# Business Plan for a Startup Business

The business plan consists of a narrative and several financial worksheets. The narrative template is the body of the business plan. It contains more than 150 questions divided into several sections.

1. Work through the sections in any order that you like, except for the Executive Summary, which should be done last.
2. Skip any questions that do not apply to your type of business. When you are finished writing your first draft, you’ll have a collection of small essays on the various topics of the business plan.

**Executive Summary**

Write this section last.

We suggest that you make it two pages or fewer.

Include everything that you would cover in a five-minute interview.

Explain the fundamentals of the proposed business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business?

Make it enthusiastic, professional, complete, and concise.

**General Company Description**

What business will you be in? What will you do?

Mission Statement: Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:

Company Goals and Objectives: Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a leader in customer service and that has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.

Business Philosophy: What is important to you in business?

To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

**Product and Services**

What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique or proprietary features.

What are the pricing, fee, or leasing structures of your products or services?

**Marketing Plan**

##### Market research - Why?

No matter how good your product and your service, the venture cannot succeed without effective marketing. And this begins with careful, systematic research. It is very dangerous to assume that you already know about your intended market. You need to do market research to make sure you’re on track. Use the business planning process as your opportunity to uncover data and to question your marketing efforts. Your time will be well spent.

##### Market research - How?

There are two kinds of market research: primary and secondary.

Secondary research means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available in public libraries, industry associations, chambers of commerce, from vendors who sell to your industry, and from government agencies.

Start with your local library. Most librarians are pleased to guide you through their business data collection. You will be amazed at what is there. There are more online sources than you could possibly use. Your chamber of commerce has good information on the local area. Trade associations and trade publications often have excellent industry-specific data.

Primary research means gathering your own data. For example, you could do your own traffic count at a proposed location, use the yellow pages to identify competitors, and do surveys or focus-group interviews to learn about consumer preferences. Professional market research can be very costly, but there are many books that show small business owners how to do effective research themselves.

In your marketing plan, be as specific as possible; give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important sales projection.

##### Economics

Facts about your industry:

* What is the total size of your market?
* What percent share of the market will you have? (This is important only if you think you will be a major factor in the market.)
* Current demand in target market.
* Trends in target market—growth trends, trends in consumer preferences, and trends in product development.
* Growth potential and opportunity for a business of your size.
* What barriers to entry do you face in entering this market with your new company? Some typical barriers are:
  + High capital costs
  + High production costs
  + High marketing costs
  + Consumer acceptance and brand recognition
  + Training and skills
  + Unique technology and patents
  + Unions
  + Shipping costs
  + Tariff barriers and quotas
* And of course, how will you overcome the barriers?
* How could the following affect your company?
  + Change in technology
  + Change in government regulations
  + Change in the economy
  + Change in your industry

##### Product

In the *Products and Services* section, you described your products and services as you see them. Now describe them from your customers’ point of view.

Features and Benefits

List all of your major products or services.

For each product or service:

* Describe the most important features. What is special about it?
* Describe the benefits. That is, what will the product do for the customer?

Note the difference between features and benefits, and think about them. For example, a house that gives shelter and lasts a long time is made with certain materials and to a certain design; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so that you can sell the benefits.

What after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

##### Customers

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.

The description will be completely different depending on whether you plan to sell to other businesses or directly to consumers. If you sell a consumer product, but sell it through a channel of distributors, wholesalers, and retailers, you must carefully analyze both the end consumer and the middleman businesses to which you sell.

You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile:

* Age
* Gender
* Location
* Income level
* Social class and occupation
* Education
* Other (specific to your industry)
* Other (specific to your industry)

For business customers, the demographic factors might be:

* Industry (or portion of an industry)
* Location
* Size of firm
* Quality, technology, and price preferences
* Other (specific to your industry)
* Other (specific to your industry)

##### Competition

What products and companies will compete with you?

List your major competitors:

(Names and addresses)

Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?

Will you have important indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)

How will your products or services compare with the competition?

Use the Competitive Analysis table below to compare your company with your two most important competitors. In the first column are key competitive factors. Since these vary from one industry to another, you may want to customize the list of factors.

In the column labeled **Me**, state how you honestly think you will stack up in customers' minds. Then check whether you think this factor will be a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, trying to be causes many business failures because efforts become scattered and diluted. You want an honest assessment of your firm's strong and weak points.

Now analyze each major competitor. In a few words, state how you think they compare.

In the final column, estimate the importance of each competitive factor to the customer. 1 = critical; 5 = not very important.

Now, write a short paragraph stating your competitive advantages and disadvantages.

##### Niche

Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world.

In one short paragraph, define your niche, your unique corner of the market.

##### Strategy

Now outline a marketing strategy that is consistent with your niche.

Promotion

How will you get the word out to customers?

Advertising: What media, why, and how often? Why this mix and not some other?

Have you identified low-cost methods to get the most out of your promotional budget?

Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?

What image do you want to project? How do you want customers to see you?

In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures, signage, and interior design (if customers come to your place of business).

Should you have a system to identify repeat customers and then systematically contact them?

