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Writing a Business Plan

Why Write a Business Plan?

A properly written Business Plan will help you evaluate the **feasibility** of a new business idea. It will help you understand the objectives in a critical and unemotional way. As you go, it will help you deeply examine all facets of your business including:

- **Marketing:** Do you have a market? How much can you sell?
- **Management:** Will your managers have the required skills to effectively run your business?
- **Financial:** Will your business make a profit?

It provides an **operating plan** to assist you in running your business and can improve the probability of success. It allows you to:

- Identify opportunities and avoid any potential mistakes
- Develop production, administration and marketing plans
- Create a budget and projections to show financial outcomes

It communicates your idea to others and serves as a “selling tool,” that can provide the basis for your financing proposal. It will help you:

- Determine the amount of financing needed
- The type of financing needed
- Forecast probability and investor return on investment
- Forecast cash flow, and show your ability to repay debt

Your plan will be used by those you are trying to encourage to finance or invest in your business. When you present this to those individuals, you will want to ensure that you have a thorough business and financial analysis. Lack of details and information will be detrimental to obtaining financing or investments.

Business Plan Guidelines

This WILL take a great deal of time and should not be hurried or rushed. You will spend several hours and weeks gathering information, data and research for your new business, which helps you gain a better understanding as well.

A typical Business Plan consists of **three sections**. The first section is your written plan which will describe your Management and Marketing aspects. The second section is your financial plan, and section three is your supplemental or appendices. You will also need to include an **Executive Summary** at the beginning of your plan (2 pages).

- **Section One:** must be thorough, clear and concise. Use headlines, graphs, bullet points to improve readability. This should be at minimum 15-20 pages in length.
- **Section Two:** is your financial plan and shows your investors in numbers what the projected outcome of your business is. Your projections should be based on **FACTS** and research, not a guess or hunch. You will need to justify these numbers, so do your research!
- **Section Three:** is where you will put any supporting or supplemental information. It will be used to reinforce the materials in the first two sections of the plan.

Everyone who works on starting a new business should be very involved in the planning of it. No plan, or poor planning is the number one cause of business failure. You can be successful with planning and preparation, which is where a good business plan comes in.

Ten Ways to Ruin Your Business Plan

Errors are bound to happen if you are not prepared or do not conduct proper research. You can avoid these pitfalls by avoiding the following:

- **Submitting a rough draft:** If you submit a rough draft that is full of spelling, grammar, punctuation, and numerical errors, or a plan that is full of food and drink stains, it shows that you do not take this plan seriously.
- **Outdated Information:** Keep your research within the last three (3) years for any data you research. Outdated information shows you have a lack of understanding of the current climate for your business.
- **Unrealistic Plan:** If you are not realistic and present this as a money maker from day one, etc., you are not being realistic.
- **Lack of financial information understanding:** If you are unable to explain your financial information, or do not understand what each part of the financial plan is, you do not have an understanding of your business.
- **Lack of details or strategies:** If you only give generalized statements (my business will provide world class service at an affordable price) without details on how you plan to accomplish it, will be considered unprepared.
- **Nothing at stake:** If it appears that you have not put any of your own resources (financial or otherwise) behind this business or product, they will not take you seriously (think Shark Tank).
- **Unwillingness to guarantee investment:** If you are not willing to stand behind your business, why should your investor?
- **Unrealistic loan amounts or repayment plans:** If you are asking for way too little or too much money, and have an unrealistic repayment plan, you will not get your investment.
- **Focused on collateral:** You need to look at how you plan to repay the loan through your profits, and not through other means.

Business Plan Outline

These are REQUIRED for your Business Plan to be considered complete and ready for presentation to your potential investors. The following sections will describe your business in detail and start putting your business plan together.

Cover Page:

- Business Name
- Business Address (the actual location you researched)
- Phone Number (use your own)
- Business Owners

Executive Summary

- Two pages that give a description of the business owners and why they want to start this business.

Section One: The Business

- Description of the Business (2 pages)
- Products and Services (2 pages)
- Market Analysis (2 pages)
- Marketing Plan (2 pages)
- Location and Competition (2-3 pages)
- Management, Operations and Personnel (2-4 pages)
- Effect of Loan or Investment (2 pages)

These sections can be longer but should NOT exceed 20 pages! Anything less than 15 pages is not thorough enough.

Section Two: Financial Data

- Projected Financial Statements
 - Income Statements
 - Cash Flow Statements
 - Balance Sheets

Section Three: Supporting Documents

- Historical financial records, tax returns, resumes, cover letters, references, personal financial information, diagrams of facilities, purchase orders, contracts, etc.

Section One:

Description of the Business

This section provides a detailed overview of your business. You will aim for clarity and conciseness. Think of the **Elevator Speech** that we discussed in class—can you explain this business in the time it takes to get from the lobby to the 5th floor? Too much detail detracts from the main idea, and too little detail shows you have not done enough research.

