



CALIFORNIA
SBDC

Northern CA Regional Network

Small Business
Development Center

At Cabrillo College

CENTRAL COAST SMALL BUSINESS DEVELOPMENT CENTER

(831) 479-6136 • Monterey (800) 464-6136 • Fax (831) 479-6166

6500 Soquel Drive, Aptos, CA 95003

sbdc@cabrillo.edu • www.centralcoastsbdc.org

Guideline for Preparing A Business Plan

Table of Contents

Read the entire text of this document is the first	3
Goals	4
The Industry, the Company, and its Products	5
A. The Industry	
B. The Company	
C. The Products or Services	
Market Research and Analysis	6
A. Customers	
B. Market Size and Trends	
C. Competition	
D. Market Share and Sales	7
Marketing Plan	8
A. Overall Market Strategy	
B. Pricing	
C. Sales Tactics	
D. Advertising and Promotion	
Operating Plan	9
A. Location	
B. Facilities and Improvements	
C. Strategy and Plants	
D. Labor Force	
Management Team	10
A. Organization	
B. Key Personnel	
C. Management Compensation and Ownership	
D. Board of Directors	
Financial Plan	11
A. Sources and Uses of Funds	
B. Pro Forma Cash Flow Analysis	
C. Profit and Loss Forecasts	
D. Pro Forma Balance Sheets	
Exhibits	12-16

Reading the entire text of this document is the first step in preparing your business plan.

There are two basic reasons for preparing an extensive business plan. First, it requires the entrepreneur to thoroughly investigate the factors that will have a bearing on the success of the business. Second, it will enhance the ability of the entrepreneur to secure financing by providing an organized summary of the venture for lenders and investors. It also provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

The following outline will help you assemble the facts that are essential to good business planning. Complete your business plan using the accompanying outline to ensure that the necessary details are included. Keep in mind that thoroughness, clarity, and rationality of the plan are all factors that will play key roles in successfully financing, starting, and operating your business.

Because these guidelines were written to cover a variety of possible businesses, rigid adherence to them is not possible or even desirable for all businesses. Not all parts of all sections will be necessary for each individual's business plan.

Goals

Successful enterprises are goal driven. Determining and committing to goals will give direction to your business.

Goals are powerful tools. Goals committed to paper are even more powerful. Goals establish where your business seeks to be within a defined period of time. Activities outlined in the business plan are the pathways to your goals.

A. Personal Goals

While not included as a formal part of the business plan, your personal goals need to be acknowledged before considering business goals. It is necessary for personal goals to be compatible with business goals to avoid frustration and “burn out”. Recognize your personal needs.

B. Business Goals

List goals to be achieved by your business during the length of time covered by the business plan. These goals should be tangible, attainable, and time sensitive – short, mid, and long term. Areas may include monetary, growth, competitive, market, and personnel goals.

Provide a definition that lets you know when you have achieved your goals. For example, a goal to add ten new customers per month is fairly straightforward to define – you do or you don’t. However, a goal to improve employee attitude and morale needs more creative benchmarks, such as noting changes in employee tardiness or sick days.

The Industry, the Company, and its Products

The purpose of this section is to assist you in describing your business venture in a detailed but succinct manner. You must clearly present the business you are in, the product you will offer, and the nature of your industry.

A. The Industry

Present the status and prospects for the industry in which the business will operate. Discuss new products and developments, new markets and customers, and any other trends that could affect the business. Identify all sources of information used to describe these trends.

B. The Company

Briefly describe what business area your company is in, or intends to enter, what products or services it will offer, and who are or will its principal customers. Also discuss the ownership and legal form of the company. Consult your attorney for which form of corporation, partnership, or sole proprietorship is best for you.

C. The Products or Services

1. Description

Describe in detail the products or services to be sold, as well as the application of your product or service. Emphasize any unique features of your product or service and highlight differences between what is currently on the market and what you will offer. Define the current state of development of the product or service; include a photograph, if applicable.

2. Proprietary Position

Describe patents, trade secrets, or other proprietary features. Discuss any head start that you might have that would enable you to achieve a favorable position in your industry.

Market Research and Analysis

The purpose of this section is to present enough facts to determine if your product or service has a substantial market in a growing industry and can achieve sales despite a competitive market. *This section is one of the most difficult to prepare and one of the most important.* Almost all subsequent sections of the business plan depend on sales estimates that are developed in this section. The sales levels you project, based on the market research and analysis, directly influence the size of the operation, the marketing plan, and the amount of debt and equity capital required.

