A Simpler Plan for Start-ups

Business advisors, experienced entrepreneurs, bankers, and investors generally agree that you should develop a business plan before you start a business. A plan can help you move forward, make decisions, and make your business successful. However, not all business plans are the same, not every business needs the same level of detail. You might develop a fairly simple plan first as you start a small business, and that might be enough for you. You can also start simple and then elaborate as you prepare to approach bankers or investors.

For a simple example, imagine a woman making jewelry at home and selling it at a local flea market on the weekend. A business plan could give her a chance to step back from the normal flow and look at ways to develop and improve the business. The planning process should help her understand her business. It should help her define what she wants from the business, understand what her customers want, and decide how to optimize her business on her own terms. She might benefit from developing a simple sales and expense forecast, maybe even a profit and loss, so she can plan how to use and develop her resources. She might not need to create detailed cash flow, balance sheet, and business ratios. A simple plan may be just what she needs to get going.

This first stage of a plan, that we call the Concept Kick-start, focuses only on a few starter elements. The Mission Statement, Keys to Success, Market Analysis, and Break-even Analysis give you a critical head start toward understanding your business.

However, not all start-ups are that simple. Many of them need product development, packaging, retail fittings and signage, office equipment, websites, and sometimes months or even years of payroll before the sales start. Unless you're wealthy enough to finance these expenditures on your own, then you'll need to deal with bank loans or investors or both; and for that you'll need a more extensive business plan. Start-up company or not, the plan has to meet expectations.

One suggestion for getting started is to develop your plan in stages that meet your real business needs. A few key text topics might be enough to discuss the plan with potential partners and team members, as a first phase. You may well want to add a basic sales and expense forecast, leading to profit and loss, as next phase. Adding business numbers helps you predict business flow and match spending to income.

This might be an intermediate plan, incorporating a more extensive outline and business analysis:

Outline	Topic	Table	Chart
1.0	**Executive Summary**		Highlights
1.1	Objectives		
1.2	Mission		
1.3	Keys to Success		
2.0	**Company Summary**	Start-up	Start-up
3.0	**Product Description**		
4.0	**Market Analysis Summary**	Market Analysis	Market Forecast
4.1	Market Segmentation		
4.2	Target Market Segment Strategy		
4.3	Market Needs		
4.4	Competitions and Buying Patterns		
5.0	**Strategy and Implementation Summary**		Annual Sales
5.1	Competitive Edge		
5.2	Sales Strategy	Sales Forecast	Monthly Sales
6.0	**Management Summary**		
7.0	**Financial Plan**		
7.1	Break-even Analysis	Break-even	Break-even
7.2	Projected Profit and Loss	Profit and Loss	
7.3	Projected Cash Flow	Cash Flow	Cash Flow

Ultimately, the choice of plan isn't based as much on the stage of business as it is on the type of business, financing requirements, and business objective. Here are some important indicators of the level of plan you'll need, even as a start-up:

- Some of the simpler businesses keep a plan in the head of the owner, but every business has a plan. Even a one-person business can benefit from creating a plan document with ideas written down, because the process of producing a plan is useful and valuable.
- As soon as a second person is involved, the need for planning multiplies. The plan is critical for communicating values, goals, strategies, and detailed implementation.
- As soon as anybody outside the company is involved, then you have to provide more information. When a plan is for internal use only, you may not need to describe company history and product features, for example. Stick to the topics that add value, that make you think, that help support

decisions. When you involve people outside the company, then you need to provide more background information as part of the plan.

- For discussion purposes, text is enough to get a plan started. Try describing your mission, objective, keys to success, target market, competitive advantage, and basic strategies. How well does this cover your business idea?
- Can you live without a sales and expense forecast? Sometimes the one-person business keeps numbers in its (the owner's) head. However, it's much easier to use some tools that can put the numbers in front of you, and add and subtract them automatically. That's where a plan helps.
- Do you really know your market? A good market analysis can help you see opportunities that might not otherwise be obvious. Understand why people buy from you. What are the needs being served? How many people are out there, as potential customers?
- Do you manage significant amounts of inventory? That makes your cash management more complicated, and usually requires a more sophisticated plan. You need to buy inventory before you sell it.
- Do you sell on credit? If you are a business selling to businesses, then you probably do have to sell on credit, and that normally means you have to manage money owed to you by your customers, called accounts receivable. Making the sale is no longer the same thing as getting the money. That usually requires a more sophisticated plan.
- Do you do your taxes on a cash basis, or accrual basis? If you don't know, and you are a very small (one person, maybe 2-3 people) business, then you're likely to be on a cash basis. That makes your planning easier. However, most businesses big enough to work with a CPA and have separate tax statements use accrual accounting because they want to deduct expenses as they are incurred, even if they aren't fully paid for. By the time you are using accrual accounting, you'll probably need more sophisticated cash flow tools, and a more extensive business plan.
- As you approach banks and other lending institutions, expect to provide more detail on personal net worth, collateral, and your business' financial position. Some banks will accept a very superficial business plan as long as the collateral looks good. Others will demand to see detailed monthly projections. No bank can lend money on a business plan alone; that would be against banking law. But a good bank wants to see a good plan.
- If you're looking for venture investment, take a good look at your plan. Professional investors will expect your plan to provide proof, not just promises. They'll want to see market data, competitive advantage, and management track records. They'll want to see robust and comprehensive financial projections. True, you'll hear stories about investors backing new companies without a plan, but those are the exceptions, not the rule.

Do You Need Funding

Most businesses need financing. Cash flow is different than profits, so profits don't guarantee money in the bank. There's financing needed to manage starting costs, inventory, waiting to get paid, and other factors. Much of that is what we lump together as "working capital."

