

Business Plan Basics

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Because people often have differing ideas of what should be included within a plan, this document has been provided to guide your efforts as you prepare your business plan for the Region's New Venture Challenge hosted by the Samford University's Brock School of Business. It includes some critical, basic concepts regarding a business plan's purpose, a general plan outline with specific questions to guide your efforts, and some additional sources that you may find useful when preparing your plan.

As the most basic level, a business plan serves two purposes. First, it provides an individual entrepreneur (or entrepreneurial team) with a road map to help guide a business' founding and growth. Thus, it is a "living document" that entrepreneurs should rewrite as circumstances change. Second, it provides a tool to communicate with potential customers, suppliers, and financing sources regarding the opportunity of conducting business with or investing in a business.

A plan must pass three "tests" to be considered complete:¹

1. Reality Test

- a. Does a market exist for your product or service?
- b. Can your company provide your product/service for the costs given in your plan?

2. Competitive Test

- a. How will the company be positioned relative to its established or potential competitors?
- b. Can the company compete successfully with these competitors?

3. Value Test

- a. Does the company offer investors an attractive rate of return or lenders a high probability of repayment?

To answer these questions, entrepreneurs often divide their business plans into three major sections: Marketing, Management, and Finance. The Marketing section addresses the Reality (does a market exist?) and Competitive Test, and the Management section provides additional evidence related to the Competitive Test (given the founding team's skill set, how will the company compete successfully?). The Finance section provides evidence to address both the Reality Test (can the company produce the product for the costs estimated in the plan?) and the Value Test.

¹ Scarborough, N., & Zimmerer, T. 2006. Effective Small Business Management (8th ed.). Upper Saddle River, NJ: Prentice Hall.

The following outline provides specific details for these three major sections as well as other important sections (e.g., Executive Summary). An individual business plan may not address every single issue in this outline, but most will need to do so in order to be complete.

EXECUTIVE SUMMARY

This is the first section of any plan, but it should be the last section you write. In one to three pages, you should summarize your business opportunity for the reader as well as provide other critical information, such as contact telephone numbers and email addresses.

MARKETING SECTION

The Marketing section should provide an overview of the company's industry on a national basis as well as within its specific target market. In addition, this section should detail the company's marketing mix (product, price, promotion, and place). In general, it should provide the reader with a good idea of how large the company's industry is, and, based on this, what the company may reach in terms of sales potential.

Industry Profile and Overview

The industry profile should address the overall issue, "Is the industry attractive or unattractive for a new business?" In other words, "Is it possible for a new business to survive and earn a profit in this industry?" To address these issues, the analysis should answer several questions. *Note: Plans should quantify these answers whenever possible.* Thus, do not say, "The industry is big and growing fast." Instead, write "The industry has sales of \$2 billion and is growing at 12 percent annually." (Be sure to provide the source of your information).

1. How large (in terms of sales) is the overall industry on a national or regional basis? What are the major customer groups and how large are they (in terms of number of people)?
2. What specific macro-level trends currently impact and will continue to affect the overall industry attractiveness over the next several years? Quantify these whenever possible.
 - Demographic (e.g., income levels, birth rates)
 - Economic (e.g., interest rates, inflation)
 - Technological (e.g., internet usage)
 - Regulatory (e.g., minimum wage)
 - Globalization (e.g., overseas markets, foreign competition).
3. How fast is the industry growing and how long is it likely to maintain this growth rate? What are the major segments within the industry? How fast is each one growing and how long is it likely to maintain this growth rate? Which segment or segments will the proposed company serve?

4. How hard is it for a new company to enter this industry? Are there any significant barriers (e.g., licensing requirements, gaining access to distribution channels) that might block entry? If so, how will the company overcome these barriers?
5. What are the key success factors for competing in the industry? In other words, what assets or skills will the new company need to succeed? How difficult are these to acquire?
6. Overall, how attractive is the industry? Are any segments/niches more attractive than others? How long is the industry likely to remain attractive?