Promotional Budget

How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

Pricing

Explain your method or methods of setting prices. For most small businesses, having the lowest price is not a good policy. It robs you of needed profit margin; customers may not care as much about price as you think; and large competitors can under price you anyway. Usually you will do better to have average prices and compete on quality and service.

Does your pricing strategy fit with what was revealed in your competitive analysis?

Compare your prices with those of the competition. Are they higher, lower, the same? Why?

How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?

What will be your customer service and credit policies?

Proposed Location

Probably you do not have a precise location picked out yet. This is the time to think about what you want and need in a location. Many startups run successfully from home for a while.

You will describe your physical needs later, in the *Operational* *Plan* section. Here, analyze your location criteria as they will affect your customers.

Is your location important to your customers? If yes, how?

If customers come to your place of business:

Is it convenient? Parking? Interior spaces? Not out of the way?

Is it consistent with your image?

Is it what customers want and expect?

Where is the competition located? Is it better for you to be near them (like car dealers or fast food restaurants) or distant (like convenience food stores)?

Distribution Channels

How do you sell your products or services?

Retail

Direct (mail order, Web, catalog)

Wholesale

Your own sales force

Agents

Independent representatives

Bid on contracts

##### Sales Forecast

Now that you have described your products, services, customers, markets, and marketing plans in detail, it’s time to attach some numbers to your plan. Use a [sales forecast spreadsheet](http://www.score.org/downloads/12%20Month%20Sales%20Forecast1.xls) to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.

You may want to do two forecasts: 1) a "best guess", which is what you really expect, and 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

### Operational Plan

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.

##### Production

How and where are your products or services produced?

Explain your methods of:

* Production techniques and costs
* Quality control
* Customer service
* Inventory control
* Product development

##### Location

What qualities do you need in a location? Describe the type of location you’ll have.

Physical requirements:

* Amount of space
* Type of building
* Zoning
* Power and other utilities

Access:

Is it important that your location be convenient to transportation or to suppliers?

Do you need easy walk-in access?

What are your requirements for parking and proximity to freeway, airports, railroads, and shipping centers?

Include a drawing or layout of your proposed facility if it is important, as it might be for a manufacturer.

Construction? Most new companies should not sink capital into construction, but if you are planning to build, costs and specifications will be a big part of your plan.

Cost: Estimate your occupation expenses, including rent, but also including maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.

What will be your business hours?

##### Legal Environment

Describe the following:

* Licensing and bonding requirements
* Permits
* Health, workplace, or environmental regulations
* Special regulations covering your industry or profession
* Zoning or building code requirements
* Insurance coverage
* Trademarks, copyrights, or patents (pending, existing, or purchased)

##### Personnel

* Number of employees
* Type of labor (skilled, unskilled, and professional)
* Where and how will you find the right employees?
* Quality of existing staff
* Pay structure
* Training methods and requirements
* Who does which tasks?
* Do you have schedules and written procedures prepared?
* Have you drafted job descriptions for employees? If not, take time to write some. They really help internal communications with employees.
* For certain functions, will you use contract workers in addition to employees?

##### Inventory

* What kind of inventory will you keep: raw materials, supplies, finished goods?
* Average value in stock (i.e., what is your inventory investment)?
* Rate of turnover and how this compares to the industry averages?
* Seasonal buildups?
* Lead-time for ordering?

##### Suppliers

Identify key suppliers:

* Names and addresses
* Type and amount of inventory furnished
* Credit and delivery policies
* History and reliability

Should you have more than one supplier for critical items (as a backup)?

Do you expect shortages or short-term delivery problems?

Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing costs?

##### Credit Policies

* Do you plan to sell on credit?
* Do you really need to sell on credit? Is it customary in your industry and expected by your clientele?
* If yes, what policies will you have about who gets credit and how much?
* How will you check the creditworthiness of new applicants?
* What terms will you offer your customers; that is, how much credit and when is payment due?
* Will you offer prompt payment discounts? (Hint: Do this only if it is usual and customary in your industry.)
* Do you know what it will cost you to extend credit? Have you built the costs into your prices?

**Personal financial statement**

Include [personal financial statements](http://www.score.org/downloads/Personal%20Financial%20Statement1.xls) for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the business, and these statements will show what is available. Bankers and investors usually want this information as well.

**Financial Plan**

The financial plan consists of a [12-month profit and loss projection](http://www.score.org/downloads/12%20Month%20Profit%20and%20Loss%20Projection1.xls), a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

##### Projected Cash Flow

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn’t be taken by surprise.

##### Opening Day Balance Sheet

A [balance sheet](http://www.score.org/template_gallery.html) is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners’ equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal to investors.

##### Break-Even Analysis

A [break-even analysis](http://www.score.org/downloads/Break-Even%20Analysis1.xls) predicts the sales volume, at a given price, required to recover total costs. In other words, it’s the sales level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break-even is:

|  |  |
| --- | --- |
| Break-Even Sales = | Fixed Costs |
| 1- Variable Costs |
|  |  |