Most people think of financing as debt, borrowed money. In this context it also includes investment capital. Either debt or investment is outside financing that helps a business meet expenses and grow. While some smaller businesses get by without financing, and even some medium and large businesses that are mature and stable and conservatively managed can get by without financing, most businesses need some outside money to get started, to expand, and to supply their regular needs for working capital. (Working capital, by the way, normally means cash in the bank to cover cash flow deficits caused by normal flow of the business. Technically, it is current assets less current liabilities.)

Your business plan should tell you whether or not you need financing, and how much. The plan should estimate cash flow for your company and if cash flow is negative for any good reason – and there are good reasons – then you plan to add money as either loans or investment. The most common reason for needing financing, by far, is "Accounts Receivable." That is the accounting term for the amounts of money a business is waiting to receive from customers for sales already made but not paid for. Most business-to-business sales involve delivering an invoice and waiting to get paid. Businesses that sell this way have to deal with collecting money owed, and while they wait to collect, they have bills to pay.

Therefore, they need financing.

Another common reason for financing is paying for inventory. To sell things you need to buy them first. Often you have to pay for your inventory before you sell it. That means you need financial resources to deal with pay cycles.

Start-up businesses often need financing to cover their initial costs and expenses while they are starting, before they can start selling.

A correct business plan process will point out the gaps that need to be filled with financing. For a start-up company, use the plan to help calculate needs and early expenses and the early deficits as the company gets started, and then plan to fill those needs with borrowed money or investment. If you can't get enough finance to cover the needs, then you must either change the plan to reduce the needs, or don't start the company. For an ongoing company, use the plan to calculate cash flow from normal operations, and turn to financing as needed to support working capital requirements.

Don’t be surprised by needing financing. Most businesses do. Some smaller, cash-only businesses get by without financing. They sell for cash, buy in cash, and don’t spend what they don’t have. It’s easier to get by without financing as a service business than a product-based business, because you don’t have to deal with inventory. A home office is less likely to need financing than a business location you rent. A one-employee-business is less likely to need financing than a business needing employees.

Start with an Initial Assessment

Start your business plan with a quick assessment. Even for an ongoing business, take the time to step away from the business and look at the basics. Do your business numbers make sense? One of my business school professors used to refer to this process as finding out "is there a **there** there?"

Objectives

Objectives are business goals. Set your market share objectives, sales objectives, and profit objectives. Companies need to set objectives and plan to achieve them.

Make sure your objectives are concrete and measurable. Be specific, such as achieving a given level of sales or profits, a percentage of gross margin, a growth rate, or a market share. Don't use generalities like "being the best" or "growing rapidly."

For example, "being the best" or "maximize customer satisfaction" are not serious business plan objectives because they cannot really be measured. Much better objectives would set measurable goals, such as holding gross margin to 25 percent as a minimum, or selling more than $3 million, or achieving six percent profit on sales and 10 percent return on equity.

If less tangible goals are critical to a plan, find a way to measure them. For example, if image and awareness are vital, then plan for statistically valid surveys to measure the improvements in image and awareness. You can also set goals for market share, and purchase research to measure the actual share. Or, if you want to focus on customer satisfaction, plan for a survey to quantify satisfaction or specify numerical objectives regarding returns or complaints.

Mission Statement

Use the mission statement to define your business concept. A company mission statement should define underlying goals (such as making a profit) and objectives in broad strategic terms, including what market is served and what benefits are offered.

- **What Business You Are In**—Ask yourself what business you are in, and don't narrow yourself down. One of the classic business examples is the railroads, which lost a chance to expand in the twentieth century because they misdefined themselves. They thought they were in the business of running trains on tracks. They didn't understand they were in the business of transporting goods and people. When trucks and buses and highways grew, the railroads were left behind.

My company, Palo Alto Software, is not in the business of software development. It is in the business of helping people do business plans by themselves, providing business know-how through software and documentation. The broader definition helps us understand what we're up to.

- **Customer Satisfaction**—Leading experts in developing customer satisfaction look to a mission statement to define customer satisfaction goals. Developing customer care programs depends on spreading the idea and importance within a company. That should normally start with a statement included in your mission statement.
- **Workplace Philosophy**—Some mission statements also define internal goals, such as maintaining a creative work environment and building respect for diversity. Experts in employee relations look immediately to a mission statement for a definition of a company's stand on some of these fundamental issues.
- **Value-Based Marketing**—Experts developed the value-based marketing framework to help companies understand their business better. This framework starts with a business value proposition, which states what benefits a business offers, to whom, and at what relative price level. For example:
    - This automobile manufacturer offers reliable, safe automobiles for families at a relative price premium.
    - This fast food restaurant offers quick and consistent lunches at a low price.

Keys to Success

Focusing on what I call "keys to success" is a good idea for getting a better view of the priorities in your business. Just about any business imaginable is going to depend a lot on three or four most important factors. In a retail business, for example, the classic joke is that the keys to success are "location, location, and location." In truth, that might be location, convenient parking, and low prices. A computer store's keys to success might be knowledgeable salespeople, major brands, and newspaper advertising.

Focus is very important, and the keys to success framework helps you develop focus. There is what I call a law of inverse focus. I can't prove it with detailed research but I've seen it many times. Beyond three or four key items, the more items on a priority list, the less chance of implementation. Thinking about keys to success is a great way to focus on the main elements that make your business work.

