



**Greater Shelby County
Chamber of Commerce**
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How To Develop A Business Plan

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Business Support Center
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Chamber of Commerce**
Community • Commerce • Collaboration

Dear Emerging Business/Manager:

This Guide was written for you – the owner/manager of an emerging business. It is divided into several components – goal setting, company background, product/service description, personnel, marketing and finance. It is designed to take you step-by-step through the process of preparing your business plan.

A well conceived business plan is essential to the capital-raising process for your emerging company. It is an excellent way for an investor--whether a venture capitalist or other provider of funds--to review your company's potential. Today, many investors will not even consider meeting with you until they have read your business plan. And the quality of your plan can be a major factor in an investor's decision to help fund your venture.

A business plan is also a management tool. It can help focus, in a logical and organized manner, on the future growth of your company. It helps you to anticipate and meet the inevitable changes of the future. Further, a business plan is a control tool that permits you to monitor and assess progress.

We hope this guide assists your company in its planning process and provides the payback that a well-developed plan will bring.

Regards,

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Published by:

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BUSINESS PLAN ORGANIZER

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HELPFUL IDEAS FOR COMPLETING THE ORGANIZER

1. Do not try to complete the organizer in one sitting. Instead, divide the organizer into sections and schedule some “quiet time” on the same day each week. Use the remainder of the week to have others gather the information, which you will need to complete that section.
2. The time period which you have selected to prepare each section should be carefully chosen. Pick your least busy day of each week. If possible, separate yourself from your job; that is, take no phone calls, permit no interruptions and, if practical, leave the office. A fresh, quiet environment will encourage creative thinking and maximize the results which you will achieve from this exercise.
3. Do not set too many goals and objectives. Studies have shown that when too many goals and objectives are set, few goals are actually achieved. The net result is pessimism and frustration rather than optimism and solid results.
4. In selecting the 3 or 4 major objectives for the year identify the following: specify the objective; who should be working on it; how it can be achieved; what the timeframe should be. Set reasonable deadlines as too tight a deadline again creates frustration and pessimism.
5. Solicit ideas for each section from others. These individuals may be other members of your management group, trusted long-time employees, and department supervisors or outside advisors, if you have some.
6. Consider copying certain sections and asking others to fill them out so as to provide you with additional input. Their ideas may cause you to rethink your original approach and perhaps take another.
7. Do not spend an excessive amount of time tinkering with financial statements. Have your controller or chief accountant work these out based on assumptions which you provide to them. Your function should be that of review, consolidation and approval.
8. In the financial area, place more emphasis on cash flow rather than on profit and loss. Cash flow is the staple of most businesses and is what investors and analysts emphasize most often.
9. The various sections in the organizer will need to be summarized. Remember to consider this when preparing each section; in other words, be precise in your

responses but not too detailed, as it will make the process of preparing the Executive Summary long and cumbersome.

10. Prepare a concise Executive Summary after the organizer is complete. This will be your road map to implementing the solutions which you have chosen for your key objective. Review it periodically to remind and refresh both your thoughts and your attitudes.
11. A positive, upbeat, optimistic attitude is essential to preparing a strong plan which you feel good about. Focus not on the problems of today, but on the solutions of tomorrow.
12. Remember that business planning is more an art than a science. It has strong psychological implications and you need to build a positive “can do” attitude within yourself and those around you. You want to build results, not new problems. Focus on critical success factors and set a few key objectives. Positive results will follow.

EXECUTIVE SUMMARY

The purpose of the Executive Summary is to pull together in one brief, concise narrative, the major information about your business. The Executive Summary is used almost like an individual's resume when meeting with bankers, venture capitalists and working with the employees. As outlined below, it should be divided into several sections and written in a concise form and an organized format. It generally should not exceed 6 to 8 pages.

COMPLETE THIS LAST-AFTER YOU HAVE COLLECTED THE INFORMATION IN THE FOLLOWING SECTIONS.

The following key information should be contained in the Executive Summary:

Section 1. Description of the Business

Outline what are the products and services of the business and to whom they are generally sold. What is your competition and how does your product rate in comparison with them? What are some of the key factors which have made your business successful? Is it the uniqueness of the product, level of quality, timeliness of delivery, special quality of service or any other feature which you feel is important? Do you have new products which you are introducing? What is the anticipated market acceptance of those products?

Section 2. The Management Team

Outline briefly the members of management, their background, experience and strengths, their past achievements and what they have done to make the company successful. The credentials of new members of management should be explained such that the reader can appreciate why their addition strengthens the company.

