

How To Write An Effective Business Plan

by Mike Pendrith

You have decided to start a business and realize that you will have to borrow some money. Financial institutions and third party lenders will want to see a detailed Business Plan before agreeing to any kind of a loan.

Well written business plan are usually 30 – 40 pages in length and include the following sections: Executive Summary, Management Profiles, Business Environment, Marketing, Operations, Financial Section, Risk Analysis and Conclusion.

Executive Summary

The Executive Summary should highlight the contents of your plan in 2 pages. Include the following:

A description of your business including the industry sector, the market you will serve and its legal structure.

How you plan to differentiate your product or service from the competition and a statement of your competitive advantage.

Identify who is involved in the ownership of the business and provide a brief summary of their experience and credentials.

A statement of how much money the owners are investing and how much money you are seeking to borrow. A brief description of how the money is to be used.

Identify how much the owners plan to draw as a salary from the business.

Incorporate key financial indicators including first and second year revenue projections, income projections and cash flow and how long it will take to repay the loan.

Management Profile

The Management Profile section is usually 3 – 4 pages.

It identifies the owners, their backgrounds, experience, areas of expertise and respective roles in the new venture. It will also describe the ownership structure, percentages of each owner and their compensation.

Creating a Board of Advisors is an excellent way to enhance the credibility of your business. List the names, occupations, education and expertise of your advisors and state how their presence will benefit your business.

Incorporate a section identifying all of the professional support services that your company plans to utilize including accountants, lawyers, consultants, etc. This demonstrates that you have a network of people who can help you to manage and grow your business.

Also include information about the employees that your business will hire and their respective functions. Identify how many people you will require, their skill sets, their compensation and benefits package and how these people will be trained.

Business Environment

This section is a key section of your plan. It will usually be 7 – 10 pages in length.

It describes your industry: the size of the industry, trends, seasonal factors, opportunities and threats and the long term prospects for the industry.

Provide a description of your product(s) or service(s) and state how you will differentiate your product / service from the competition.

If you are planning to use patents, copyrights or trademarks, include this information.

Identify your competitors.

Discuss the barriers to entry into your industry. How easy would it be for a competitor to duplicate your products or services?

Include the role that technology could play in allowing your competitors to duplicate your products or services.

Marketing Plan

The marketing section of your plan is also another extremely important section of your Business Plan. It will often be 7 – 10 pages in length.

Identify your target market including buyer demographics and psychographics. How do they buy, what do they buy, when do they buy, what motivates them to buy and where do they buy?

Estimate the total size of the geographical market that you will serve.

Describe the trends that could affect your target market including socioeconomic trends, demographic changes and government policies

Summarize the competition. Include how long they have been in business, their share of the market and their financial health. Describe their strengths and weaknesses.

Compare your product or service to the competition in terms of quality, price, service, availability and warranty. What are the one or two things that will make your product or service unique?

Describe the features of your product or service. Features could include quality, price, packaging and delivery. Describe the benefits your customers will enjoy by purchasing your products or services.

State the selling price(s) for your product(s) or service(s). How are similar / competitive products and services priced?

Describe how customers will pay for your product or services. Will you extend terms or offer volume discounts?

Explain your distribution plan. What channels will you use to get your product or service to the end user?

Indicate how you will promote or advertise your product or service including mediums and costs. State what percentage of your revenues you expect each method to generate.

Describe the role of collateral marketing materials in generating new customers.

Will you have a website? If so what role will your website play in attracting new customers?

Include a monthly forecast for each product or product line for the first year.

Operations

This section addresses the day to day running of the business. It is usually 2 – 3 pages in length.

It should include a description of the facility required for your business: size, leasehold improvements, lease cost, etc.

Provide a description of the equipment that you plan to purchase or lease in order to operate your business including office equipment and production machinery. Include the costs for installations of telephones, fax, security systems, IT networks, etc.

Discuss the suppliers for your raw materials or resale items. Identify the product costs.

In a manufacturing or distribution environment, describe the manufacturing process, the workflow process and the quality assurance procedures.

State how you will track your inventory and how often.

Address the necessary health and safety training for your employees.

Finance

This section is extremely important to any potential lender. It demonstrates the viability of your business.

Include the following:

Start Up Costs

First Year Revenue Projections by Month

First Year Income Statement by Month

Second Year Income Statement by Month

First Year Cash Flow Statement by Month

Second Year Cash Flow Statement by Month

Opening Day Balance Sheet

Balance Sheet at the end of Year One

Risk Analysis

When starting a business, there are risks. This section demonstrates to potential lenders that you have identified those risks and understand how to minimize those risks.

Examples of risk include:

An increase in the number of competitors

Competitive price reductions

A decrease in the demand for your products or services

Resignations of key employees

An ineffective marketing plan

Injuries to key employees

Health and safety risks to your employees

Supplier strikes, financial difficulties, or shortages of supply

Running out of cash

Environmental risks created by your products or services.

Conclusion

This last section allows you to leave the reader with a final and favourable impression.

In this section, restate: the nature of the business, the amount of the loan you are seeking, what it will be used for, first and second year financial indicators (revenues, operating income and cash flow) and how quickly the loan will be repaid.

You can also include hints at possible plans for the future of the business (expansion, supplementary product lines, additional locations, etc.)

Final Comments

Remember, you only get once chance to make a first impression.

When you go to your financial institution or to meet with prospective investors, you will want your Business Plan to be as professional as possible.

If you are uncertain as to how to write or how to complete your plan, get some assistance. Ask friends, relatives or business associates for some help.

If they cannot assist you, hire a professional to write your plan. You will find that it is well worth the investment.

Mike Pendrith is the CEO of PerformancePoint Corporation. He works as an advisor to owners of small and medium sized businesses. Mike writes business plans for start up organizations. He also works with owners of existing businesses to help them to develop strategies and implement plans to grow their businesses, increase profits and improve operating efficiencies. For additional information, Mike can be reached at: pendrith@performancepoint.ca