



## **Small Business Development Center**

### **The Lesson: Business Plan Basics**

#### ***Developing Your Business Plan***

**Charting the course of your business future**

##### **Developing a Business Plan**

The business plan is a key component for a successful business. A plan is vital because it:

- Provides an organized system for researching your business
- Drastically increases your chances of success
- Provides a game plan for your business to follow
- Provides insight into your business to facilitate funding and investment

Aside from these general business plan objectives, remember that every plan is unique. Don't struggle with trying to make your plan "fit" into the generic mold. Always customize your plan to your specific business objectives. Be clear, concise, and detailed. Focus on the quality of the content, rather than the quantity of pages.

This business plan outline serves as a guide to how to format your business plan. Each section contains questions that focus your attention to important aspects of the plan. Do not simply answer the questions. Provide detailed information on each issue in narrative form. Finally, this outline can be altered to fit your preferences. Sections may be rearranged to fit your needs.

Once complete, the business plan should identify the expectations you have for your new or existing business. If you plan to utilize the plan to obtain financing, the completed plan should "tell the story" of your business to a potential lender. The plan should serve as a stand-alone document in that all business issues are addressed without requiring additional verbal explanation. Review your plan regularly and make appropriate changes when your plans and strategies change.

##### **Essential Elements of a Good Business Plan for Growing Companies**

A business plan should be a work-in-progress. Even successful, growing businesses should maintain a current business plan.

As any good salesperson knows, you have to know everything you can about your products or services in order to persuade someone to buy them. In this discussion, you are the salesperson and your products represent your business. Your customers are potential investors and employees. Since you want your customers to believe in you, you must be able to convince them that you know what you are talking about when it comes to your business.

To become an expert (or to fine-tune your knowledge if you already believe you are one), you must be willing to roll up your sleeves and begin digging through information. Since not all information that you gather will be relevant to the development of your business plan, it will help you to know what you are looking for before you get started. In order to help you with this process, we have developed an outline of the essential elements a good business plan.

Every successful business plan should include something about each of the following areas, since these are what make up the essentials of a good business plan:

- [Executive Summary](#)
- [Market Analysis](#)
- [Company Description](#)
- [Organization & Management](#)
- [Marketing & Sales Management](#)
- [Service or Product Line](#)
- [Funding Request](#)
- [Financials](#)
- [Appendix](#)

Source: [http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/SERV\\_ESSENTIAL.html](http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/SERV_ESSENTIAL.html)

### **Developing a Business Loan Proposal**

A loan proposal is an abbreviated form of a business plan and can be used by existing business owners in place of a business plan in order to seek financing. In some instances, a loan proposal can be used by a start-up business which is uncomplicated in nature and where the amount of financing needed is low. (Most start-up businesses and existing businesses planning significant changes or a major expansion may need a full business plan.) A loan proposal can also be used to seek financing for a business purchase.

The purpose of a loan proposal is to communicate the important aspects of your loan project to potential lenders. This information contained in your proposal is standard information that will be required by most lenders. In order for a lender to make a decision on your loan deal, you must provide him/her with information, in writing, about the business and its future plans.

A quality loan proposal contains written narrative, financial information, and supporting documentation. When compiling your loan proposal, you should strive to provide a clear picture of the business and its financing needs. Developing a quality loan proposal to present to the potential lender will enable you to make a good impression and increase your chances of obtaining financing.

The following is an outline of the minimum information that should be contained in your loan proposal. Keep in mind that you may need to include additional information in your proposal if there are other critical aspects of your business and/or your project. Once you submit your proposal to a lender, he or she may request additional information or supporting documentation.

#### **Loan Information**

- Indicate the requested loan amount and how you will use the loan proceeds.
- Identify the requested terms of the loan (loan length, interest rate, etc.)
- List the collateral available to secure the loan along with current market values.

- Specify the owner's equity contribution. (How much cash are you contributing to the project?)

### **Do's and Don'ts of Writing a Business Plan**

Writing a business plan is a crucial step in starting and/or operating a small business. However, the thought of writing a business plan can seem overwhelming. To help you avoid some common errors, consider these suggested do's and don'ts of writing a business plan.

#### **Do's**

- 1. Do understand that the planning process is critical to running a successful business.** You gain significant expertise by writing your own business plan. It is typically not a good idea for someone else to write your plan, since you are the expert in your business and you may need to verify assumptions about your business idea.
- 2. Do utilize the business plan outline to determine what to include in your plan.** The business plan outline serves as a guide to how to format your business plan. Once complete, the business plan should identify the expectations you have for your new or existing business.
- 3. Do answer key questions such as who, what, where, when, how, why, and how much?** A quality business plan contains considerable detail and answers pointed questions concerning who, what, where, when, how, why, and how much. Make sure this information is clear.
- 4. Do take time to research all components and write a comprehensive, detailed plan.** If you are going to use your business plan to obtain financing, the completed plan should "tell the story" of your business to a potential lender. The plan should serve as a stand-alone document, meaning that all business issues are addressed without requiring additional verbal explanation.
- 5. Do include market research.** Market research includes important information about your current and potential customers including demographics (income, age, etc.) and industry information. Your business plan should discuss the size and market for your business. Market research helps to determine the feasibility of your idea, an appropriate marketing strategy for your customers, and the product or service's likelihood of selling. In addition, market research lends credibility to your plan. Always include such details in your business plan and cite the data sources.
- 6. Do include a financial plan and projections.** This is one of the most critical parts of your business plan. The financial plan provides the numbers that correspond to your written plan. It is important to research the expected future revenues and expenses for your business. Monthly income statements and cash flow projections should be included. Existing businesses should also include historical financial statements.