Work to answer each of these questions about your business as clearly as you can:

1. What general type of business is this?
2. What are your products?
3. Who are or will be your customers?
4. Why will **you** be successful in this business?
5. What is your experience with this type of business?
6. What will be special or unique about this business?
7. Why will your business be successful?
8. What are the current financial conditions or trends for this business?

Products and Services

This is where you will be describing in detail the products and services that your business will be offering. You will include details of the product and your unique processes that will make you successful. Also discuss the product benefits and why your customers will come to you for this product.

As we have discussed, most of your ideas are not totally new and have been adapted from other concepts. If you have altered an existing product, you must insure that you have not violated any copyright or trademarks to create your product and tweak this product to make it your own.

Since most of you are using an existing idea that you have recreated into your own product, you have to find a way to **position** your business in the eyes of your consumers and make them see that you have **differentiated** yourself from your competition. Positioning is the process of establishing your product with perspective customers.

Answer these questions in detail to determine your product and services:

1. What products and services are you (or will you) be selling?
2. What are the features and benefits of what you sell?
3. What **position** do you have (or want to have) in the market?
4. How do your products and services differ from the competition?
5. What makes your products or services unique and desirable?
6. What do (or will) customers buy from your business?

Market Analysis

For new businesses, having a Market Analysis is important as it serves as the basis for your Marketing Plan, and will help to justify your sales forecast. You will rely on your market research using government websites and statistics, surveys, competitor observation and online searches. You will need to make sure that the Market Analysis is relevant to establishing the viability of your business and the reasonableness of the sales forecast.

Answers these questions to help you work through your Market Analysis:

1. Who are or will be your customers? Be sure to list out largest customers or categories.
2. What do they or will they buy from you?
3. Why do they or will they buy from you? (Think: Price, Quality, Reputation, etc.)
4. Who are or will be the purchasers of your products or type of products? (Information: Geographic, Demographic, Psychographic characteristics)
5. What is the size of the market? Is it growing?
6. What is or will be your share of the market? How will your share change over time?
7. What is the industry outlook?
8. Are there segments of users who are under-served by your competition?
9. Do any of these under-served segments present opportunities to your business?

Marketing Plan

In this section, you will include the highlights of your detailed Marketing Plan. The basic components of a Marketing Plan are:

- What are you selling? What benefits do you provide and what position or image do you have?
- Who wants the things you sell? Who is your Target Market?
- How will you reach your Target Markets and motivate them to buy?
 - You will need to develop product, price and promotional strategies (3-P's of Marketing)

Answer these questions to develop your Product Strategies:

1. How will your products be packaged?
2. How broad will your product line be?
3. What new products will you introduce?
4. What Position or Image will you try to develop or reinforce?

Answer these questions to develop your Pricing Strategies:

1. What will be your pricing strategies? Think: Premium, Everyday Low Price, Frequent Sale Prices, Price Matching to Competitor, etc.
2. How will you compare with competition and how will they respond?
3. Why will your customers pay your price?
4. What will be your credit policies?
5. Is there anything about your business which insulates you from price competition?
6. Can you add value and compete on issues other than price?

Answer these questions to develop your Promotional Strategies:

1. Who are your Target Markets?
2. How will you reach your Target Markets? What Media or Social Media will you use?
3. How will you motivate them to buy? What message will you stress?
4. What is the cost and timetable for implementation of the Marketing Plan?

Location and Competition

Locations with lots of customer traffic usually will cost more to rent or purchase, but they will require less spending for advertising to attract new customers. This is especially true of your retail business where traffic count and accessibility are critical. In some cases, a good location may be one close to suppliers, transportation hubs, or a complementary business that will also attract your Target Market.

Answer these questions to help determine your Location:

1. What is the business address? (You need an ACTUAL address)
2. Will you own the location or rent? If rented, what are the terms?
3. Are renovations or modifications needed, and what are the costs?
4. Describe the property and the surrounding area.
5. Why is this a good location for your business?

In regard to Competition, “who is your competition” will be the first question that investors will ask. Business is competitive, and few are entirely new. If there are no competitors, exercise caution, there may be no market for your products. Expand on your concept of competition. If you plan to open a bowling alley, your competition will include roller skating rinks, movie theatres, and malls.

Answer these questions to develop your Competition:

1. Who are or will be your largest competitors? List them out.
2. How will your operation be better and worse than your competitors?
3. How are competitors doing? What are their sales and profits?
4. How will your competition respond to your entry to the market?

Management, Operation and Personnel

Since management problems are the leading cause of business failures, it is important to discuss management qualifications and structure. Resumes of all owners need to be included in your supporting data. If your business will have few employees and rely more on outside professionals, list these people and their qualifications. If you are asking to be financed, include your personal financial statements for all owners in the supporting data section. Knowing that your business success will depend on your ability to recruit, train and retain quality employees, you will put a great deal of emphasis on the number of and type of employees required.