Break-even Analysis

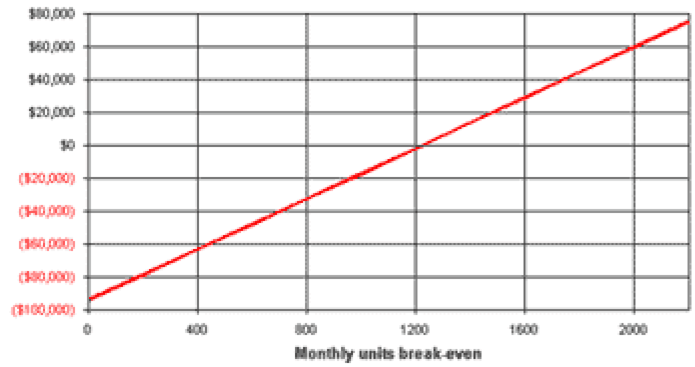
Next comes a simple Break-even Analysis table, as shown in the next illustration, where you estimate when your business will actually begin to make money. The Break-even Analysis table calculates a break-even point based on fixed costs, variable costs per unit of sales, and revenue per unit of sales.

Break Even Analysis:	
Monthly Units Break-even	1,222
Monthly Sales Break-even	$397,262
Assumptions:	
Average Per-Unit Revenue	$325.00
Average Per-Unit Variable Cost	$248.07
Estimated Monthly Fixed Cost	$94,035

Make the following three simple assumptions:

1. <u>Average per-unit sales price (per-unit revenue):</u> The price that you charge per unit. Take into account sales discounts and special offers. For non-unit based businesses, make the per-unit revenue $1 and enter your costs as a percent of a dollar.
2. <u>Average per-unit cost:</u> The incremental cost of each unit of sale. If you are using a Units-Based Sales Forecast table (for manufacturing and mixed business types), you can project unit costs from the Sales Forecast table. If you are using the basic Sales Forecast table for retail, service and distribution businesses, use a percentage estimate. For example, a retail store running a 50% margin would have a per-unit cost of .5, and a per-unit revenue of 1.
3. <u>Monthly fixed costs:</u> Technically, a break-even analysis defines fixed costs as costs that would continue even if you went broke. Instead, you may want to use your regular running fixed costs, including payroll and normal expenses. This will give you a better insight on financial realities.

This next illustration shows a Break-even chart. As sales increase, the profit line passes through the zero or break-even line at the break-even point. In the illustration the Break-even chart shows that the company needs to sell almost 1,200 units per month to break even.



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This is a classic business chart that helps you consider your bottom-line financial realities. Can you sell enough to make your break-even volume? Of course, the break-even analysis depends on assumptions made for average per-unit revenue, average per-unit cost, and fixed costs, and these are rarely exact assumptions.

Market Analysis

Determine if there is a sufficient market to support your business. You don't need to do major market research for this initial market analysis. You may want to, and even need to, do real research later on. For now, however, you want to get a good educated guess about how many potential customers you might have.

What you want at this point is a reality check. You've already developed a quick break-even analysis that ties your initial business numbers to your required sales. Now you're going to look at how many customers you might have so you can think about the importance of breaking even.

Develop a basic Market Analysis table. This table gives you a simple list of market segments. Each segment is a group of customers. Define the groups according to what needs you supply, demographic characteristics, buying habits, preferences, or whatever other classification system works for your plan. Fill in the total potential customers estimated and the annual growth rate expected for each segment.

The following illustration shows a Market Analysis table. You can also use a Market Analysis chart as a visual guide to your market segments.

Potential Customers	Growth	2003	2004
Consumer	2%	12,000	12,240
Small Business	5%	15,000	15,750
Large Business	8%	33,000	35,640
Government	-2%	36,000	35,280
Other	0%	19,000	19,000
Total	2.78%	115,000	117,910

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Pause for Reflection

Now it's time to give your planning an objective appraisal. At this point, you've defined your business, your financial break-even point, and your total potential market. How does your business look from this viewpoint? Does it make sense? Can you make the sales you need to break even? Is the market big enough? Are your projections realistic? Can you bring together the keys to success?

Especially for potential start-up companies, a moment of reflection is critical. Many people dream of starting a business, but that dream turns into a nightmare if the new business isn't successful. If you think you can make your break-even numbers work and you believe you have enough customers to make it, then go on to develop the plan. If not, either do more research and revise the idea, or give up and try something else.

A Standard Business Plan Outline

There are predictable contents of a standard business plan. For example, a business plan normally starts with an Executive Summary, which should be concise and interesting. People almost always expect to see sections covering the Company, the Market, the Product, the Management Team, Strategy, Implementation and Financial Analysis.

If you have the main components, the order doesn't matter that much, but here's the order I suggest.

1. **Executive Summary**: Write this last. It's just a page or two of highlights.
2. **Company Description**: Legal establishment, history, start-up plans, etc.
3. **Product or Service**: Describe what you're selling. Focus on customer benefits.
4. **Market Analysis**: You need to know your market, customer needs, where they are, how to reach them, etc.
5. **Strategy and Implementation**: Be specific. Include management responsibilities with dates and budgets. Make sure you can track results.
6. **Web Plan Summary**: For e-commerce, include discussion of website, development costs, operations, sales and marketing strategies.
7. **Management Team**: Describe the organization and the key management team members.
8. **Financial Analysis**: Make sure to include at the very least your projected Profit and Loss and Cash Flow tables.

I don't recommend developing the plan in the same order you present it as a finished document. For example, although the Executive Summary obviously comes as the first section of a business plan, I recommend writing it after everything else is done. It will appear first, but you write it last.

Standard Tables and Charts

There are also some business tables and charts that are normally expected in a standard business plan.

Cash flow is the single most important numerical analysis in a plan, and should never be missing. Most plans will also have Sales Forecast and Profit and Loss statements. I believe they should also have separate Personnel listings, projected Balance sheet, projected Business Ratios, and Market Analysis tables.

I also believe that every plan should include bar charts and pie charts to illustrate the numbers.

Expanded Plan Outline

1.0 Executive Summary

1.1 Objectives

1.2 Mission

1.3 Keys to Success

2.0 Company Summary

2.1 Company Ownership

2.2 Company History (for ongoing companies) or

Start-up Plan (for new companies).

