

THE INNOVATION CENTER



out of the box,
into the world

WRITING A BUSINESS PLAN

Guidelines for writing a business plan

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Forward

The business plan is important to the success of any business. It is not only a document to use for financing, it is also the foundation upon which business decisions will be made, a road map to keep you focused, and a measurement tool to judge your relative success. A little extra time developing the business plan will payoff for many years to come. The plan should be updated at least annually and you should refer to it throughout the year. One of the best ways to use this plan is allow it to be flexible. Prioritize your goals and as you reach them mark them off, any goal that is not reached should go to the top of the following years list.

As a business grows the goals and priorities may change, so always reevaluate them when you update your business plan. The following guidelines are general and should be adapted to fit the particular circumstances of your project. These guidelines will give you direction as you develop your plan.

A. The Industry, The Company, The Product

a. Industry Overview – A general discussion of the business you are in or are entering into

- i. Is the industry manufacturing, retailing or service?
- ii. What were the annual sales for the past 12 months?
- iii. How many employees are employed?
- iv. Is there growth or decline in the industry?
- v. Are there new products and developments in the industry?
- vi. Are there new markets, customers, or any other trends?

b. Company Description – Details of your company or proposed company

- i. Is this a start-up, buyout, or an expansion?
- ii. If this is an existing business, where is it located and when was it started?
- iii. What is the basic nature of the business?
- iv. What is the primary product or service?
 - v. Who are the customers?
 - vi. What is the company's stage of development?
 - vii. Start-up, growth, stable or declining?
- viii. What are the business objectives?
- ix. Is there a prior history of this business? Give a brief description.
 - x. What achievements have been made to date?
 - xi. What is the ownership structure?
 - xii. If this is an existing business, have any changes been made?
- xiii. If this is a new business, what is the projected opening date?
- xiv. What will be your operating schedule?
- xv. Is this is a seasonal business?

c. The Products or Services – What will you offer your customers?

- i. What product or service is being offered?
- ii. If this is a product, what does it look like?
- iii. At what stage of development is it?
- iv. What are the unique characteristics of this product or service?
 - v. Are there any advantages of your product/service over other similar products or services?
 - vi. Are additional products/services being considered?
 - vii. Does legal protection apply?
- viii. Patents, trademarks, copyrights, etc.
- ix. Is governmental regulatory approval needed? What type?

- x. How does the product or service relate to the state-of-the-art in this particular business?
Are there dangers of obsolescence?
- xi. Are there dangers related to style or fashion change?
- xii. What liabilities are involved?
- xiii. If this is a product, has it been tested or evaluated?

B. Market Research and Analysis

a. Customers – Who will you sell to?

- i. What is your target market?
- ii. Do you know the demographic profile (age, sex, income, etc.) of your target customer?
- iii. What market segment exists?
- iv. Are there potential customers not currently being served?
- v. How will your customers benefit from using your product or service?
- vi. Have any market surveys been performed?
- vii. What is the reaction to your product or service?

b. Market Trends and Size – What do you know about your target market?

- i. What are the market trends?
- ii. What are the geographic boundaries of your market?
- iii. Are there seasonal fluctuations in your target market? What are these?
- iv. What is the potential annual growth of the total market for your product or service?
- v. What major factors affect the growth of the target market? (i.e. economic trends, government regulations, changes in population)

c. Competition – What do you know about your competition?

- i. Who or what is your strongest competition?
- ii. What is the status of their business? Growing, stable, or declining?
- iii. How aggressive is your competition? Advertising, sales efforts, existing clients, etc.
- iv. What are your competition's strengths and weaknesses?
- v. What companies serve as suppliers to your competition?
- vi. How does your competition compare to your business? (i.e. Price, performance, service, warranties, etc.)

