

Writing a Business Plan

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Uses of a Business Plan

Raise Capital

Internal Cost Controls/Budgeting

Sale of the Company/Support for the
Harvest Price

Sections of a Business Plan

- Executive Summary
- Company
- Technology Overview/Development Timeline
- Products and Related Services
- Industry Analysis
- Competitive Analysis
- Marketing Plan
- Management, Ownership, and Operations
- Financial Forecasts

Executive Summary

Short (1 page) summary of the rest of the plan

Written last, this is a simple overview:

- the company,
- key technologies or competitive advantages,
- the industry,
- the opportunity at hand, and
- the nature of the funding request

Company

Narrative History of the company's development

Description of the company's products or services with customer descriptions

Reach of distribution

Key vendor or customer relationships

Technology Overview

Key characteristics of company's technologies

Products, competitive advantages

Stage of development, timeline, analysis of remaining work

Products and Related Services

- Full overview of product lines
- Unique features, competitive characteristics
- Weaknesses, Strengths

Industry Analysis

- Do you compete in more than one industry?
- What are the key characteristics?
 - Growth Rate
 - Maturity Level
 - Business Cycles, Seasonality
- How is it affected by technological change

Industry Analysis

(continued)

- Concentration of industry players (control)

Key economic factors: strength of suppliers, customers, distributors

Government regulations or oversight

Competitive Analysis

How can you characterize your competition?

- Geographically
- Product Concentration/Diversification
- Revenue Size

How do you compete for market share?

- Price
- Features
- Quality

Competitive Analysis (continued)

What are the barriers to entry?

How easy is it for competition to enter the market?

Marketing Plan

How will you accomplish market penetration?

What specific tasks will your company undertake to capture market share?

Lay out your proposed marketing plan with costs

Advertising

Brochures

Mailings (print mail, email)

Print Advertising

Web Advertising

Radio/TV

Marketing Plan (continued)

Direct Sales

Trade Shows

Web Site

Management, Ownership, & Operations

Who are the key individuals?

- Managers
- Scientists/Researchers
- Marketing Staff
- Financial Controls
- Regulatory Compliance
- Board of Directors
- Scientific Advisory Committee

Management, Ownership, & Operations (continued)

What is the compensation structure like?

Activity, profitability allowances?

Stock Options?

Benefits packages (medical, retirement)

What does the organizational chart look like?

Management, Ownership, & Operations (continued)

Provide bios on all key managers, employees,
Directors

Disclose all compensation and incentive plans

Prepare detailed budgets for post funding

Financial Forecasts

Financial Forecasts

The forecasts quantify your business plan
Assumptions should flow directly from the text
Build an interactive model
Typical forecasts are for three to five years
Break out quarters or months for at least one
year
Provide annual summaries

Assumptions Sheet

Categorize the Assumptions and put into groups

Revenues, Expenses

Balance Sheet/Cash Flow (Days in Receivables,
Paid in Capital, loan amortization)

Start with top line revenues and work your way
down through the Income Statement

Label specific values when possible

Income Statement

Breakout significant expenses, summarize
key groups and attach schedules for the
detail (salaries, for instance)

Provide % of Revenues ratios next to annual
summaries

Income Statement Layout

Income Statement <i>Most Likely Scenario</i>							
	Year 1		Year 2		Year 3		
1	Revenues	\$300,000	100%	\$330,000	100%	\$363,000	100%
2	Cost of Goods Sold	\$135,000	45%	\$148,500	45%	\$163,350	45%
	Gross Margin	\$165,000	55%	\$181,500	55%	\$199,650	55%
	Operating Expenses						
3	Payroll, Taxes & Benefits	\$63,720	21%	\$76,110	23%	\$88,677	24%
4	Occupancy/Rent	\$30,000	10%	\$36,000	11%	\$42,000	12%
5	Advertising & Promotion	\$9,000	3%	\$9,900	3%	\$10,890	3%
6	Supplies/Other	\$9,000	3%	\$9,900	3%	\$10,890	3%
7	Depreciation	\$8,571	3%	\$8,571	3%	\$8,571	2%
	Total Operating Expenses	\$120,291	40%	\$140,481	43%	\$161,028	44%
	Operating Profit	\$44,709	15%	\$41,019	12%	\$38,622	11%
8	Interest Expense	\$7,168	2%	\$5,898	2%	\$4,647	1%
	Earnings Before Taxes	51,876	17%	46,916	14%	43,269	12%
	Income Taxes	\$0	0%	\$0	0%	\$0	0%
	Net Earnings	51,876	17%	46,916	14%	43,269	12%

Balance Sheet

Start with a Funding/Beginning Balance Sheet

Calculate account balances from Assumptions Statement and Income Statement

Take Cash account balance from Ending Cash Position of Cash Flow Statement

Take Retained Earnings/Current Earnings from Income Statement

Balance Sheet Layout

Balance Sheet		Beginning	Year 1	Year 2	Year 3
<i>Most Likely Scenario</i>		Balance Sheet			
Assets					
Current Assets					
1	Cash & Equivalents	\$24,700	\$19,103	\$25,856	\$30,066
2	Accounts Receivable	12,500	22,950	25,245	27,770
3	Inventories	7,250	21,833	23,243	24,795
	Total Current Assets	\$44,450	\$63,885	\$74,344	\$82,631
Fixed & Other Assets					
4	Property & Equipment	\$33,500	\$58,500	\$83,500	\$108,500
5	Accumulated Depreciation	-	(8,571)	(17,143)	(25,714)
	Net Fixed Assets	\$33,500	\$49,929	\$66,357	\$82,786
6	Other Assets	2,500	3,750	3,750	3,750
	Total Fixed & Other	\$36,000	\$53,679	\$70,107	\$86,536
	Total Assets	\$80,450	\$117,564	\$144,451	\$169,167

