

Business Plan Guidelines

The Ten Components of a Business Plan

Executive Summary – This is the most important section because it has to convince the reader that the business will succeed. In no more than three pages, you should summarize the highlights of the rest of the plan. This means that the key elements of the following components should be mentioned.

The executive summary must be able to stand on its own. It is not simply an introduction to the rest of the business plan. This section should discuss who purchases your product or service, what makes your business unique, and how you plan to grow in the future. Because this section summarizes the plan, it is often best to write this section last.

Description of the Business – This section should provide background information about your industry, a history of your company, a general description of your product or service, and your specific mission that you are trying to achieve. Your product or service should be described in terms of its unique qualities and value to the customer. Specific short-term and long-term objectives must be defined. You should clearly state what sales, market share, and profitability objectives you want your business to achieve.

Marketing – There are two major parts to the marketing section. The first is research and analysis. Here, you should explain who buys the product or service – or, in other words, identify your target market. Measure your market size and trends, and estimate the market share you expect. Be sure to include support for your sales projections. For example, if your figures are based on published marketing research data, be sure to cite the source. Do your best to make realistic and credible projections. Describe your competition in considerable detail, identifying their strengths and weaknesses. Finally, explain how you will be better than your competitors.

The second part is your marketing plan. This critical section should include your market strategy, sales and distribution, pricing, advertising, promotion and public awareness. Demonstrate how your pricing strategy will result in a profit. Identify your advertising plans, and include cost estimates to validate your proposed strategy.

Location – In this segment it is important to describe the actual location and outline its advantages. Zoning, taxes, access to transportation, and proximity to supplies should be all considered in this section.

Management – Start by describing the management team, their unique qualifications, and how you compensate them (including salaries, employment agreements, stock purchase plans, levels of ownership and other considerations). Discuss how your organization is structured and consider including a diagram illustrating who reports to whom. Also include a discussion of the potential

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contribution of the board of directors, advisers or consultants. Finally, carefully describe the legal structure of your venture (i.e., sole proprietorship, partnership or corporation).

Financial – Three key financial statements must be presented: a balance sheet, an income statement and a cash flow statement. These statements typically cover a one-year period. Be sure you state any assumptions and projections you made when calculating the figures.

Determine the stages where your business will require external financing and identify the expected financing sources (both debt and equity sources). Also, clearly show what return on investment these sources will achieve by investing in your business. The final item to include is a break-even analysis. This analysis should show what level of sales will be required to cover all costs.

If the work is done well, the financial statements should represent the actual financial achievements expected from your business plan. They also provide a standard by which to measure the actual results of operating your business. They are a very valuable tool to help you manage and control your business.

Critical Risks – Discuss potential risks before they happen. Here are some examples: Price-cutting by competitors, potentially unfavorable industry-wide trends, design or manufacturing costs that could exceed estimates, sale projections that are not achieved. The idea is to recognize risks and identify alternative courses of action. Your main objective is to show that you can anticipate and control (to a reasonable degree) your risks.

Succession Planning – Ensuring the survival of a family business is hard work. A founder's protective feelings for a company built from scratch make it tough to grapple with such issues as management succession, family rivalries, and estate planning. With foresight, however, entrepreneurs can keep their dream alive, ensure the security of their heirs, and usually strengthen their business in the process. Thus a written plan for succession of your business is essential.

Milestone Schedule – This is an important segment of the business plan because it requires you to determine what tasks you need to accomplish in order to achieve your objectives. Milestones and deadlines should be established and monitored on an on-going basis. Each milestone is related to all the others and together they comprise a timely representation of how your objective is to be accomplished.

Appendix – This section includes important background information that was not included in the other sections. This is where you would put such items as: resumes of the management team, names of references and advisers, drawings, documents, licenses, agreements, and any materials that support the plan. You may also wish to add a bibliography of the sources from which you drew information.