Because of the importance of market analysis and the dependence of other parts of the plan on the sales projections, you may want to prepare this section of your business plan before you do any other. Allow enough time to do this section thoroughly and check alternate sources of market data.

A. Customers

Discuss who your customers are for the product or service. Who and where are the major purchasers? What is the basis for their purchase decision: price, quality, service, personal contact, or some combination of these factors?

B. Market Size and Trends

Describe the primary market for your product, both geographically and in terms of total sales volume. Also, describe the seasonal fluctuations and the potential annual growth of the total market for your product or service, and discuss the major factors affecting that growth (industry trends, economic trends, government policy, population shifts).

C. Competition

Make a realistic assessment of the strengths and weaknesses of competitive products and services and name the companies that supply them. Compare these competing products or services on the basis of price, performance, service, warranties, and other pertinent features. Present a short discussion of the current advantages and disadvantages of competing products and services and state why they are not meeting customer needs.

Market Research and Analysis Cont'd

D. Market Share and Sales

Summarize what it is about your product or service that will make it salable in the face of current and potential competition. Identify major customers who are willing to make purchase commitments and if possible attach their commitment letters to your plan. Discuss which customers would be major purchasers in the future and why. Based on your assessment of the advantages of your product or service, market size and trends, customers, the competition and their product, and the sales trends in prior years, estimate your share of the market and your sales in units and dollars for the next two years. Be sure to state any assumptions upon which your projections are based.

Marketing Plan

A. Overall Market Strategy

Describe the general marketing philosophy and strategy of the company. This should be derived from marketing research and evaluation. It should include a discussion of what kinds of customer groups will be targeted for initial intensive sales promotions as well as which groups will be targeted for later sales efforts.

B. Pricing

The pricing policy is one of the most important decisions you will have to make. The price must be right to penetrate that market, maintain a market position and produce profits.

Discuss prices to be charged for your product or service and the method you will use to set prices. Compare your pricing policy with that of your major competitors.

C. Sales Tactics

Describe the methods that will be used to make sales and distribute the product or service. Will the company use its own sales force, independent sales representatives, or distributors? Discuss the margins to be given to retailers, wholesalers, and salesmen and compare them to those of your competition.

D. Advertising and Promotion

Describe approaches the company will use to bring its product to the attention of prospective purchasers. The schedule and cost for advertising and promotion should be presented. If advertising and promotion will be a significant expense item, an exhibit of how and when these costs will be incurred should be included.

Operating Plan

The operating plan should describe facilities, location, space requirements, capital equipment, and the labor force that are required to provide the company's product or service.

The discussion guidelines given below are general enough to cover different businesses. Only those that are relevant to your particular business should be addressed in your business plan.

A. Location

Describe the planned location of the business and discuss the advantages and disadvantages of the site in terms of wage rates; labor availability; proximity to customers and suppliers; access to wholesalers, distributors, and transportation; state and local taxes and laws; utilities; and zoning.

B. Facilities and Improvements

If yours is an existing business, describe the facilities currently used. If your firm is new, describe how and when the facilities to start business will be acquired. Discuss how and when space and equipment will be expanded to the capacity required for future sales projections. Discuss any plans to add to or improve existing space. Explain future equipment needs and indicate the cost and timing of such acquisitions.

C. Strategy and Plans

Describe the process involved in production of your product or service. Also present a plan that shows cost/volume information at various sales levels of operation with a breakdown of material, labor, purchased components, and overhead. Manufacturers should briefly describe their approach to quality control, production control, and inventory control. Explain the quality control and inspection procedures the company will use to minimize service problems and ensure customer satisfaction.

D. Labor Force

Exclusive of management functions, does the local labor force have the necessary skills, in sufficient quantity and quality, to produce the product? If their skills are inadequate, describe the training that you would use to upgrade them. Describe the number of employees you will need and describe major job functions.

Management Team

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management team with a balance of technical, managerial, and business skills. The proposal should include a description of the organization structure, key management personnel and their primary duties, and the board of directors, if applicable.

A. Organization

In a table, present the key management roles in the company and the individual who will fill each position. Discuss any current or past situations where the management personnel have worked together, and indicate how their skills complement each other and the result in an effective management team.

B. Key Personnel

Describe the exact duties and responsibilities of each key member of the management team. For each individual include a brief statement of career highlights that focuses on his or her ability to perform the assigned role. A complete résumé for each member should be included as an exhibit to the business plan.

C. Management Compensation and Ownership

State the salary that is to be paid to each member. Set forth stock ownership planned for key personnel, the amount of their equity investment, and any performance-dependent stock options or bonus plans that are contemplated.