Section 3. Financial Highlights

Summarize the past financial history of the company. It is suggested that you *do not* provide detailed financial information in this section. Show key balance sheet and profit and loss information. Provide some management explanation of the results and indicate that additional financial information is available upon request. If projections and forecasts are given, clearly explain the assumptions used to make those projections or forecasts. Discuss cash flow as this frequently differs substantially from profit and loss. Financial readers are generally more interested in cash flows than net income as they show seasonal or cyclical needs and in the long run, are the sole source of debt repayment

EXECUTIVE SUMMARY—CONTINUED

Section 4. Financing Needs

Include in this section a description of what it is you are asking for- if you are using this Executive Summary for a bank or venture capitalist. Explain the amount of money required, what its expected use is, what you would expect to pay and how you expect to repay it. If the sale of capital is involved, indicate how much of the company you are willing to give up for your financing needs. Be realistic. It is not uncommon for a venture capitalist to ask for and get 30% or more of your company in return for their committed funds. Also show the expected future plans of the company which will permit the venture capitalist “to exit” in a timeframe of approximately 3 to 5 years.

Section 5. Other Information

Include in this section other information which you feel is both important to your business and relative to your request. You may wish to describe your relationship with certain key customers as well as certain key suppliers. If good references are available you may wish to provide them as they too can help you sell your business plan.

The following blank pages have been provided to assist you in the preparation of your Executive Summary.

THE NUTS AND BOLTS OF A BUSINESS PLAN

SETTING GOALS

Knowing where you are in your business and where you want to go is the first step in developing a business plan. Start by identifying your major goals.

A goal is a specific benchmark you want to obtain. List your goals. For example:

1. To increase sales volume to _____.
2. To obtain \$_____ net income.
3. To receive \$_____ in annual compensation.
4. To increase market share by _____.
5. Others:

STRATEGY

Strategy is the overall plan developed to accomplish your goals.

List your strategies by business plan areas:

| Goal | Strategy |
|-------------|-----------------|
|-------------|-----------------|

Product/Service

Personnel

Marketing

Finance

ACTIVITIES TO MEET GOALS

Once you've set your goals and determined the overall strategies to achieve them, you must then determine the specific functions or activities which should be performed. This is an excellent time to share your goals and strategies with other key employees and obtain their ideas for action steps.

| | Name of Person Responsible | Completed By |
|--|-------------------------------|-----------------|
|--|-------------------------------|-----------------|

STRATEGY: _____

Activities

- 1.
- 2.
- 3.
- 4.
- 5.

STRATEGY: _____

Activities

- 1.
- 2.
- 3.
- 4.
- 5.

STRATEGY: _____

Activities

- 1.
- 2.
- 3.
- 4.
- 5.

STRATEGY: _____

Activities

- 1.
- 2.
- 3.
- 4.
- 5.

THE BUSINESS PLAN

This part of the business plan should document the basic elements of your organization. It will not only provide the background information you need to manage your business, but will also provide useful information to your accountant, banker, attorney and others who from time to time request such information.

I. Business Background

A. State Your Long Range Objectives

- 1.
- 2.
- 3.
- 4.
- 5.

B. Business Image – Describe your perceived business image—How you would like your customers/clients to view your business.

C. Management Qualifications – Describe your (and any other key personnel's) qualifications to run the business. Include resumes as attachments.

D. Prepare an Organization Chart

E. Environmental Considerations

Identify the external and internal factors which you can't control, but which affect the success of your business and, therefore, represent conditions you must manage.

1. Business Cycles

2. Rapidly Changing Tastes and Markets

3. Labor Supply

4. Sources of Material Supply

5. Regulatory and Legal Authorities

6. Other Non-controllable Factors

F. Plants and Facilities

| Describe Present Facilities | Note any Deficiencies or Additional Needs and How You Plan to Satisfy Them |
|-----------------------------------|--|
|-----------------------------------|--|

Land

Building/Plant

Equipment

G. History

1. Date of Organization/Incorporation _____

2. State in Which Incorporated _____

3. Capitalization

Number of shares of stock authorized _____

Number of shares of stock outstanding _____

Par value of stock _____

| <u>Owner(s)</u> | <u>Number of Shares</u> | <u>% of Stock Owned</u> | <u>Date Acquired</u> | <u>Capital Contribution</u> |
|-----------------|-----------------------------|-----------------------------|--------------------------|---------------------------------|
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |

H. Name, Address and Phone Number:

Banker

Accountant

Attorney

Other:

Other:

II. Product/Service Description

One of the first steps in preparing your business plan is to specifically define what product or service you want others to buy. This may sound elementary, but the more clearly you communicate what you're selling, the better your chances for success. You must anticipate questions and concerns of potential buyers and be ready to effectively answer them. You also have to plan your operations within the limits and availability of capital and other resources.