- d. Market Share and Sales - What share of the market will you control and how much will sell?**
- i. Why will your customers buy your product or service instead of your competitors?
 - ii. Do you have commitments from major customers?
 - iii. Which major customers will you target in the future?
 - iv. What share of the market do you expect to get?
 - v. What sales trends do you project over the next five years? (Number of units and dollar amount)

C. Marketing Plan

- a. Strategy – How will you accomplish your goals?**
- i. What is the general marketing philosophy of the company?
 - ii. What are your marketing objectives?
 - iii. How will you identify potential customers?
 - iv. Will you export to other countries?
 - v. How does your marketing policies compare with those of your competitors?
- b. Pricing – How will you determine your pricing policies?**
- i. What pricing policies will you follow?
 - ii. Will your prices allow you to penetrate the market and maintain market position?
 - iii. Will your prices allow you to cover all expenses and make a profit?
 - iv. What will your credit and collection policy be?
 - v. What warranties and guarantees will you offer?
- c. Tactics – How will you sell your product or service?**
- i. What type of selling efforts will you use?
 - ii. What channels of distribution will you use?
 - iii. What type of sales force will you employ?
 - iv. What margins will be given to retailers, wholesalers, and sales representatives?
 - v. What special selling skills will be required?
 - vi. How will you compensate your sales force?
 - vii. Compare your sales tactics to your competition?

- d. Advertising & Promotion – How will you expose your product or service to potential customers?**
- i. What type of sales promotion and advertising will you use?
 - ii. What is the cost & schedule for advertising & promotion?
 - iii. What will it cost to reach each customer?
 - iv. Who will be the suppliers of advertising material? What is their experience?
 - v. What is the expected market reach and increase in sales due to advertising and promotion?

D. Operating Plan

- a. Location – Where will you locate your business, what are the advantages of this location?**
- i. What is the planned location of your business?
 - ii. Is this location properly zoned for your business?
 - iii. If you will be offering your product or service for sale at the location, what is the daily traffic count?
 - iv. How much will the space cost you?
 - v. Are there advantages / disadvantages to this location?
 - vi. Is traffic access important? If so, can customers easily get into and out of your location?
 - vii. Is the location accessible to wholesalers and distributors?
 - viii. Are utilities, insurance, and taxes cost-efficient?
 - ix. Will you need signage at this location? What regulations govern size / type of signage here?
 - x. Is this location in close proximity to your customers?
 - xi. Are the state and local taxes and laws acceptable for your type of business?
- b. Facilities & Improvements – The physical building in which you will operate.**
- i. How and when will the facilities be acquired?
 - ii. What is the capacity of this facility?
 - iii. What is the size? How and when will this space and equipment be expanded for future growth?
 - iv. Are there plans to add or improve at this location?
 - v. What type of layout will be used at this location?

- c. **Strategies & Plans – How, and how much of your product, will you produce?**
- i. How will you produce your product or service?
 - ii. What methods of production will you use?
 - iii. What production control procedures will be used?
 - iv. How will inventory be controlled?
 - v. What is the environmental impact of this business?
 - vi. What production or operating advantages exist?
 - vii. What are the major production costs?
 - viii. What materials or components are critical to production?
 - ix. What sources of supply exist?
 - x. What will be the production cost at various levels of operation?
- d. **Labor Force – Who will you employ & how much will you pay to produce your product or service?**
- i. What are your labor requirements?
 - ii. Is the quantity and quality of labor available in this area?
 - iii. What is the wage rate for the labor needed in the area?
 - iv. What production will be accomplished by subcontracting?
 - v. Is training available in the area to keep the labor competitive with the industry?

E. Management Team

- a. **Organization – Who will run your company?**
- i. Who are the key management personnel and what are their positions?
 - ii. What are the skills, education, and experience of each?
 - iii. What skills do they have that complement each other as a team?
- b. **Key Personnel – What will each member of the management team do?**
- i. Describe the duties and responsibilities of the management team.
 - ii. Are resumes and performance reviews on file for each member of the management team?
 - iii. What vacant positions exist? What are the plans to fill these?
 - iv. How will employees be selected for recognition and rewarded?
 - v. What style of management will be used?
 - vi. How will personnel be motivated?
 - vii. How will creativity be encouraged?
 - viii. How will commitment and loyalty be developed?
 - ix. What consultants will be used, and what are their qualifications?