D. Board of Directors

Discuss the company's philosophy as to the size and composition of a board of directors. Identify proposed board members and include a short statement about each member's background.

Financial Plan

The financial plan is basic to the evaluation of a business opportunity and should represent your best estimate of future operations. It can also serve as an operating plan for your management team.

In developing a financial plan, several basic forecasts must be prepared. Many decisions will be based on what you present here. At the appropriate time, your advisors may recommend some changes, but it is *vital*ly important that you apply your best efforts in formulating these forecasts.

A. Source of Uses of Funds.

Please refer to Exhibit A

B. Pro Forma Cash Flow Analysis

Please refer to Exhibit B

C. Profit and Loss Forecasts

Please refer to Exhibit C

D. Pro Forma Balance Sheets

Please refer to exhibit D

For an existing business, balance sheets and income statements for the current and previous three years should be provided. After you have completed preparation of the financial exhibits, briefly highlight the important conclusions that can be drawn. Finally, explain all of you assumptions and the sources of your data.

Exhibit A: Sources and Uses of Funds

Funds Available:		
Owners' funds		
Other equity		
Loan # 1		
Loan # 2		
Total		
Uses of funds:		
Land		
Building		
Equipment		
Machinery		
Renovations		
Prepaid Insurance		
Promotions		
Inventory		
Furniture & fixtures		
Deposits		
Other		
Total		
Working Capital		

Exhibit B: Pro Forma Cash Flow Analysis

Months	1	2	3	4	5	6	7	8	9	10	11	12
Sales												
Sales # 1												
Sales # 2												
Less Returns												
Total Sales												
Cash Receipts												
0-30 days												
31-60 days												
Over 60 days												
Total Sales												
Disbursements												
Material cost												
Labor												
Management												
Payroll tax												
Benefits												
Advertising												
Auto Expense												
Contributions												
Charge cards												
Dues												
Freight												
Insurance												
Legal/acct												
Supplies												
Telephone												
Utilities												
Tax/license												
Rent/lease												
Principial												
Interest												
Inventory												
Equipment												
Total												
Net Cash Flow												
Cumulative												

Exhibit B: Pro Forma Cash Flow Analysis, cont'd

Months	13	14	15	16	17	18	19	20	21	22	23	24
Sales												
Sales # 1												
Sales # 2												
Less Returns												
Total Sales												
Cash Receipts												
0-30 days												
31-60 days												
Over 60 days												
Total Sales												
Disbursements												
Material cost												
Labor												
Management												
Payroll tax												
Benefits												
Advertising												
Auto Expense												
Contributions												
Charge cards												
Dues												
Freight												
Insurance												
Legal/acct												
Supplies												
Telephone												
Utilities												
Tax/license												
Rent/lease												
Principial												
Interest												
Inventory												
Equipment												
Total												
Net Cash Flow												
Cumulative												

Exhibit C: Profit and Loss Forecasts

	Year 1		Year 2	
	Amounts	% of Net	Amount	% of Net
Sales				
Sales # 1				
Sales # 2				
Gross Sales				
Less Returns				
Net Sales				
Cost of goods sold				
Beginning inventory				
Purchases				
Additional Inventory				
Goods available				
Less ending inventory				
Total material cost				
G & A Expenses				
Labor				
Management				
Payroll tax				
Benefits				
Advertising				
Auto Expense				
Contribution				
Charge cards				
Dues				
Freight				
Insurance				
Legal/acct.				
Supplies				
Telephone				
Utilities				
Tax/license				
Rent/lease				
Interest				
Depreciation				
Total				
Net Income (pretax)				
Income tax				
Federal				
State				
Total taxes				
Net Income				

Exhibit D: Pro Forma Balance Sheet

	Year 1		Year 2	
Assets				
Current Assets				
Cash				
Ending inventory				
Accounts receivable				
Other				
Total Current Assets				
Fixed Assets				
Land				
Building				
Equipment				
Machinery				
Renovations				
Furniture & Fixtures				
Other				
Total Fixed Assets				
Less: Accum. Depreciation				
Net: Fixed Assets				
Other Assets				
Deposits				
Other				
Total Other Assets				
Total Assets				
Liabilities				
Current Liabilities				
Notes Payable				
Current long-term debt				
Other				
Total Current Liabilities				
Long-term Liabilities				
Loans Payable				
Less current portion				
Total Long-term Debt				
Total Liabilities				
Equity				
Owners' Equity				
Retained Earnings				
Total Equity				
Total Liabilities & Equity				