

BMGT 299: Entrepreneurship Capstone

Unit 9 Course Materials



Components of a Business Plan

The business plan has risen, and fallen in prestige and perceived need over the years, but make no mistake, it retains the value to the success of the business as ever. **It is:**

1. A communication tool which conveys your business model and goals to others. The “others” may include potential investors, current employees, or even high-value customers. (If you wish to sell to Walmart, they will need some assurance that your company can scale up to meet their demand) Successful communication should include visual imagery or graphed data where it helps the reader understand the detail. If “a picture is worth 1,000 words” – then include the image. (Do not simply place gratuitous graphics unless it simplify’ s and clarify’ s the topic being covered)
2. A “Roadmap” to evaluate your path to success. (Are you meeting your goals? Are you on track for planned expansion?, etc...)
3. A component of a package required to attract investors.

It is not:

1. A magical document that guarantees success and even runs the business in your absence! (I know, this sounds over-the-top, but newbies to the entrepreneurial world think that a well written business plan alone is the golden ticket to business success. Please remember that a business plan is a dynamic document that must be frequently reviewed, and modified to accommodate the dynamic business environment.

In the end, the absence of a business plan is a side effect of poor planning, and.....businesses don’t “plan to fail” as much as they “fail to plan.” It is a disciplined activity that requires that you analyze the business environment and opportunity to fulfill a customer need. If you are brutally honest, and the results show sound potential to capitalize, you will at least have the opportunity to succeed. If you are brutally honest, and the outcome of your plan suggests a weak or non-existent market opportunity, it is better that you find out **BEFORE** you start the business, not **AFTER**! As you invest both time and resources into the research required to write your business plan, you might find yourself trying to defend your original idea rather than admit that the market is already over-served, or dying. Successful entrepreneurs know when to admit they are wrong, before they commit financial suicide. The ability to accept risk is a common characteristic of all entrepreneurs, but that risk is calculated, not reckless. Make sure you don’t find yourself “fudging” the financials to demonstrate on paper that the business will succeed. (You will only be lying to yourself, and you will pay for the consequences of that lie)



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A final note: You will encounter a variety of opinions on business plans by various entrepreneurs who have never fully written, or implemented a business plan. They will say things like:

1. If you can't write your business plan down on one page, the business is too complicated. (Yes, you should be able to communicate what your business does in an "elevator pitch" – but that is not a business plan.
2. I wrote my plan only because the bank required it, otherwise I have never even read again. (Really? Then you didn't write your plan as a business model by which you differentiate your product/service over the competition. Your plan should tell you how to succeed – the steps required to succeed, etc...)
3. A business plan is just an academic activity for use in the classroom and has no real purpose in the "real world." (Remember what I said to you before, - "Experience is a cruel teacher, the test is first and the lesson is second.")

Lastly, you will notice that content within the business plan repeats itself frequently. And that is true – what you need to remember is that this is a "reference" document as much as it is a "reading" document. You will visit the "marketing" section when you look back to your business model, and that content can't be divorced from the "executive summary" and so forth.... You will also notice that different stake holders look first towards different sections. An investor will quickly page to the financial summary, while a marketing agent will page quickly to the "marketing strategy."

A word on software

There are multiple choices available in the marketplace for software that helps you organize your thoughts and calculate the financials. You might even have one bundled within the software your new computer provided. These tend to be boiler-plate templates that have the headings done for you, and you complete the text field below each heading. *Not* very helpful to be sure.... Look for software that includes a "help" feature that helps you better understand what to write, and where to look for information. Some provide spell check (others do not), some provide a built-in textbook feature for reference, even research data for offering "proof of claim" to your statements. I can't speak to them all, but my favorite is published by Palo Alto called Business Plan Pro (along with iterations such as Business Plan Premier, basic, etc...) each variation provides a different level of support. Premier for example allows for excel importation, while also providing 1,000's of sample plans. These "Sample Plans" are very helpful in that they allow for integration of component "help" tailored specifically to your specific business. (Assuming that there is a provided sample plan close to your business type.) Excellent Business Plan software is not free, but is worth their weight in gold. A thorough business plan could take 200 hours to write – why have poor software that doesn't take advantage of outside resources and the latest in design.

Components of a Business Plan

Cover Sheet

Serves as the title page of your business plan. Include:

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1. Name, address and phone number of the business
2. Name, address and phone numbers of owners/corporate officers
3. Month and year plan was written
4. Copy number of this plan

Executive Summary

This is a thesis statement and states the objectives of the business. (Statement and Purpose)

This is a “Reader’s Digest” version of your entire plan. It typically is within one page and summarizes the following:

1. Company (Who, what, where and when)
2. Management (Strengths)
3. Objectives and why you will be successful
4. If you are seeking financing, how much and why

*It is important to note that although this section appears first, it is written last – using all of the content and research after completing the rest of the plan.

Table of Contents

Quick reference page for the topics covered in your business plan. Include exhibits where appropriate.

The Organizational Plan

Summary description of the business

Products and/or services provided

Intellectual Property (Copyrights, Trademark’s, URL’s, Patents, Registrations, etc...)