Target Market

Once the overall industry has been analyzed to determine how attractive it is (e.g., can a new entrant potentially earn a profit?), a business plan needs to provide specific information about the company's proposed target market (i.e., the city, state, region, etc. it plans to serve). To address these issues, the analysis should answer the following questions:

7. How large is the target market?
 - What is the problem that needs to be solved or the benefit sought by this market?
 - What are the major demographic characteristics of customers in this market?
 - What are other possible important psychographic (e.g., lifestyles/attitudes/opinions) characteristics of these customers?
8. What motivates customers to buy this product or service?
9. How fast is the target market growing? How long is this current growth expected to continue? Why?
10. Will customers tend to be repeat customers (e.g., downtown restaurants) or will new customers need to be acquired (e.g., durable goods retailers) to support the business? How much will it cost to find, acquire, and retain customers?

Competitor Analysis

11. How many actual competitors exist? What strengths and weaknesses do specific competitors have? *Note, "none" is not a good answer for any of these questions.* If ratings are provided for competitors on specific attributes (e.g., an industry's key success factors), some objective measure should be used as much as possible rather than just one person's opinion. The key question to answer in this section is "why are established competitors vulnerable?"
12. How many potential competitors exist? What strengths and weaknesses do specific competitors have? What is the likelihood that these competitors will enter the company's proposed target market?

Company Products and Services

13. In one or two paragraphs provide:

- Company name
- Location
- Brief description of the business concept
- Any milestones (e.g., incorporation, formation of top management team, first sale) achieved to date, if any

14. What is the product or service? (Illustrations are very useful in this section, if applicable.)

This may seem like an obvious question. Products and services, however, have more than just the tangible aspects. They can also provide emotional and psychological benefits customers receive along with the physical attributes. Thus, how does the product/service fit with the customer value proposition?

15. What kind of warranties/guarantees will be given? How unique is the product/service? Why?

16. Does the company have patent, trademark, or any other intellectual property protection for its products, process, or brand name? If not, how likely is it that the company can obtain them (or what efforts are currently being made to obtain them)?

17. What kind of production process will the company use to make the product/provide the service? What are the raw materials needed? How much will the product cost to produce? Who are the key suppliers? How much lead time is needed to produce the product for customers?

18. Does the company have any future products/services planned?

Marketing Plan

19. What is the company's desired image? How will the company's product/service be positioned in the industry (high-, middle-, or low-end)? Why?

20. How will the company's product/service strategy differentiate the product/service from what's currently available from competitors?

21. How will the product or service be priced?

- Price floor: How much will the product/service cost to make/deliver? How much of this cost is fixed and variable?
- Price ceiling: How are similar products and services priced? How sensitive are buyers in the target market to price changes for this type of product? What is the desired image for the product/service and how does pricing reflect this image?
- Based on this price, what kind of profit margins (gross, operating, or net) does the company expect to earn?

22. How will the product be distributed? Where will the service be provided?
- For products
 - What sales channels will the company use?
 - Why will distributors be willing to carry the company's products?
 - For services/retail
 - How critical is location?
 - Why type of location is needed?
 - Where does the company specifically plan to locate at this time?
23. What type of promotion will be used? How much will it cost?
- Word of mouth works for some products/services, but relying exclusively on it may be problematic for most.
 - What are the different types of promotion that a company can use given its primary target audience?
 - Advertising: paid, non-personal communication
 - Personal selling: direct, two-way communication
 - Publicity: non-personal communication, but free
 - Sales promotions: samples, displays, coupons
24. To what extent (if any) will salespeople and other customer support personnel be needed?
25. How have managers collected information about this target market? Secondary sources (e.g., Census data, business press articles)? Primary sources (e.g., test marketing)?

Location and Layout

26. Proposed location
- How do the demographics of the location fit the target customer profile? (for retailers, restaurants, etc.)
 - How much traffic passes by the location daily, weekly, monthly? Is it seasonal? (for retailers, restaurants, etc.)
 - How much will the location cost?
 - How much labor is required to run the location and what will typical wage rates be?
27. Layout
- How large of a building and how much land will be needed? Why?
 - How will the facility be laid out? A diagram would be useful, and can be included in the Appendix.