7. **Do explain how the plan relates to the financial projections.** You should always include a narrative explaining the assumptions you used to develop income statement and cash flow projections. You must demonstrate that your numbers are reasonable.
8. **Do research costs thoroughly in order to provide more accurate numbers.** Taking time to gather cost estimates improves your chances for success. Determine all possible costs for starting and/or operating your business.
9. **Don't just "guess" what your costs may be.** Use historical averages if yours is an existing business. Make a list of one-time and recurring costs so you do not overlook costs that may not be obvious (e.g. signage, janitorial service or waste disposal, licenses and permits, deposits, etc.). Try to obtain price quotes from knowledgeable sources such as the suppliers of your inventory, fixed assets, etc. If leasing a space, ask the lessor or other tenants for cost information concerning utilities, etc. Additionally, you may ask advisors about price quotes on insurance, professional fees (CPA, attorney), etc.
10. **Do state the amount of funds requested if you are using your plan to obtain financing.** If you are going to use your plan to apply for a start-up loan or growth funding, specifically state the amount of funds requested, planned use of those funds, and demonstrate how those funds will be repaid. In addition, it is important to state the amount of your planned owner's cash contribution to the project as well as identify the collateral available to secure the loan.
11. **Do revise and modify your plan as circumstances change.** The business plan is a dynamic document. Circumstances are likely to change within the course of planning, starting and operating your business. Always update your plan to reflect such changes.
12. **Do discuss your experience and skills in detail.** Your business idea or current business strategy may be a viable one, but without good management skills to execute it, your chances for success are poor. Past experience within the industry is valuable and gives you credibility. Thoroughly describe your past experience with the business. If you are new to the business with limited experience, discuss your plans for training, hiring key personnel, etc.
13. **Do address strengths and weaknesses of your business idea.**
14. **Do consider all your competition.** Your business will not operate without external forces such as competition. Address strengths and weaknesses of existing and potential competitors.
15. **Do submit your plan to the SBTDC for feedback and guidance.** The SBTDC can provide valuable assistance and recommendations for improving your plan.
16. **Do use your plan to monitor actual performance and compare to your expectations.** Your completed plan is a valuable tool in the management of your business. Review the progress and performance of your business against expectations and assumptions. Modify your plan when appropriate. Use your plan to guide the decision-making process so that your business stays focused on achieving its long-term goals.

## Do NOT's

1. **Do not be biased when composing your business plan.** The reader will want to know both the strengths and weaknesses/risks of your business. Additionally, if you are aware of the weaknesses, you may formulate a strategy for improvement.
2. **Don't handwrite your business plan.** A handwritten plan does not convey a professional tone.
3. **Don't expect to complete your plan in a couple of days.** The business planning process is very time-intensive. You must be prepared to spend adequate time researching, planning and preparing your business plan.
4. **Don't limit your plan to a minimum or maximum number of pages.** There is no set "limit" to the number of pages a business plan must contain. Focus on the quality of the content, rather than the quantity of pages. It is better to be clear and concise than wordy and ambiguous.
5. **Don't assume you are required to use business plan software.** You do not have to use business plan software to write your business plan. A simple word processing program will be more than adequate for the narrative sections of your plan and using Excel spreadsheets allows you to customize your projections.
6. **Don't struggle with trying to make your plan "fit" into a generic mold.** You may use the business plan outline as a guide, but you should customize your plan to meet your specific needs.
7. **Don't misspell words or make grammatical errors.** Misspelled words and grammatical errors point to a lack of detail orientation. Consider using a spell check function and having someone look over your plan for errors.
8. **Don't assume the reader of your plan is an expert in the industry.** Typically, readers of business plans see many throughout the course of the year. Most likely, a lender or other reader will not be an expert on your business type. Therefore, you must explain all technical/operational details as well as avoid unnecessary use of industry jargon.
9. **Don't rush through writing a business plan because you want financing.** A hastily written plan with minimal research will not help your goal of obtaining financing. A lender wants to see a well-thought-out business plan. The planning process is crucial and should not be rushed. The lender will recognize that you have not put the proper time into planning and researching.
10. **Don't overestimate revenues.** When constructing your financial projections, be conservative in estimating your revenues.
11. **Don't underestimate expenses and costs.** You do not want to receive funding for your business and be "strapped for cash" soon after. A lender is not likely to lend more money if you miscalculate your expenses. It is a good idea to project the maximum

expense you might reasonably pay and include a "cushion" that allows for unforeseen events.

12. **Don't leave out relevant facts and details.** A thorough and detailed business plan shows that you have done your "homework." Including all relevant facts helps to convey the full extent and scope of your business idea.
13. **Don't fill your business plan with meaningless fluff.** Although you should include all relevant facts and details, avoid the temptation to make your business plan sound professional by using an endless array of business-like terms that have little or no real meaning. Be professional, but remember that the plan should be easy to read as well.
14. **Don't plagiarize or copy/paste from other sample business plans.** Always customize your plan to your specific business objectives so your business plan doesn't sound standardized.

Are you ready to apply this information to your business? Go to the [Business Plan worksheet](#) next.

Thanks in part to NationsBank *Small Business Success Sessions* for the content of this lesson.