2.3 Company Locations and Facilities

3.0 Products and Services

3.1 Product and Service Description

3.2 Competitive Comparison

3.3 Sales Literature

3.4 Sourcing and Fulfillment

3.5 Technology

3.6 Future Products and Services

4.0 Market Analysis Summary

4.1 Market Segmentation

4.2 Target Market Segment Strategy

4.2.1 Market Needs

4.2.2 Market Trends

4.2.3 Market Growth

4.3 Industry Analysis

8.7 Business Ratios

8.8 Long-term Plan

I. Critical Risks and Problems

A. Critical Risks and Problems
B. Planned Responses

Appendices: Supporting Documentation

A. Company and Product(s)/Services Support Materials
    1. Photos of the product(s), equipment, facilities
    2. Patents, trademarks, service marks, or copyright documents
    3. Bibliography of research, testing, and studies
B. Legal Support Materials
    1. Ownership agreements and/or contracts
    2. Marketing agreements and/or contracts
    3. Employment agreements and/or contracts
    4. Financial agreements and/or contracts
C. Market Support Materials
    1. Magazine, newspaper, trade journal articles
    2. Brochures, drawings, mailings, and materials
    3. Market share chart
    4. Competitive comparison of strengths and weaknesses
    5. Customer contacts and status
    6. Letters of interest or intent
D. Management/Ownership support Materials
    1. Resumes of key people, references, recommendations
    2. Significant milestones and time frames
E. Administrative and Personnel Support
    1. Organizational chart
    2. Role descriptions for key personnel
F. Financial/Investment Support
    1. Break-even analysis
    2. Principal's financial statements
    3. Equipment and capital expenditure listing
    4. Historical financial statements

Executive Summary

This is a summary of the main highlights of your plan. Even though the topic appears first in the printed document, most business plan developers leave it until the end. This summary is the doorway to the rest of the plan. Get it right or your target readers will go no further. As a general rule, for a standard plan, the first paragraph should include:

- Business name
- Business location
- What product or service you sell
- Purpose of the plan

Another paragraph should highlight important points, such as projected sales and profits, unit sales, profitability and keys to success. Include the news you don't want anyone to miss. This is a good place to put a Highlights Chart, a bar chart which shows sales, gross margin, and profits before interest and taxes for the next three years. Normally you should mention those numbers in the text.

An internal plan, such as an operations plan, annual plan, or strategic plan, doesn’t have to be as formal with its executive summary. Make the purpose of the plan clear, and make sure the highlights are covered, but you don’t necessarily need to repeat the location, product/service description, or other details.

Never waste words in a summary.

If you’re looking for investment, say so in your executive summary, and specify the investment amount required and the percent of equity ownership offered in return. You should probably also add some highlights of your management team and you competitive edge.

If you’re looking for a loan, say so in the executive summary, and specify the amount required. Leave loan details out of the summary.

Experts differ on how long an executive summary should be. Some insist that it takes just a page or two, others recommend a more detailed summary, taking as much as 10 pages, covering enough information to substitute for the plan itself.

Don’t confuse an executive summary with the summary memo. The executive summary is the first chapter in a business plan. A summary memo is a separate document, normally only 5-10 pages at most, which is used to substitute for the plan with people who aren’t ready to see the whole plan.

Your Plan Tells Your Story

Basic Company Information

A standard business plan outline includes a chapter topic on your company. You may not need to include this chapter if you are writing an internal plan. However, any outsiders reading your plan will want to know about your company before they read about products, markets, and the rest of the story.

Summary Paragraph

Start the chapter with a good summary paragraph that you can use as part of a summary memo or a loan application support document. Include the essential details, such as the name of the company, its legal establishment, how long it's been in existence, and what it sells to what markets.

Legal Entity and Ownership

In this paragraph, describe the ownership and legal establishment of the company. This is mainly specifying whether your company is a corporation, partnership, sole proprietorship, or some other kind of legal entity, such as a limited liability partnership. You should also explain who owns the company, and, if there is more than one owner, in what proportion.

If your business is a corporation, specify whether it is a C (the more standard type) or an S (more suitable for small business without many different owners) corporation. Also, of course, specify whether it is privately owned or publicly traded.

Many smaller businesses, especially service businesses, are sole proprietor businesses. Some are legal partnerships. The protection of incorporating is important, but sometimes the extra legal costs and hassles of turning in corporate tax forms with double-entry bookkeeping are not worth it. Professional service businesses, such as accounting or legal or consulting firms, may be partnerships, although that mode of establishment is less common these days. If you're in doubt about how to establish a start-up company, consult a business attorney.

Locations and Facilities

Briefly describe offices and locations of your company, the nature and function of each, square footage, lease arrangements, etc.

If you are a service business, you probably don't have manufacturing plants anywhere, but you might have Internet services, office facilities, and telephone systems that are relevant to providing service. It is conceivable that your Internet connection, as one hypothetical case, might be critical to your business.

If you're a retail store, then your location is probably a critical factor, so explain the location, traffic patterns, parking facilities, and possibly customer demographics as they relate to the specific location (your Market Analysis goes elsewhere, but if your shopping center location draws a particular kind of customer, note that here).

If you are manufacturing, then you may have different facilities for production, assembly, and various offices. You may have manufacturing and assembly equipment, packing equipment, docks, and other facilities.

Depending on the nature of your plan, its function and purpose, you may want to include more detail about facilities as appendices attached to your plan.

For example, if your business plan is intended to help sell your company to new owners, and you feel that part of the value is the facilities and locations, then you should include all the detail you can. If you are describing a manufacturing business for bankers or investors, or anybody else trying to value your business, make sure you provide a complete list and all necessary detail about capital equipment, land, and building facilities. This kind of information can make a major difference to the value of your business.