A. Describe Your Product/Service

B. Nature of Product/Service

1. What human need is it designed to satisfy?

2. Is the demand elastic or inelastic?

3. Is it repeatedly purchased?

4. Is it a “big-ticket” item or an inexpensive one?

5. How is it sold?

6. What are the fixed costs associated with providing it? Are they so significant that only large organizations can economically compete?

C. Technology

1. What skill levels are required to produce this product/service? Are these skill levels available in your area?

2. What special training will be required for your labor force?

3. How capital intensive is the business?

4. Is Research and Development (R & D) capability important to success in the business?

D. Analysis of Your Product/Service

Why would customers want to buy your product/service? Ask yourself: What are the advantages or key benefits of my product/service to my customers? What are the disadvantages or negative aspects of my product/service? What steps can be taken to overcome these disadvantages?

| <u>Advantages</u> | <u>Disadvantages</u> | <u>Steps to Overcome Disadvantages</u> |
|-------------------|----------------------|--|
|-------------------|----------------------|--|

III. Personnel

From the day you hire your first employee, unwritten “rules” concerning employee policies develop. Therefore, it is better as an owner/manager to initially spend some time developing and documenting your personnel policies to achieve maximum performance and coordination among your employees. The personnel section of your Business Plan should include the elements of managing and identifying the human resources needed to run your business including recruiting, training, compensation, performance, evaluation and motivation techniques. As mentioned in the goal setting section of this Guide, it is important to motivate employees to work toward the common goals of the organization. This can be achieved by sharing your objectives with your employees and guiding them through the implementation of your plan.

A. Personnel Needs

Complete the following table:

| <u>Job Title</u> | <u>Job Description</u> | <u>Skill Level</u> | <u>Average Wage</u> | <u>Union Representation</u> |
|------------------|------------------------|--------------------|---------------------|-----------------------------|
|------------------|------------------------|--------------------|---------------------|-----------------------------|

B. Fringe Benefits

Describe Your Fringe Benefits Package (include insurance, car allowances, vacation, sick leave, etc.)

C. Union Information (if applicable)

1. Name of Union

2. Date union contract expires

D. Describe Your Recruiting Plan

E. Describe Your Training Plan

F. Describe the Method and Frequency of Employee Performance Evaluations

G. Describe Your Plans for Motivating Your Personnel

IV. Marketing

Marketing presents many challenges for the owner/manager of a small business. Most small businesses cannot afford to conduct costly market analyses and surveys. However, the importance of such information cannot be over emphasized. Knowledge of your marketplace is imperative to the success of your business. Various resources are available in the community to help you identify your market. An effective marketing plan should include components which address competitive pricing, distribution and advertisement of your product or service.

- A. Marketing Objectives (should agree with the goals and strategies previously developed)

| Category | Objective |
|----------|-----------|
|----------|-----------|

Sales

(dollar, volume, units, product lines, etc.)

Market Penetration

(saturation of market through competitors, compatible products, etc.)

Market Share

(where you stand among your competitors)

Growth

(through new customers,
Or new products/services)

Diversification

(ideas for new or
modified products/
services)

ProfitB. Customers

1. Nature of Customer

- a. Is the customer a manufacturer, distributor, wholesaler, retailer, consumer?
- b. Do the customers in your market favor a particular seller? Why?
- c. In what geographical areas are customers located? In which areas can you effectively compete?
- d. Why do customers/clients purchase or not purchase your product or service? Describe any unique features—performances, reliability, historical relationships, speed of delivery, customer contact, alternative packaging.

2. List Sources to Help You Identify Your Potential Market.

| <u>Source</u> | <u>Information to Obtain</u> |
|---------------|------------------------------|
|---------------|------------------------------|

a. SBA

b. Trade Associations

c. Trade Magazines

d. Local Universities

e. Chamber of Commerce

f.

g.

C. Competitors

1. List:

| <u>Name</u> | <u>Location</u> | <u>% Share of Market</u> | <u>Estimated Sales</u> | <u>Estimated Sales Loss Because of You</u> |
|-------------|-----------------|------------------------------|----------------------------|--|
|-------------|-----------------|------------------------------|----------------------------|--|

2. Do a variety of businesses offer your product / service, or is the competition centered among a few businesses?
3. How much of the market is controlled by major firms?
4. What forms of organization do most of your competitors use (franchise, proprietorships, partnerships, corporations, conglomerates?)
5. Is the business a new and/or rapidly changing one, or a mature and stable one?
6. What are the major areas of competition in your business? Is it price, service, quality, image?

