

# Writing a Business Plan



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## Why Write a Business Plan?

To evaluate the **feasibility** of your business idea in an objective, critical and unemotional way.

- Marketing - Research the market and estimate demand
- Management - Your capabilities and your "team"
- Financial - Forecast costs and sales

It provides an **operating plan** to assist you in running the business and improves your probability of success.

- Identify opportunities and avoid mistakes
- Develop production, administrative, and marketing plans
- Set budgeting guidelines

It **communicates your idea** to others and provides the basis for your financing proposal.

- Forecast profitability
- Analyze and forecast cash flow
- Determine the amount and type of financing needed

## Basic Business Plan Guidelines

- Writing a Business Plan will take a lot of time.
- A typical plan will have **three sections**. Section One is a written section describing Management and Marketing aspects of the business. Section Two includes financial projections. Section Three is supplemental information.
- **Section One** should be thorough, but concise and to-the-point. Use headlines, graphs and "bullets" to improve readability.
- **Section Two** describes in numbers the outcome of your business strategies and plans. Your financial projections should be based on facts and research, not "wild guesses." Be prepared to justify your numbers.
- **Section Three** contains supporting information to reinforce the first two sections. This section's contents will vary with your type of business.
- You should do the planning. Hiring someone to do it or delegating it to someone who is not a key member of the company will result in an inferior plan.

# Business Plan Outline

**Cover Sheet:** Business Name, Address, Phone Number, Owners

## Statement of Purpose or Executive Summary

### Section One: The Business

- A. Description of Business
- B. Products/Services
- C. Market Analysis
- D. Marketing Plan
- E. Location
- F. Competition
- G. Management and Operations
- H. Personnel
- I. Application and Effect of Funding

### Section Two: Financial Data

- A. Projected Financial Statements
  - Income Statements
  - Cash Flow Statements
  - Assumptions to Projected Financial Statements
- B. Sources and Uses of Funds

### Section Three: Supporting Documents

## Section One: The Business

The following pages describe in detail each part (A through I) of the previous Business Plan Outline. Disregard any questions that do not apply to your business.

### A. Description of the Business

Part A provides an overview of key information which is developed in greater detail in the following pages. **Aim for clarity and simplicity** in this part. Too much detail here gets in the way of the main ideas.

#### Basic Questions:

- 1) What general type of business is this?
- 2) What is the status of the business? Start-up, expansion or take-over?
- 3) What is the business form? Sole Proprietorship, Partnership, Corporation or Limited Liability Company?
- 4) What are your products?
- 5) Who are (will be) your customers?

### **Additional Questions for Start-Ups:**

- 1) Why will **you** be successful in this business?
- 2) What is your experience with this type of business?
- 3) What will be special or unique about this business?
- 4) Why will your business be successful?

### **Additional Questions for Purchase of Existing Business:**

- 1) When and by whom was the business founded?
- 2) Why is the owner selling?
- 3) How was the purchase price determined?
- 4) What are the current financial conditions and trends?
- 5) How will your management make the business more profitable?

## **B. Products/Services**

In this section, describe your product offering. This will include details of product features and an overview of unique technology or processes. But don't stop there and don't focus too much on technology. You must also describe the product benefits and why customers will want to buy.

For most businesses, the **products/services are not totally unique**. If yours are, take advantage of this while you can and plan for the competitive battles that will come.

If your products/services are not unique, you must find a way to **position** your products/services in the mind of your customer and to **differentiate** them from the competition. Positioning is the process of establishing your image with prospects or customers. (Examples include: Highest quality, Lowest price, Widest selection, Best customer service, Fastest delivery, etc.)

### **Basic Questions:**

- 1) What products/services are you (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/services differ from the competition?
- 5) What makes your products unique and desirable?
- 6) Why do (will) customers buy from you?

## **C. Market Analysis**

For start-ups or existing businesses, market analysis is important as the basis for the marketing plan and to help justify the sales forecast. Existing businesses will rely heavily on past performance as an indicator of the future. Start-ups have a greater challenge - they will rely more on market research using libraries, trade associations, government statistics, surveys, competitor observation, etc. In all cases, make sure your market analysis is relevant to establishing the viability of the business and the reasonableness of the sales forecast.

## Basic Questions:

- 1) Who are the purchasers of your products or type of products? (Geographic, Demographic and Psychographic characteristics)
- 2) What is the size of the market? Is it growing?
- 3) What is (will be) your share? How will your share change over time?
- 4) What is the industry outlook?
- 5) Are there segments of users who are under-served by competition?
- 6) Do any of these under-served segments present opportunities?

## D. Marketing Plan

In this section, you include the highlights or 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? (Identify Target Markets)
- How will you reach your Target Markets and motivate them to buy? (Develop Product, Price, and Promotional Strategies)

### Product Strategies

- 1) How will 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?

### Pricing Strategies

- 1) What will be your pricing strategies? (For example: Premium, Every Day Low Price, Frequent Sale Prices, Meet Competitor Price, etc.)
- 2) How will you compare with competition and how will they respond?
- 3) Why will 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?

### Promotional Strategies

- 1) Who are your Target Markets?
- 2) How will you reach your Target Markets? (What 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?

## **E. Location**

Locations with greater customer traffic usually cost more to buy or rent, but they require less spending for advertising to attract customers. This is especially true of retail businesses where traffic count and accessibility are critical.