On the other hand, if your business plan is for internal use in a small company with a single office, then this topic might be irrelevant.

The People Behind the Plan

Summarize Your Management Chapter

The personnel management section of your plan outline will normally include an explanation of your management team, management philosophy, backgrounds, organization and functions, plus at least one table that covers your estimated personnel costs. The management chapter starts, like the other chapters, with a good summary. You may want to use that summary as part of a summary memo or loan application document, so cover the main points. Consider what you'd say about your management if you only had one or two paragraphs to say it.

Make sure you cover the basic information first. That would include how many employees the company has, how many managers, and how many of the managers are founders. Is your organizational structure sound, with job descriptions and logical responsibilities for all the key members? Is your team complete, or are there gaps still to be filled? Particularly with start-up companies, you may not have the complete team as you write the plan. In that case, be sure to point out the gaps and weaknesses and how you intend to fill them.

Explain Your Organizational Structure

The organizational structure of a company is what you frequently see as an organizational chart, also known as an "org chart." If you have access to a graphic of an organizational chart (from a drawing program, or one of the specialized organizational charting software packages available), that works really well at this point. If not, you can just use the text to describe the organizational structure in words, without a chart.

Make sure you explain how job descriptions work and how the main company functions are divided up. Are your organizational lines drawn clearly? Is the authority properly distributed? Do you have jobs that include responsibility without authority? Do your resources seem in line with your organizational needs?

List Team Members and Their Backgrounds

List the most important members of the management team. Include summaries of their backgrounds and experience, using them like brief resumes. Describe their functions with the company. Resumes should be appended to the plan.

Discuss Your Management Gaps

You may have obvious gaps in the management, especially in start-up companies, but even in ongoing companies. For example, the manufacturing company without a production manager has some explaining to do, and the computer company without service has some problems. It is far better to define and identify a weakness than to pretend it doesn't exist. Specify where the team is weak because of gaps in coverage of key management functions. How will these weaknesses be corrected? How will the more important gaps be filled?

Other Management Team Considerations

Applicability depends on your company. Some questions that should be answered include: Do any managers or employees have "noncompete" agreements with competitors? Who is on your board of directors? What do the members contribute to the business? Who are your major stockholders? What is their role in management?

Develop Your Personnel Costs

At this point you should normally include a personnel table to project personnel costs, including direct compensation and indirect costs. The indirect costs include vacation pay, sick pay, insurance benefits, education, and of course, payroll taxes and some other costs. There are different terms for all of this, but my favorite is "personnel burden," which is a cost over and above the direct wages and salaries.

Special Treatment for Home Offices

If you are working as a sole proprietor in a home office, you should still include your own compensation as part of your business plan. What you pay yourself should be added into the profit and loss as an expense. However, in this case you don't really need to include payroll burden, because these additional expenses are irrelevant until you include additional employees.

Two Standard Personnel Variations

A good personnel plan varies according to your business and business plan needs. You may want a simple list of names, titles, or groups, each of which is assigned a monthly cost. This model is shown in the next illustration.

Standard Personnel Plan

Personnel	Oct	Nov	Dec	2003	2004	2005
Partners	$12,000	$12,000	$12,000	$144,000	$175,000	$200,000
Consultants	$0	$0	$0	$0	$60,000	$63,000
Editorial/Graphic	$6,000	$6,000	$6,000	$18,000	$22,000	$26,000
VP Marketing	$5,000	$5,000	$5,000	$20,000	$50,000	$55,000
Sales People	$0	$0	$0	$0	$30,000	$33,000
Office Manager	$2,500	$2,500	$2,500	$7,500	$30,000	$33,000
Secretarial	$1,750	$1,750	$1,750	$5,250	$20,000	$22,000
Other	$0	$0	$0	$0	$0	$0
Subtotal	$27,250	$27,250	$27,250	$194,750	$377,000	$432,000

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The standard personnel plan is a simple list of names, titles, or categories. The sum transfers into your profit and loss statement. This illustration shows the last three months and first two years of a sample plan.

The simpler model totals all payroll only. It is perfectly appropriate for a lot of small businesses. You can use each of the lines in the table to describe specific individuals, or groups and departments. When you have the list complete, just add up the totals for personnel costs in your profit and loss. Multiply that total times your burden rate—say 15 or 20 percent—to calculate your personnel burden. The burden goes into the profit and loss as a separate line.

The next illustration shows the more detailed personnel plan that divides the rows into categories, such as sales and marketing, general and administrative, and so forth. The more detailed model shown here totals the planned payroll for each of the four departments, and then calculates total payroll.