D. Pricing

1. What will be your basic pricing approach? Will you use high quality/high price, meet-the-competition, or discount strategy?
2. What price(s) have you set for your product or service? Can you obtain an adequate share of the market at those prices?
3. Are those prices you plan to charge compatible with the image of the business you will be trying to create?

E. Promotional Strategy

Now that you have defended your product or service, you should decide upon the most effective way to promote it. Make sure your promotional strategy is compatible with your business image.

1. Personal Selling
2. Other Salesmen
3. Telephone Sales
4. Direct Mail/Mass Marketing
5. Publicity
6. Sales Promotion

F. Advertising

Advertising can be expensive. You should research the most cost-effective method of reaching your customers. Again, the form of advertising you select should enhance your perceived business image.

| | Plan to Use | Advantages |
|--|-------------|------------|
| 1. Direct Mail | | |
| 2. Store Sign | | |
| 3. Radio and Television Ads | | |
| 4. Magazine and Newspaper Ads | | |
| 5. Outdoor Billboard and Posters | | |
| 6. Advertising Specialty Items (Calendar, Pens, etc.) | | |
| 7. Brochure | | |
| 8. Telephone Directory | | |

G. Distribution Channel

The decision of how to get your customers is important because of the time lags involved and the costs.

Retail

Jobber

Wholesalers

Brokers

Door-to-Door

Mail Order

Party Plan

Other

V. Finance

This section of the Business Plan deals with using projected financial data to map out how you can attain your goals and using actual historical financial data to control and monitor your plan.

A. Using Financial Data

1. **Operating Budget.** The operating budget provides an estimate of sales and expenses for one year. As an owner/manager of a small business, the operating budget is one of the most important planning tools you can use. It is essential to the financial success of your business. The budget should be prepared objectively from year to year using historical information, anticipated economic trends for your product or service, inflationary increases, anticipated business changes, etc. *See Exhibit A.*
2. **Cash Flow Analysis.** An analysis of cash flow shows the owner/manager the cash availability and cash needs of his business. The projected cash flow statement provides a planning tool while the actual cash flow statement provides historical information which can help the owner/manager make business decisions. Because of swings in the business cycle, collection experiences, timing of expenditures, purchase of capital items and various other transactions which generate or deplete cash, an owner/manager must manage the cash resources of his business. A successful business manager invests idle cash and appropriately finances cash shortages (short term financing of temporary fluctuations and permanent financing for capital improvements.) *See Exhibit B.*
3. **Balance Sheet.** The balance sheet represents the financial condition of your company at a certain date. It details the items owned by your company (assets) and the amount owed by your company (liabilities). It also shows the net worth of your company and its liquidity. This statement is represented by lenders and required in various tax filings. *See Exhibit C.*
4. **Income Statement.** The income statement, commonly referred to as the P&L (profit and loss) statement, provides the owner/manager with the results of your operations. It measures the success of your business. And it is an invaluable management tool as well as a necessary document for loan requests and income tax returns. *See Exhibit D.*

5. **Break-Even Analysis.** In order to survive in business, the owner/manager must analyze the costs of doing business and accurately determine which costs are sunk or fixed and which costs vary with the volume of business. You can then use a simple formula to calculate the break-even point of your business.

$$\text{Break-even volume} = \frac{\text{total fixed costs}}{\text{Selling price} - \text{variable cost per unit}}$$

6. **Financial Ratios.** Financial ratios provide feedback for the owner/manager to review your company's operations and financial condition. It is important for the owner/manager to develop useful ratios or standards to assist in monitoring the progress of the business. These ratios and standards alert the owner/manager to situations, which fall out of the acceptable ranges previously determined.
- a. Net income to net sales: This ratio is obtained by dividing your after-tax profits by the net sales for your first fiscal year.
 - b. Current ratio: This is the current assets divided by current liabilities. Most businesses are considered to be financially healthy when this ratio is 2 or above
 - c. Return on investments (ROI): ROI is net profit divided by the capital invested by the owners of the company. ROI is used to measure the effectiveness of management.

B. Capital Requirements

As mentioned previously, a company has two types of capital requirements—short-term needs known as working capital needs and long-term or permanent financing for fixed assets.