- c. **Management Compensation & Ownership – Management compensation plans.**
 - i. How is the ownership distributed?
 - ii. What is the compensation package of each key person?
 - iii. What is the amount of each person’s investment?
 - iv. Are any stock options or bonuses planned according to performance?

- d. **Board of Directors – Who will direct the operations of your company?**
 - i. What is the company’s philosophy as to size and composition of a board of directors?
 - ii. Who are the members or potential members of a board of directors?
 - iii. What are the skills, education, and experience of each?
 - iv. What compensation is given to the board members?

F. **Financial Plan**

- a. **Sources and Uses of Funds – Where will your capital come from and how will it be used?**
 - i. What financial resources are required now?
 - ii. What additional funds will be required?
 - iii. How will these funds be used?
 - iv. How much has been invested and loaned by the principals?
 - v. What additional potential sources will be explored?
 - vi. What type of financial participation is being offered?

- b. **Profit and Loss Forecasts - What is the projected profitability of your business?**
 - i. What assumptions are used for financial projections?
 - ii. What revenue level is projected by months and years?
 - iii. What expenses are projected by months and years?
 - iv. What profits are expected by months and years?

- c. **Projected Cash Flow Analysis – Are we making money yet?**
 - i. What cash flow is projected by months and years?
 - ii. What financial position exists now? What is anticipated at various points during the next five years?
 - iii. When will the business break even?

d. Projected Balance Sheets - Your score sheet.

- i. What are the current assets and fixed assets of the business?
- ii. Will any of these assets be depreciated or sold in the future?
- iii. What are the current liabilities and long term liabilities of the business?
- iv. Will any of these liabilities be paid off in the future, and what will be added?
- v. What is the owner's equity in the business and will it be changing?

G. Legal Plan

a. Legal Structure – What will the legal status of your company be?

- i. Is the business a sole proprietorship, partnership, cooperation or limited liability company?
- ii. What are the legal liability implications of the form of organization chosen?
- iii. What are the tax advantages or disadvantages of this form of organization?
- iv. Where is the corporation chartered?
- v. What was the date of incorporation?
- vi. Has a partnership agreement been drawn up?
- vii. Has a buy out agreement been drawn up?

b. Attorney – Who is your legal advisor?

- i. What attorney or legal firm has been selected to represent the business?
- ii. What type of relationship exists with this attorney or firm?
- iii. How much will you compensate this attorney?

c. Legal Fees – The cost of getting legal.

- i. Are any special licenses or permits required for your business?
- ii. Are any lawsuits pending the business or members of management?
- iii. Is the company bounded by any contracts of leases?

H. Executive Summary

- a. This is the one to three page overview of the total business plan.
- b. It highlights the significant points and creates enough excitement to motivate the reader to read on.
- c. This section is crucial in getting the attention of the reader. It must convey a clear picture of the proposed venture.
- d. Even though it comes at the beginning of the business plan, it summarizes the total plan and must be written last because it will be based on the information you have gathered for the rest of the business plan.

SOURCES & USES OF FUNDS

Funds Available

Owners Funds _____
Other Equity _____
Loan #1 _____
Loan #2 _____
TOTAL: _____

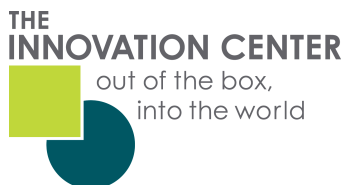
Uses of Funds

Building _____
Deposits _____
Equipment _____
Furniture & Fixtures _____
Inventory _____
Land _____
Prepaid Insurance _____
Promotions _____
Renovations _____
Other _____
TOTAL: _____

Cash Balance

(Cash Balance = Funds Available – Uses of Funds)