Detailed Personnel Plan

Production	Jan	Apr	Jul	Sep	Dec	2003	2004	2005
Manager	$1,000	$1,000	$1,000	$1,000	$3,000	$36,000	$40,000	$42,000
Assistant	$3,000	$3,000	$3,000	$3,000	$1,000	$12,000	$13,000	$14,000
Technical	$2,000	$2,000	$2,000	$2,000	$2,000	$24,000	$27,500	$27,500
Fulfillment	$1,500	$1,500	$1,500	$1,500	$1,500	$18,000	$22,000	$60,000
Subtotal	$9,500	$9,500	$9,000	$14,500	$7,500	$90,000	$102,500	$133,000
Sales and Marketing								
Manager	$6,000	$6,000	$6,000	$6,000	$6,000	$72,000	$76,000	$85,000
Technical sales	$5,000	$5,000	$5,000	$5,000	$5,000	$60,000	$63,000	$80,000
Salesperson	$2,500	$2,500	$4,000	$4,000	$2,500	$30,000	$55,000	$64,000
Salesperson	$2,500	$2,500	$4,000	$4,000	$2,500	$30,000	$50,000	$55,000
Subtotal	$24,000	$24,000	$32,000	$32,000	$16,000	$192,000	$244,000	$314,000
General and Administrative								
President	$5,500	$5,500	$5,500	$5,500	$5,500	$66,000	$69,000	$95,000
Finance	$0	$0	$4,000	$4,000	$0	$0	$29,000	$30,000
Admin Assistant	$2,000	$2,000	$2,000	$2,000	$2,000	$24,000	$26,000	$28,000
Clerical	$0	$0	$0	$0	$0	$0	$0	$15,000
Subtotal	$10,000	$10,000	$15,000	$15,000	$7,500	$90,000	$124,000	$168,000
Other Personnel								
Programming	$3,000	$3,000	$3,000	$3,000	$3,000	$36,000	$40,000	$44,000
Other technical	$0	$0	$0	$0	$0	$0	$30,000	$33,000
Other	$0	$0	$0	$0	$0	$0	$0	$0
Subtotal	$3,000	$3,000	$3,000	$3,000	$3,000	$36,000	$70,000	$77,000
Total Headcount	11	11	12	12	11	11	13	14
Total Payroll	$46,500	$46,500	$59,500	$64,500	$34,000	$408,000	$540,500	$532,000
Payroll Burden	$7,440	$7,440	$9,520	$10,320	$4,760	$87,120	$80,090	$74,480
Total Payroll Expenditures	$53,940	$53,940	$69,020	$74,820	$38,760	$4,651,200	$623,590	$606,480

click to enlarge

The more detailed personnel plan shown here divides personnel expenditures into classifications including production, sales and marketing, general and administrative, and other.

As with the simple personnel table, you also want to calculate a payroll burden as a percentage of the total. Make sure to include the personnel burden assumption in your list of general assumptions.

The payroll assumptions in this model will also be used for the other financial projections. The Profit and Loss (also called income statement) will use personnel plan numbers.

Business Research

Here is a list of resources for finding business information.

1. We recommend that you get in contact with your closest Small Business Development Center (SBDC). The SBDCs are funded by federal, state, and higher education funds, and they tend to offer valuable consulting and information at unusually low fee levels and often have several free resources.

2. In general, though, the problem of information is not where to find it but how to wade through all that's available and find the right stuff.

   You must, simply must, be able to search the Internet. If you are reading this, then presumably you can already do that, so you are ahead of the game. Be sure to investigate the following:

- **Bureau of Labor Statistics** - Industry and geographic data on employment, earnings, and demographics.
- **American Fact Finder** - Community information from the US Census.
- **Hoovers** - A database of over 12 million companies, both public and private.
- **Yahoo! Finance** - One of the best sources for public company information.

3. For more formal research, look for a trade association that focuses in your business area. There are lots of them. A good reference library can get you a reference book that lists trade associations. Once you find an association, contact them to see whether they publish a directory or (better yet) a statistical review. You can also use the SBDC's web site on industry information that has links to these resources.

4. Next, look for magazines. In most businesses, there are magazines that focus on your type of business, so they can sell ads to the businesses that want to sell to your type of business. Subscribe or buy the magazine, get some back issues, and look for industry reviews. If you don't already have more than you can handle, get back to a reference library and look for indexes of published articles, and find some articles related to your business.

5. Most important, as far as I am concerned, is what I call "shoe leather" research. Find some similar businesses and find out as much as you can about them. Whatever business you're thinking of, look at your Yellow Pages and see how many are listed. Call them, find out about prices and things. If they have a location, park by it. Count their customers. Then get a phone book for a town a few hundred miles away, call some similar businesses, and find an owner who will talk to you about it. After all, you're not a competitor, and people like to talk to people about their business. Ask them as much as you can, until they can't stand answering questions anymore.

6. If you can find somebody selling a business like the one you're interested in, contact them. Consider buying theirs. At the very least, you'll get access to their past financial data, which will give you an idea of how the industry works.

Researching the Competition

When creating a new business model, you don't necessarily do it using financials from some other existing businesses. You can create your financial assumptions by estimating the specific details and adding them up. Your expenses are a finite list of estimatable items such as rent, insurance, payroll, and so on. Your sales are the product of units times price, and your cost of sales is the product of unit cost times price. Many business plans are developed by adding up detailed estimates.

On the other hand, it is better to compare your numbers to existing businesses when possible. This will give you an idea of how your business will stand within the industry.

1. Check first whether you're looking for numbers of a publicly traded company, or whether there are one or more publicly traded companies operating in the industry segment you need. To do that you examine the stock market and look for public reports related to stock market companies. My favorite way to do that is through Yahoo! Finance. There are lots of competing services offering financial information over the net, and even the SEC has a site, but that's my personal favorite.

2. If you're hoping to find financials of a specific existing business that is privately owned, that's hard to do. People do have a right to keep their information to themselves. However, there are some Internet resources that might help.

    - Hill Search is one of the most powerful online research tools available, although it has a cost. Signing up from Bplans.com will save you $100.

    - Dun and Bradstreet offers some limited financial information on lots of different companies, but that information doesn't include expense breakdowns and it isn't free.

    - The Dow Jones Business Directory offers excellent information on some industries, including good listings of websites for companies, associations, and publications. If they cover one that you're interested in, you're in luck.

    - Integra Information Systems has very good industry profiles, but they are for sale, not for free.

    - IMarket offers basic industry data reports by SIC code. Much of what this site offers is for sale, but what's free is pretty good. You have to register even for the free data. You can get a free industry review by SIC code, giving you how many companies, average sales, and employees.

- o [RMA Associates] offers financial statements by SIC code for collections of companies at different sales level. You don't get the individual company but you get a composite for the industry, with a lot of supporting detail. They sell a single industry report for about $60, and the entire database for less than $200.

  [**Editor's Note:** Prices may have changed since publication of this article. Please see RMA Associates website for current prices.]