1. Working capital – based upon cash flow fluctuation. Review your cash flow analysis to determine when short-term financing will be needed.
2. Capital Improvements. Detail long-term assets needed within one year

Asset Description Cost Justification of Repayment

3. Repayment of existing long-term debt must be included in your business plan and your cash flow analysis. The following worksheet will help you gather the details needed.

| Current Original Principal Amount | Principal Amount Outstanding | Date Borrowed | Maturity Date |
|--|------------------------------------|------------------|------------------|
| | | | |
| | | | |
| | | | |

| Terms of Repayment | Interest Rate | Lender | Collateral |
|-----------------------|---------------|--------|------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

EXHIBIT A

OPERATING BUDGET

Quarter #: (1) (2) (3) (4) of (Year)

1st Month 2nd Month 3rd Month

| | | | |
|-------------------------------|--------------|--|--|
| Net Sales | | | |
| Cost of goods sold: | | | |
| Raw Materials | | | |
| Direct Labor | | | |
| Manufacturing overhead | | | |
| Indirect labor | | | |
| Factory heat, light and power | | | |
| Insurance and taxes | | | |
| Depreciation | | | |
| | ----- | | |
| | Total | | |
| Gross Margin | | | |
| Operating Expenses: | | | |
| Selling and administrative | | | |
| Expenses | | | |
| Salaries and commissions | | | |
| Advertising expenses | | | |
| Miscellaneous expenses | | | |
| | ----- | | |
| | Total | | |
| Other income (expenses): | | | |
| Interest expense | | | |
| Miscellaneous | | | |
| | ----- | | |
| | Total | | |
| Net income before taxes | | | |
| Income tax expense | | | |
| Net income | | | |

Note: Certain categories may require more detail to provide the information necessary.

EXHIBIT B

CASH FLOW ANALYSIS (monthly)

| | <u>Month of</u> | |
|--|------------------|---------------|
| | <u>Projected</u> | <u>Actual</u> |
| Projected receipts | | |
| Cash sales | | |
| Credit sales | | |
| 1) Total cash in | | |
| | | |
| Projected cash payments | | |
| Cost of goods sold | | |
| Purchase of goods needed | | |
| Salaries, proprietor | | |
| Salaries other | | |
| Payroll and other taxes | | |
| Rent | | |
| Utilities | | |
| Telephone | | |
| Supplies | | |
| Advertising | | |
| Interest | | |
| Repayment of loan | | |
| | | |
| Miscellaneous | | |
| 2) Total cash out | | |
| 3) Net cash increase (or decrease): | | |
| Difference between 1) & 2) | | |
| | | |
| Beginning cash on hand | | |
| Add (or subtract) | | |
| Item 3 = Cash on hand at end of month | | |

EXHIBIT C

BALANCE SHEET

NAME OF YOUR COMPANY

DATE

ASSETS

CURRENT ASSETS

Cash \$ _____

Accounts receivable

Inventory

Prepaid expenses

TOTAL CURRENT ASSETS _____

PROPERTY, PLANT AND EQUIPMENT

Land

Building

Equipment

Furniture and fixtures _____

Less allowance for depreciation _____

OTHER ASSETS

\$ _____

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

| | |
|------------------|----|
| Accounts payable | \$ |
| Accrued expenses | |
| Short-term loans | |

TOTAL CURRENT LIABILITIES _____

LONG-TERM LOANS

MORTGAGES

STOCKHOLDERS' EQUITY

| | |
|----------------------------|-------|
| Common stock | |
| Additional paid-in capital | |
| Retained earnings | _____ |

\$ _____

EXHIBIT D

INCOME STATEMENT

YOUR COMPANY'S NAME

For the Period Ended _____

| | Current Month | | Year-to- Date | | |
|----------------------------|------------------|-----------------|------------------|---------------|----------|
| | <u>Budget</u> | <u>% Actual</u> | <u>%</u> | <u>Actual</u> | <u>%</u> |
| Sales | | \$ | | \$ | \$ |
| Less cost of goods sold | | | | | |
| Gross margin | | | | | |
| Less operating expenses: | | | | | |
| Selling and administrative | | | | | |
| Salaries and commissions | | | | | |
| Advertising | | | | | |
| Miscellaneous | | | | | |
| Other income (expenses) | | | | | |
| Interest | | | | | |
| Miscellaneous | | | | | |
| Net income before taxes | | | | | |
| Income tax expense | | | | | |
| Net income | | \$ | | \$ | \$ |

***Note:** This income statement format is in condensed form. You may choose to list your expenses in greater detail to provide the information you need to manage and control your business.*