### **Basic Questions:**

- 1) What is the business address?
- 2) Is it owned or leased? If leased, 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?

For Mail Order, Telemarketing, Manufacturing, Consulting, or other companies where the customer does not purchase while physically at the business address, less location detail is needed. Modify the location section to fit your situation. 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.

## **F. Competition**

"Who is your competition?" is one of the first questions a banker or investor will ask. Business by nature is competitive, and few businesses are completely new. If there are no competitors, be careful; there may be no market for your products.

Expand your concept of competition. If you plan to open the first roller skating rink in town, your competition includes movie theaters, malls, bowling alleys, etc.

### **Basic Questions:**

- 1) Who are (will be) your largest competitors? List them.
- 2) How will your operation be better (and worse) than your competitors?
- 3) How are competitors doing? What are their sales and profits?

## **G. Management and Operations**

Because management problems are the leading cause of business failures, it is important to discuss management qualifications and structure. Resumes of Principals should be included in supporting data. If your business will have few employees and rely heavily on outside professionals, list these key people and their qualifications. If you are seeking financing, include personal financial statements for all principals in supporting data section.

### **Basic Questions:**

- 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?
- 5) What will salaries be?

- 6) What management resources outside the company are available?
- 7) How will your products/services be produced? (Describe manufacturing processes, proprietary technology and key supplier relationships.)

## **H. Personnel**

The success of many companies depends on their ability to recruit, train and retain quality employees. The amount of emphasis in your plan will depend on the number and type of employees required.

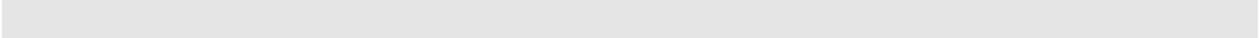
### **Basic Questions:**

- 1) What are the personnel needs now? In the future?
- 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 be provided?

## **I. Application and Effect of Funding**

This section is important whether you are seeking a loan, outside investment (equity) or investing your own money. It may be necessary to complete Section Two, Financial Data, before completing this part.

### **Basic Questions:**

- 1) What is the total investment required?
  - 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?
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## Section Two: Financial Data

### 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

It is usually helpful, but not necessary to complete at least a rough draft of Section One before attempting this section. In the first section, you will develop and describe your strategies for the business. In Section Two, you will estimate the financial impact of those strategies.

The personal computer is an excellent tool for financial projections; you let the computer do the calculations and you can do several scenarios very quickly. For those who have a strong background in accounting and personal computer spreadsheets, you may attempt to complete your own financial forecast. (There are also some specialized software programs which help you plan and organize your financial data.) If you would like assistance, gather the suggested information in “Steps in Financial Projections” and contact the Small Business Development Center. The SBDC will review the information from your research and help you develop your projection.

### Steps in Financial Projections

- 1) **Estimate fixed asset requirements by month for the year.** Include Land, Buildings, Leasehold Improvements, Equipment, and Vehicles. *Use the following “Capital Equipment List”.*

*For items 2 through 5, use the following “Projected Income Statement”.*

- 2) **Estimate and itemize any start-up, one-time or unusual expenses.** Include such thing as installation costs, initial marketing materials and legal fees.
- 3) **Estimate and itemize fixed expenses by month for at least one year.** Include such things as rent, insurance, utilities, salaries, marketing, legal/accounting, etc. Determine all categories which apply to your business.
- 4) **Estimate sales by month for at least one year.** If you have multiple product lines, estimate them individually. Pay careful attention to seasonal factors.
- 5) **Calculate Gross Profit percentage for each product line.**  
Sales price - cost of goods sold = gross profit \$  
Gross profit \$ ÷ sales price = gross profit %



# Capital Equipment List

**Item Description:**

**Cost:**

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**Total Cost of Capital Equipment:**

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**Projected Income Statement  
For the 12 Months Beginning \_\_\_\_\_**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total Year 1
<b>Total Revenue</b>													
<b>Cost of Goods Sold</b>													
<b>Gross Profit</b>													
Accounting & Legal													
Admini Salaries													
Autos & Vehicles													
Depreciation													
Dues & Subscriptions													
Entertainment													
Equipment Rental													
Insurance-Business													
Insurance-Health													
Interest													
Contract Labor													
Licenses													
Marketing													
Miscellaneous													
Office Supplies													
Postage													
Rent													
Repairs & Maintenance													
Telephone													
Taxes-Payroll													
Taxes-Other													
Travel													
Utilities													
Other:													
<b>Total Expenses</b>													
<b>Pre-Tax Profit (Loss)</b>													

## Sources and Uses of Funds

The Sources and Uses of Funds is a statement of where the money for the business will come from and where it will be used. By definition, sources must equal uses. The following is an example of a typical format.

### Sources:

Term Loan \_\_\_\_\_

Line of Credit \_\_\_\_\_

Personal Equity \_\_\_\_\_

Outside Equity \_\_\_\_\_

Other \_\_\_\_\_

**Total Sources** \_\_\_\_\_

### Uses:

Purchase Building \_\_\_\_\_

Purchase Equipment \_\_\_\_\_

Renovations \_\_\_\_\_

Inventory \_\_\_\_\_

Working Capital \_\_\_\_\_

Cash Reserve \_\_\_\_\_

Other \_\_\_\_\_

**Total Uses:** \_\_\_\_\_