- o Hoovers business database has a series of search tools. Here too you can get information on a lot of different companies, but expect to pay for it.
- o CEOExpress has an excellent compilation of additional sites you might try.

That's a lot of homework for you, but it should move you forward a lot too.

What is a Market Forecast?

A market forecast is a core component of a market analysis. It projects the future numbers, characteristics, and trends in your target market. A standard analysis shows the projected number of potential customers divided into segments.

This example of a simple market forecast defines two target market segments and projects the potential customers in each of those segments by years, for five years.

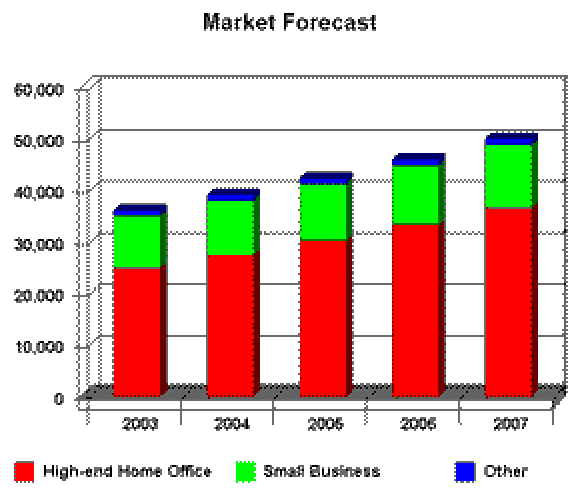
Market Size Forecast

Target Market Forecast							
Potential Customers	Growth	2003	2004	2005	2006	2007	CAGR
High-end Home Office	10%	25,000	27,500	30,250	33,275	36,603	10.00%
Small Business	5%	10,000	10,500	11,025	11,576	12,155	5.00%
Other	6%	1,000	1,060	1,124	1,191	1,262	5.99%
Total	8.57%	36,000	39,060	42,399	46,042	50,020	8.57%

In the market forecast, the example numbers indicate that there are 25,000 home offices included in the market, and that number is growing at an estimated five percent per year. There are also 10,000 small businesses in the area, and that number is growing at five percent per year.

These numbers are estimates. Nobody really knows, but we all make educated guesses. The developers of the plan researched the market as well as they could and then estimated populations of target users in their area and the annual growth rates for each.

You can use your market forecast numbers to draw a chart of projected market growth, like the one shown here below. It offers a visual view of the market forecast.



Market Value

Normally, you would also look at market value, not just market size. For example, although the high-end home segment is 2.5 times larger than the small business segment as measured by number of customers, the small business customer spends almost four times as much as the home office customer. Therefore, the small business market is a more important market in terms of dollar value.

Market Segments	Avge. $ per cust.	Market Value	Product Attitude	Loyalty Status	Buyer readiness
High-end Home Office	$3,200	$98Million	Positive	Medium	Medium
Small Business	$12,500	$138Million	Indifferent	None	Defensive
Other	$4,800	$5Million	Depends	Strong	Informed

The important numbers in this table are the average purchase per customer and the market value.

- Average purchase per customer is an educated guess based on experience. Sales managers got together to make the estimate. Although they would have liked some external source of information to use for this, there was none available. Notice that the home office customer tends to purchase much less overall than the small business customer.
- The market value is simple mathematics. Multiply the number of potential customers in the market by the average purchase per customer. In this case they took the average number of customers in each segment over the five-year forecast period, and multiplied that by the average purchase per customer, to calculate the market value.

The other items in this table are subjective qualities that help with marketing. The planners assign these points to people charged with preparing marketing materials.

Reality Checks

A market forecast should always be subject to a reality check. When you think you have a forecast, you need to find a way to check it for reality. In this case if the total market is worth some estimate, you could estimate sales of all the competitors and see if the two numbers relate to each other. In an international market, you might check production and import and export figures to see whether your estimates for annual shipments appear to be in the same general range as published figures. You might check with vendors who sold products to this market in some given year to see whether their results check with your forecast. You might look for macro-economic data to confirm the relative size of this market compared to other markets with similar characteristics.

Review Target Focus

The market analysis should lead to developing strategic market focus. That means selecting the key target markets. This is the critical foundation of strategy. We talk about it as segmentation and positioning.

Under normal circumstances, no company will attempt to address all the segments in a market. As you select target segments, think about the inherent market differences, keys to success, competitive advantage, and strengths and weaknesses of your company. You want to focus on the best market, but the best one is not necessarily the largest one or the one with the highest growth. It will be the one that matches your own company profile.

Making a Market Forecast Estimate

Relatively few marketing plans are blessed with budgets for professional market research. When you can't pass the problem to professionals, then you have to make some intelligent estimates. Get comfortable with the idea of making good educated guesses. Many people think there is something magic about this, some technique they don't know that the experts learned in graduate school. Don't worry about it. Having gone through graduate business school and worked as a vice president in a marketing research firm, I can reassure you: sophisticated data analysis rarely works very well for business forecasts.

No matter how elaborate the forecasting model, mathematical forecasts are based on past results. Nobody knows the future.

In most situations, the best way to create a market forecast estimate is to find an expert forecast, estimate from past data, find parallel data or apply a model.

Finding an Expert Forecast

If you can find an expert forecast already published, or if you have a budget to pay for an expert forecast, that's a luxury. This probably means you don't have to do your own.

Many expert forecasts are published where you can obtain their results for free. Some of these are government forecasts intended to be free, some are expert forecasts made during interviews or news media coverage, and some are professional forecasts whose highlights are released to the media as teasers to sell the more expensive research.

You can look for these forecasts in published news reports, on the Internet, in library reference materials, and in trade association publications. Where yours might be found depends on your industry and the exact nature of your business. Unfortunately, nobody but you can pinpoint exactly where to look for your industry and your plan, but at least you can consider some examples.