Balance Sheet Layout

Balance Sheet		Beginning	Year 1	Year 2	Year 3
<i>Most Likely Scenario</i>		Balance Sheet			
Liabilities					
Current Liabilities					
7	Accounts Payable	\$32,456	\$4,604	\$5,140	\$5,714
8	Accrued Expenses	1,850	1,850	1,850	1,850
9	CPLTD - Old	4,297	5,232	5,866	6,577
10	CPLTD - New	-	3,455	3,873	4,343
11	Line of Credit	-	-	-	-
	Total Current Liabilities	\$38,603	\$15,140	\$16,729	\$18,484
Long-Term Liabilities					
12	Long Term Debt	\$25,703	\$33,739	\$23,916	\$12,902
	Total Long-Term Liabs	\$25,703	\$33,739	\$23,916	\$12,902
	Total Liabilities	\$64,306	\$48,879	\$40,645	\$31,386
Owner's Equity					
13	Common Stock	\$1,000	\$16,000	\$16,000	\$16,000
14	Preferred Stock	-	-	-	-
15	Paid in Capital	19,000	19,000	19,000	19,000
16	Retained Earnings	-	(3,856)	33,685	68,806
17	Current Earnings	(3,856)	37,541	35,121	33,974
	Total Owner's Equity	\$16,144	\$68,685	\$103,806	\$137,780
	Total Liabilities & OE	\$80,450	\$117,564	\$144,451	\$169,167

Cash Flow Statement

Break into three groups:

- Cash Flows from Operations,
- Cash Flows from Investing, and
- Cash Flows from Financing

• Mark period changes from Balance Sheet

Cash Flow Statement Layout

Cash Flow Statement					
<i>Most Likely Scenario</i>					
	Year 1	Year 2	Year 3		
1	Beginning Cash Balance	\$24,700	\$19,103	\$25,856	
Cash Flow from Operations					
2	Net Income	\$37,541	\$35,121	\$33,974	
3	Addback: Depreciation	8,571	8,571	8,571	
4	Change in A/R	(10,450)	(2,295)	(2,525)	
5	Change in A/P	(27,852)	535	574	
6	Change in Inventory	(14,583)	(1,411)	(1,552)	
7	Change in Deposits	(1,250)	-	-	
	Total CF from Ops	(\$8,022)	\$40,522	\$39,043	
Cash Flow from Investing					
8	Property Plant & Equip	(25,000)	(25,000)	(25,000)	
	Total CF from Investing	(25,000)	(25,000)	(25,000)	
Cash Flow from Financing					
9	Common Stock	15,000	-	-	
10	Additional Paid in Capital	-	-	-	
11	Preferred Stock	-	-	-	
12	Note Payable	20,000	-	-	
13	Principal Reduction	(7,575)	(8,769)	(9,833)	
14	Line of Credit	-	-	-	
	Total CF from Financing	27,425	(8,769)	(9,833)	
	Total Cash Flows	(5,597)	6,753	4,211	
	Ending Cash Balance	19,103	25,856	30,066	

General Comments

Be Specific As Possible

Don't make blanket assumptions like "We assume a marketing expense of \$75,000." Substantiate the costs when possible

Provide explanations of the assumptions in text form that have clear links to the statements. Your assumptions should flow from the rest of your plan.

General Comments

Perform your own 'what if' scenarios and discuss the outcomes in the plan.

For instance, what is the effect on your working capital, Balance Sheet accounts, and the return to your potential investors

Provide Ratio Analysis with a meaningful review of results

Observations

- Initial Behavior/Starting Dynamics
- Spikes/Specific Events
- Conclusions/Terminal Values
- Uncertainty/'What-if' scenarios & their effects on cash and investor returns
- Overall Trends

Measurements

- Balance Sheet
 - Debt/Equity
 - Liquidity
 - Specific Asset Observations
(growth in A/R, Inventory, Debt,...)

Measurements

Income Statement

- Growth in Cost Structures, Fixed & Variable
- Gross Profit
- EBITDA
- Net Earnings
- ROE/ROA

Measurements

Cash Flow Statement

- Working Capital Position
- Growth in A/R, A/P, Inventory, or other Sources or Uses of Cash
- Debt Service Coverage
- Retirement of Debt
- Cash Available to Service investors' tax obligations

Spreadsheet Tips

- Put each statement on its own worksheet

- Number your rows for easy referral from the text

- Use cell names (interest, unit_price, min_bal)

- Don't use plugs - link everything

Spreadsheet Tips

- Double Check - have a team member review

 - "Trust, but verify"

- Only one 'Lotus Jockey' per project

- Don't release your model to outsiders

Key Business Plan Writing Hints

Be Specific; Don't generalize or make unsubstantiated statements

Be honest when describing your company's or products' weaknesses. Show how you will compensate for these weaknesses

If you hire a consultant, work closely with that person. Understand what that person is saying about the company so you can talk through any issue.

Investment Characteristics

How much?

Investment Horizon?

Return Mechanism

- Sale of the company
- Recapitalization
- IPO

Other Financing Needs

Reference Book

The Successful Business Plan

Secrets and Strategies
Fourth Edition

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