Location

Legal Structure (What form of business ownership have you established? – LLC? CORP>?)

Management

(Include major players, their responsibilities, Abilities, Salary’s, etc...)

Personnel

(How many, how often, paying how much? And qualifications required)

Accounting & Legal

(You may not be able to afford, or need a full-time Accountant and Attorney, but you should at least have one of each acting as an advisor. That may be a college professor, or your family professionals, but they need to be addressed in this section. You must include their names and contact information)

Insurance

This is the “Risk Management” part of your business. Even if you don’t purchase business insurance, and you should where practical, an investor wants to feel confident that you have considered the risks.

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Security

Having experienced an employee who stole \$26,000 from me, I can provide first hand advice. Have the checks and balances in place to address the risk of customer or employee theft. What is your policy for taking out the garbage? (Why? Because this is a frequent method whereby employees sneak merchandise out the back door – to retrieve by the garbage bins later that night!)

The Marketing Plan

Market Analysis

(I have heard students share with me that “they always wanted to open a pizza business since they were little kids.” – I understand, I do...but if the market is over-served for pizza in the same town, how is that relevant? It is a sure sign of disaster. This is the part where you describe HOW you discovered that there were unmet needs in the community you want to do business in, that are provided by your business.

Marketing Strategy

This is one of the top 2 most important considerations of all businesses. It addresses:

1. How will your customers find your product?
2. Can they afford it?
3. How does it meet their need?
4. How will it be packaged?
5. Is it safe?
6. How will it be branded?
7. What is your plan for Public Relations? (A press kit should be available on your website)
8. What is your pricing strategy?
9. What is your sales strategy?
10. How will you position yourself in the marketplace?

As you can see, this is a big one – and an important one!

Marketing Implementation Strategy

How will you first become available?

How will customers learn about you?

In what order, and on what time table will you move towards your next marketing goal?

How will you measure your success?

Financials

For a new small business, crunching the numbers is the most intimidating component of the business plan. Too bad since it is the most important component. This is the, “will

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you make it?” or “Will you fail?” part....It is tempting to be too aggressive when forecasting your sales. **BE CONSERVATIVE!**

For an existing business, there are numerous formal reports to include. Financial statements, profit and loss statements, balance sheets and so forth. For a new business, you must “Forecast” your sales, and anticipate the costs, as realistically as possible. This is a cash flow statement (Pro Forma). It anticipates sales based upon some real formula that is customized to the chosen location. Banks use a Robert Morris report for national averages to see if YOUR numbers are realistic in the industry. You may need to do a location analysis like you did earlier in this course. You begin by counting the prospective customers walking by your location...(you know the rest).

Break Even analysis

In short, how many of your products need to sell, that would generate a profit margin capable of paying the bills.

The answer is short. For example, our breakeven is X units per day.

In some cases, you will have to use an “average sales” method meaning, (if you are a carpet cleaner) that your average revenue for an average house carpet cleaning is \$129.00. If your costs are \$256.00 per day to pay for labor, gas, advertising, etc.... your breakeven is 2 sales.

Lastly, the Loan Proposal

This can usually be accomplished in less than one page, it lists:

1. The amount of money you are asking to borrow to start the business.
2. The use of funds. (I.e. equipment, inventory, supplies, amount to cover your lowest cash flow month(s), etc...
3. You need to state how long you are seeking the loan. (Usually 5 years or less. Real Estate would be longer)
4. Rate of Interest you are seeking. Yep, and that sounds strange. Do I mean you are going to tell the bank the rate you want to pay? Yes, that’s exactly what I mean. A bank looks at business financing differently than consumer debt. It is typically stated in **PRIME PLUS (+)**. Prime is the going rate for the very best customers of the bank. A business who has a long track record of prompt payments and healthy assets could receive this rate. As a new business, you typically cannot. So they talk in terms of PRIME PLUS 3 points. (Or whatever points they assign – a point is 1% interest. 2 points, 2%, 3 points, 3% and so on.) The points factor in a “risk” rate for you, and your type of business. If you are a new business, opening a restaurant (the riskiest category), you rate will be higher.



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This statement payback. I would start at Prime plus 2 and negotiate. This tells the banker the rate you have calculated in your financials and feel confident of repaying.

Example:

Loan Proposal

Business Name _____

Amount Requested: \$ _____

Term of Loan _____ **Years**

Rate of Loan Requested: Prime + _____ **Points**

Use of Funds: (list all)

Supporting Documents

These documents would be provided specifically for investors and excluded for general information distribution.

Resume

Personal Financial Statements (Unless applying as a Corporation)



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Credit Reports (Usually Dunn & Bradstreet)

Copies of Leases, Mortgages, Purchase Agreements, etc..

Letters of References

Contracts

Insurance Binders

Other Legal Documents

(Such as: partnership paperwork, investor paperwork, shipping contracts, etc...)

Final Note: Your objective is to “Storyboard” your plan. Identify your customers, their needs, your solution and the market opportunity. Identify your major milestones along the way to success. Identify the threats you face, and their solutions. Communicate how you intend to “out gun” the competitor and provide a socially responsible organization. Share how you will provide an environment that will attract the best talent available.

How could you go wrong?