Answer these questions to develop your Management Plan:

1. What is the business management experience of the management team?
2. What are the functional areas of the business?
3. Who will be responsible for each functional area?
4. Who reports to whom? What is your chain of command?
5. What will management salaries be?
6. What management resources outside the company are available? Consulting firm?
7. How will your products/services be produced? What manufacturing processes, proprietary technology, and key supplier relationships will you have?

Answer these questions to develop what your Personnel needs are:

1. What are the personnel needs now? What about in a year? Five years?
2. What skills must they have? What training will you provide?
3. Are the people you need available?
4. What is their compensation? What fringe benefits will you provide?

Effect of Loan or Investment

Completion of this section is important when you are seeking loans or outside investors. You will need to complete Section Two, Financial Data before answering these questions:

1. What is the total investment required? Why?
2. How will the loan or investment be used?
3. How will the loan or investment make the business more profitable?
4. When will the loan be repaid?
5. If you are seeking investors, what percent of the company are you willing to give up?
6. What is the rate of return possible for your investors?

Section Two:

Projected Financial Statements

The basic purposes of financial projections are:

- Establish the profit potential of the business, given reasonable assumptions
- Determine how much capital the company needs and how it will be used
- Demonstrate the business can generate the cash to operate and re-pay loans

It is usually helpful, but not necessary, to complete at least a rough draft of Section One (the written section) before attempting Section Two. You should have already developed and described your strategies for operating the business. In this section you will be estimating the financial impact of those strategies by developing projected Income Statements, Balance Sheets and Cash Flow Statements. It is usually recommended that these projected statements be on a monthly basis for at minimum the first twelve months or until you can show a profit and stability. Activity displayed beyond the monthly detail may be in summary form, such as quarterly or annual statements. Most Business Plans forecast for three to five years.

The quality of your projections depends on the accuracy of your assumptions, for example: Garbage in—Garbage out. Businesses will rely heavily on research to prove that your numbers are reasonable. Examples of good sources of research include: Industry data from public sources and trade associations, personal interviews with potential customers and people in the business, competitive observation and analysis.

Steps in Financial Projections

For items 1 and 2, use the following “Fixed Asset/Start-Up Expense List” Excel Workbook.

1. Estimate fixed asset requirements for the first year. Include land, buildings, leasehold improvements, equipment and vehicles.
2. Estimate any start-up or one-time expenses. Include any expenses needed to begin operation such as legal fees, licenses, and initial marketing costs.

For item 3, use the following “Unit Selling Price and Cost Analysis” Excel Workbook.

3. Define each “unit” of your product or service and estimate the selling price and direct cost per unit. In the appropriate places on the form, estimate Cost of Sales and calculate Gross Profit as a percentage of the selling price.

For items 4 through 6, use the following “Projected Income Statement” Excel Workbook.

4. Estimate sales by month for at least one year. (Unit sales price times the number of units) Consider how start-up, marketing, and seasonal factors affect sales.
5. Estimate monthly Cost of Sales and Gross Profit based on the percentages of sales calculated in #3 above. Use a weighted average if multiple product lines.
6. Estimate and itemize fixed expenses by month for at least one year. Include things like rent, insurance, utilities, salaries, marketing, legal, accounting, and supplies. Determine all categories which apply to your business, but do not include expenses here that are in “Cost of Goods/Services Sold.”

Research items 7 through 10 and provide a short narrative.

7. Describe the amount of inventory (if any) required to support the sales forecast. Express in number of days sales or turn over if possible.
8. Describe your credit, sales, and collections policies. If you will makes sales on credit, estimate the number of days after the sale before the average customer pays.
9. Describe how fast you must pay your vendors for any items you will purchase.
10. Estimate obligations for Income Taxes.

Additional Information

To find information about obtaining Kansas Business Licenses, you will need to go to the Kansas Business Center website at: <https://portal.kansas.gov/business/planning/>

Restaurants need to be licensed through the Kansas Department of Agriculture website:

<https://agriculture.ks.gov/divisions-programs/food-safety-lodging/food-safety-licenses>

Licensing and Fees Information: [https://agriculture.ks.gov/docs/default-source/rc-food-](https://agriculture.ks.gov/docs/default-source/rc-food-safety/food_service_restaurant_appfla1e5002e6262e1aa5bff0000620720.pdf?sfvrsn=20c387c1_)

[safety/food_service_restaurant_appfla1e5002e6262e1aa5bff0000620720.pdf?sfvrsn=20c387c1_](https://agriculture.ks.gov/docs/default-source/rc-food-safety/food_service_restaurant_appfla1e5002e6262e1aa5bff0000620720.pdf?sfvrsn=20c387c1_)

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