Working Capital _____



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SOURCES & USES OF FUNDS (EXAMPLE)

Funds Available

Owners Funds	\$25,000
Other Equity	
Loan #1	\$80,000
Loan #2	
TOTAL:	\$150,000

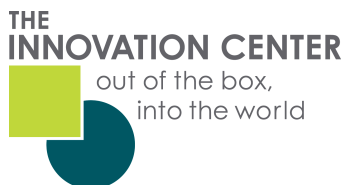
Uses of Funds

Building	\$40,000
Deposits	\$1,000
Equipment	\$20,000
Furniture & Fixtures	\$7,500
Inventory	\$5,000
Land	\$20,000
Prepaid Insurance	
Promotions	
Renovations	
Other	\$500
TOTAL:	\$95,000

Cash Balance

(Cash Balance = Funds Available – Uses of Funds)

Working Capital	\$10,000
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Projected Cash Flow Worksheet (example)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sales (1)						
Sales #1	\$ 10,000	\$ 11,000	\$ 6,000	\$ 6,000	\$ 12,500	\$ 13,000
Sales #2	5,000	5,500	5,775	5,000	6,200	6,500
Sales #3	-	-	-	-	-	-
Less returns	-	-	-	-	-	-
Total Sales	\$ 15,000	\$ 16,500	\$ 11,775	\$ 11,000	\$ 18,700	\$ 19,500
Cash Receipts (2)						
0-30 days	\$ 11,250	\$ 12,375	\$ 12,956	\$ 13,500	\$ 14,025	\$ 14,625
30-60 days	-	3,750	4,125	4,319	4,500	4,675
Over 60 days	-	-	-	-	-	-
Owner proceeds	(3) 25,000	-	-	-	-	-
Loan proceeds	(4) 80,000	-	-	-	-	-
Total Receipts	\$ 116,250	\$ 16,125	\$ 17,081	\$ 17,819	\$ 18,525	\$ 19,300
Disbursements (5)						
Material Purchases	\$ 6,250	\$ 6,875	\$ 7,194	\$ 7,500	\$ 7,800	\$ 8,125
Labor	3,500	3,500	4,000	4,100	4,500	4,700
Management	1,800	1,800	1,800	1,800	1,800	1,800
Payroll Tax	385	385	440	451	495	517
Benefits	250	250	250	250	250	250
Advertising	500	500	750	500	500	500
Auto Expense	-	-	100	100	-	-
Charge Card	-	-	-	-	-	-
Dues / Subs / Mem	25	25	100	25	25	25
Freight	126	126	126	126	126	126
Insurance	275	275	275	275	275	275
Legal /Accounting	100	100	100	100	100	100
Office Supplies	60	60	60	120	120	60
Shop Supplies	45	45	100	100	45	45
Travel	-	-	150	-	-	-
Phone	150	150	150	300	300	300
Utilities	450	450	450	450	450	450
Repairs	-	-	200	-	-	-
Tax / License	55	-	-	-	-	-
Rent / Lease	-	-	-	-	-	-
Misc	150	150	150	150	150	150
Principal Payment	231	233	234	236	237	239
Interest Payment	533	531	530	528	527	525
Land/Building	60,000	-	-	-	-	-
Machinery / Equipment	20,000	-	-	-	-	-
Furniture / Fixtures	7,500	-	-	-	-	-
Additional Inventory	5,000	-	,000	-	-	-
Utility Deposits	1,000	-	-	-	-	-
Other	1,500	-	-	-	-	-
Income Taxes	(6) -	-	-	-	-	-
Total Disbursements	\$ 15,455	\$ 18,159	\$ 19,111	\$ 17,700	\$ 18,187	\$ 18,187
Net Cash Flow (7)	\$ 6,365	\$ 670	\$ (1,078)	\$ (1,292)	\$ 825	\$ 1,113
Cumulative Cash Flow (8)	\$ 6,365	\$ 7,035	\$ 5,957	\$ 4,665	\$ 5,490	\$ 6,603