MANAGEMENT SECTION

The Management section provides details regarding key managers' qualifications for running the business, discusses how the business will be structured, and summarizes both the company's situational (SWOT) analysis and its competitive strategy. The first issue is critical for demonstrating why this team has the necessary skills and abilities to exploit the opportunity detailed in the Marketing section. The second one is necessary because different business structures have different advantages and disadvantages for both the entrepreneur(s) and potential investors. The third one is critical for communicating how, given the challenges that a new business will face (e.g., small size and no established reputation), it can still be successful.

Management Team

1. Who will be leading the company? What specific skills does this person or these people have? Attach résumés to support your arguments.
2. Are there any skills needed that current team members do not have? What are the plans for hiring a person with these skills? How will these functions be performed until someone is hired?
3. Does the team have an advisory board (e.g., board of directors)? If so, what additional skills do they provide?
4. What are the proposed salaries for top managers? Provide some justification for these amounts.

Business Structure

5. Will the business be structured as a sole proprietorship, partnership, C-corporation, S-corporation, or limited liability company? Why?

Critical Risks/SWOT Analysis

6. Relative to the industry's key success factors and competitors' abilities detailed in the Marketing section, what strengths will this company have? What weaknesses? You should also detail strengths based on discussions in both the Management section (e.g., specific top management skills) and Finance sections.
7. Based on the industry's major trends and competitors' abilities what opportunities will this company face? What threats?

Business Strategy

8. What are the company's major operational and strategic goals?
9. Based on these goals and the SWOT analysis, what competitive strategy (cost leadership, differentiation, focus) will the company use? Why?

FINANCE SECTION

As one might assume, the Finance section will mostly consist of numbers. In other words, the section should have several spreadsheets. However, it should also include a detailed description of key assumptions used to derive the numbers. Thus, including "just the numbers" will be inadequate to complete this section.

1. Provide the company's projected income statement on a monthly basis for the first year of operation, and then quarterly for years two and three. What are the key assumptions used to derive the major accounts? Do the sales numbers in the income statement match up with those derived in the Marketing section?
2. Provide the company's projected cash flow on a monthly basis for the first year, and then quarterly for years two and three. What are the key assumptions used to derive the major accounts?
3. Provide the company's projected balance sheet on an annual basis for years one, two, and three. What are the key assumptions used to derive the major accounts?
4. At what point (in sales dollars or units) does the company break even? Be sure to show your calculations.

APPENDICES

Any detailed information, such as product schematics, process flow illustrations, location maps, or facility layouts should be included in this section.

REFERENCES

Please include a bibliography that includes all sources used. *Failure to do so generally constitutes plagiarism and will result in automatic disqualification from the New Venture Challenge.*

RECOMMENEDED SOURCES

These are some useful sources for key information needed to write a business plan.

Business Plan Basics

Entrepreneur magazine <http://www.entrepreneur.com/businessplan/index.html>

Inc. magazine http://www.inc.com/guides/start_biz/20660.html

U.S. Small Business Administration

http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/SERV_ESSENTIAL.html

The Samford University Library has several excellent resources for gathering industry, competitive, and financial information about a proposed business, many of which are available on-line at <http://library.samford.edu/topics/company.html>. These include:

Industry and Competitor Information

Business and Company Resource Center

- Provides information about companies and industries
- Also useful for looking up a proposed company's Standard Industrial Classification (SIC) and/or its North American Industrial Classification (NAICS) code, which can be used to search other sources (This is a good code to obtain early in the process.)

ABI/Inform

- Provides electronic search capabilities for many national business press sources (e.g., Business Week, Fortune, and the Wall Street Journal.)

Hoover's

- Covers 15,000 public and private firms and provides industry snapshots

Mergent

- Provides important company financial information and industry reports

Additional industry information can be obtained from Standard & Poor's Industry Surveys available at the Sterne Library at UAB. (Worth the trip downtown...highly recommended)

Financial Information

Industry averages for basic financial ratios are available in RMA Annual Statement Studies. These are useful for comparing a proposed company to its industry as well as deriving its breakeven analysis. Located on the 2nd floor of Samford Library at REF HF5681.B2 R6.