owner can support themselves while business grows toward its potential, called 'global cash flow' analysis. Calculate how much the owner(s) require to fully meet their living expenses and personal debt obligations, and add it to cost required by the business.
- Incorporate industry-specific information into projections to personalize them to business.

**Contact** – Finally, be sure that the executive summary and a contact page at the end of the plan clearly identifies the point person to contact about the plan and the business. The reader needs to know who to call and how to reach them for questions or to follow up for the purposes of their reading it.

## BEST PRACTICES

Remember that your business plan will be read in whole or in part by many constituents. Some may even work for you, but they must all be treated the same as if you are submitting the plan to your bank. Make an effort for the plan to be the best product you are capable of creating, and number succeeding edits and revised versions for the inevitable changes that will occur.

You can undermine the information provided to support your business when it contains excessive and obvious grammatical errors, misspelled words, and incoherent ideas. With the high-quality word processing software now available you can avoid and eliminate many of these errors, even if you're an inexperienced writer. There is no excuse for poorly written information communicated incorrectly and haphazardly. Solution? Proof read it several times over the course of several days, or better over a few weeks.

Assume that the reader doesn't understand your industry jargon or common abbreviations. Explain any technical terms and methodologies to ensure that the reader can follow the reasoning of your plan.

Provide clean, clear documents that are entirely legible. Review everything prior to distribution to eliminate incorrect compilation, incomplete pages, poor copy reproduction, or out-of-sequence documents. These logistic errors cause confusion and distract the reader from the business information you're submitting. Never add original documents to your plan, such as the company's contracts or corporate documents.

If you want the business plan to be taken seriously, you should take care to write it, edit it and present it in a serious manner.

While it may be questionable as to how vulnerable you are to someone stealing your ideas and actually capitalizing on them to your detriment, use of a "non-disclosure" agreement is overkill 99% of the time for small business finance. Asking a bank lender or finance company to sign one is a bad idea 100% of the time, and for an investor 99.5% of the time. Focus your attention on building a good plan and getting it in front of the right people, rather than spending too much time fretting over who's going to steal it from you.

A modest level of protection that should not be seen as pretentious by anyone is to simply take two steps:

1. Add a brief notification at the bottom of the cover page asserting that the document is proprietary, confidential, and intended to be read only by those granted consent by the owner. Something like:

*"This document contains proprietary information that is confidential and should only to be read by parties authorized by its owner. This information is to be used for informational purposes only and is not a prospectus to offer or sell securities."*

2. Copyright your business plan through a simple declaration. In the footer, add a copyright notice and you have established ownership that can be protected, if necessary. Something like:

*“Copyright 2017 © Charles H. Green--All rights reserved.”*

3. Never post a business plan on your website unless secure access is required to open or download it.

## SUGGESTED EXHIBITS

### Business Description

- Photographs of business facility and map to location
- Articles of organization and legal registration certificate, if applicable, bylaws or operating agreement, etc.
- Franchise agreement and Franchise Disclosure Document (FDD), if applicable
- Important data gathered to assert feasibility, if applicable, particularly any survey, interview or focus group results

### Marketing

- Brochures, catalogs, marketing collateral, etc. developed by the business
- Samples of communication concepts (advertising copy, letters, social media posts, etc.)
- Important data gathered that is useful validating marketing plans or targets, describing competitors and supporting financial projections.

### Management

- Organization chart
- Resumes of management and key staff

### Financial

- Historical financial results, including the latest monthly financial statement. For a debt financing proposal, prepare to provide copies of the last three year's tax returns of the business and the owners, along with a personal financial statement on the latter.
- Projected monthly operating cash flow for next 12 months. If seeking third-party financing, be sure to account for all future debt payments or dividends/distributions required.
- Projected financial results annualized for next two years (for investors, five years)

**Final Thoughts** - if you've put together a business plan merely to justify financing, then such a plan has limited utility/value for either you or the lender. Lenders/investors require business plans to ensure that you've thought through the business idea thoroughly and can make a convincing case in favor of your business goals--hopefully the plan will convince them that your solid plan should qualify for their financing.

They need to absorb information over time and can digest your information best when they're able to read it and refer to specific sections that hold answers (or not) to what's important for them to know. It's better than listening to hours of conversation and trying to sort out information in real time.



If you are starting up or operating a business with one or more partners or a senior management team, get them involved with developing the business plan. They are likely more in touch with many of the fine details about the specific discipline area of the business they lord over anyway, and the delegation of parts of the task will lead to a stronger document for the business to use as a roadmap for future months, quarters and years. The CEO should be the editor in chief for the final document.

It's clear that business owners should invest the time to produce a full business plan. And don't stop when you are granted financing. It's in your best interest to update that plan at least annually and use it into perpetuity as an ongoing planning tool for the enterprise.

This process will definitely make business succession much easier for the next management team, regardless of when or how business ownership or control is transferred.

And don't engage anyone else to write a plan for you. No one else can better express or more accurately describe your business vision than you. Is it time-consuming? Yes. Is writing a difficult challenge for many folks? Yes. Persevere – your business needs the best of you, and usually writing it down and rereading your plan continually is the best advisor your business can have.

Good luck!

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