Notes: (1) Represents the different kinds of products/services offered. (2) Represents when revenue is actually received (accounts receivable). (3) Represents owner contributed capital/equity. (4) Represents bank loans for business. (5) Represents expenses of business. (6) Don't forget to estimate for this! (7) Total Receipts less Total Disbursements. (8) Prior month Cumulative Cash Flow plus current month Net

Projected Cash Flow Worksheet

Month 1 Month 2 Month 3 Month 4 Month 5 Month 6

<u>Sales</u>	(1)					
Sales #1						
Sales #2						
Sales #3						
Less returns						
Total Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<u>Cash Receipts</u>	(2)					
0-30 days						
30-60 days						
Over 60 days						
Owner proceeds						
Loan proceeds						
Total Receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<u>Disbursements</u>	(5)					
Material Purchases						
Labor						
Management						
Payroll Tax						
Benefits						
Advertising						
Auto Expense						
Charge Card						
Dues / Subs / Mem						
Freight						
Insurance						
Legal /Accounting						
Office Supplies						
Shop Supplies						
Travel						
Phone						
Utilities						
Repairs						
Tax / License						
Rent / Lease						
Misc						
Principal Payment						
Interest Payment						
Land/Building						
Machinery / Equipment						
Furniture / Fixtures						
Additional Inventory						
Utility Deposits						
Other						
Income Taxes						
Total Disbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Net Cash Flow	(7)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Cash Flow	(8)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Notes: (1) Represents the different kinds of products/services offered. (2) Represents when revenue is actually received (accounts receivable). (3) Represents owner contributed capital/equity. (4) Represents bank loans for business. (5) Represents expenses of business. (6) Don't forget to estimate for this! (7) Total Receipts less Total Disbursements. (8) Prior month Cumulative Cash Flow plus current month Net Cash Flow.

Basic Types of Business Organization

	Sole Proprietor	Partnership	C Corporation	S Corporation	Limited Liability Company
Creation	No written document is necessary	By oral or written agreement	Articles of incorporation filed with state	Articles of incorporation filed with state	Operating agreement/articles of organization file with state
Lifespan	Expires when owner dies	Agreement can set time. Otherwise, dissolved at death of any partner	Continues on after shareholder's death	Continues on after shareholder's death	Dissolves on the death, retirement, bankruptcy, resignation or expulsion of any member
Management Responsibility	Sole Proprietor	Partners	Board of Directors; elected by shareholders	Board of Directors; elected by shareholders	Managers
Liability	Sole Proprietor is personally liable for all debts	Each partner is personally liable for all business debts or liabilities	Liability limited to assets of corporation - not share-holder's assets	Liability limited to assets of corporation - not share-holder's assets	Liability limited to assets of company, not member's assets
Income Taxes	All income and expenses are on sole proprietor's tax return	Partnership prepares "information return" but income is taxable to partners*	Corporation pays tax on income, less expenses. Reasonable salaries are deductible to corporation and taxable to employees	S Corporation files "information return" but income is taxed to shareholders*	Company files "information return" but income is taxed to the owners (members)*
Sale or Transfer During Lifetime	Sole Proprietor may sell or give away any asset	A transfer will dissolve the partnership, unless remaining partner(s) agree(s) to a new partner	Stock easily transferred. Remaining shareholders may have a right of refusal prior to a sale to an outsider	Restricted to 75 shareholders who are resident U.S. citizens, estates and certain types of trusts.	Members owning "substantially all" may freely transfer interests without consent.
Sale or Transfer At Death	Usually dissolved. Estate may sell it or operate it.	Automatically dissolved unless agreement to the contrary	Stock can be transferred to heirs. Can be sold or retained, unless buy-sell agreement exists	Estate is eligible shareholder only during estate administration. Otherwise same as above.	Estate is eligible shareholder. Otherwise same as above.

* Some states tax partnership, S corporations and LLC income.

Note: Consult with your legal or tax advisor for specific tax advice.