The U.S. Bureau of Labor Statistics regularly publishes job outlooks that include forecasts of the numbers of certain kinds of jobs into the future. If your marketing plan needed to project growth in the number of accountants, or chief executives, or heavy machinery operators, you could find that at the BLS site. You could also find a projection showing projected growth of computer industry jobs, or growth in specific employee categories.
If, for example, you are working on a marketing plan involving soft drinks you could go to the national soft drink association's publication *Beverage World* for a detailed five-year forecast of soft drink consumption.

Several major business magazines publish economic forecasts regularly. You could go into a reference library and use the *Reader's Guide to Periodic Literature* to find published data related to your data needs. *Business Week* magazine has a weekly column on business outlooks, and quarterly surveys of industry outlooks.

Estimating From Past Data

Although the past doesn't really predict the future, it can indicate trends. Sometimes you can find past data on a market and use that to project into the future.The principle of using past data as a guideline for the future is one of the fundamentals of forecasting.

It's particularly important for market forecasting, however, because you'll frequently find ample data about your market's recent past even when you can't find a market forecast. Using the past data will get you a good starting point and a sense of reasonableness for your forecast.

Past Data Estimate-Example

For example, say I want to project the market for restaurant equipment in Lane County, Oregon.

I can go to the U.S. Census Bureau County Business Patterns to find out that Lane County had 611 "eating and drinking places" in 1996 and 639 in 1999. I don't particularly like the fact that these numbers are several years old, but they are the latest available and they are also better than any other numbers I can find. I could count eating and drinking establishments by using the Yellow Pages in the telephone directories, or some other means, but any alternative would be impractical and expensive. So I accept the latest available census data. So I accepted the latest available census data. I calculated the growth rate for 1996 to 1999 and applied that same rate into the future to create a market forecast, as shown in the illustration below.

B3 0.01505

Target Market Forecast				
Potential Customers	Growth	2003	2004	2005
Eating and drinking establishments	1.5050%	678	688	698
Target Market 2	0%	0	0	0
Other	0%	0	0	0

Adding Common Sense and Educated Guessing

Is this the best I can do? Maybe not. I can probably take the past data as a base number, and then add my own research and common sense to improve on it. For example:

- I could contact the local Chamber of Commerce or restaurant association and ask for an expert opinion about the fate of eating and drinking establishments in the recent past and foreseeable future. If the local expert says there has been a boom in restaurants, or a problem with restaurants, then I can use that information to adjust my growth rate up or down. In my marketing plan text I would explain what the past growth rate was and why I was expecting it to change.
- I could also check with the Chamber of Commerce or the local governments to find economic growth numbers. I could compare general economic health in the 1996-1999 period to the 2000-2005 period as well as projections for the foreseeable future. I would then revise my projected growth rate accordingly, and explain in my text about the source of the growth rate figure.

The important point is that I wouldn't have to just take a wild guess about the restaurant population. By starting with past numbers I improve the overall quality of the forecast. This is mainly just common sense and educated guessing.

What You Sell

This part of the plan is mainly description. Sometimes it will include tables that provide more details, such as a bill of materials or detailed price lists. More frequently, however, this section is mainly text. It normally appears in the plan, after the company description, but before the market analysis.

Detailed Description

List and describe the products or services you sell. For each business offering, cover the main points, including what the product or service is, how much it costs, what sorts of customers make purchases, and why. What customer need does each product or service line fill? You might not want or need to include every product or service in the list, but at least consider the main sales lines.

It is always a good idea to think in terms of customer needs and customer benefits as you define your product offerings, rather than thinking of your side of the equation--how much the product or service costs, and how you deliver it to the customer.

As you list and describe your sales lines, you may run into one of the serendipitous benefits of good business planning, which is generating new ideas. Describe your product offerings in terms of customer types and customer needs, and you'll often discover new needs and new kinds of customers to cover. This is the way ideas are generated.

Competitive Comparison

Use this topic for a general comparison of your offering as one of several choices a potential buyer can make. Use a separate topic, in the market analysis section, for detailed comparison of strengths and weaknesses of your specific competitors.

You should discuss how your product lines and retail offering compare in general to the others. For example, your outdoor store might offer better ski equipment than others, or perhaps it is located next to the slopes and caters to rental needs. Your jewelry store might be mid-range in price but well known for proficiency in appraisals, remounts, and renovation. Your hobby shop has by far the largest selection of model trains and airplanes.

In other words, in this topic you want to discuss how you are positioned in the market. Why do people buy from your business instead of from others in the same market? What do you offer, at what price, to whom, and how does your mix compare to others? Think about specific kinds of benefits, features, and market groups, comparing where you think you can show the difference. Describe the important competitive features of your products and/or services. Do you sell better features, better price, better quality, better service, or some other factor?

Sourcing and Fulfillment

Explain your product sourcing and the cost of fulfilling your service. Manufacturers and assemblers should present spreadsheet output showing standard costs and overhead. Distributors should present discount and margin structures. Service companies should present costs of fulfilling service obligations.

For example, sourcing is extremely important to a manufacturing company. Your vendors determine your standard costs and hold the key to continued operation. Analyze your standard costs and the materials or services you purchase as part of your manufacturing operation. Look for strengths and weaknesses.

Manufacturing companies want to have ample information about resource planning and sourcing of vital materials, especially if you are preparing a plan for outsiders, such as bankers or investors, or for business valuation. In this case, you may have additional documentation you can copy and attach as appendices, perhaps even contracts with important suppliers, standard cost breakdowns, bills of materials, and other information.

Where materials are particularly vital to your manufacturing, you might discuss whether second sources or alternative sources are available, and whether or not you use them or maintain relationships with them. This is also a good time to look at your sourcing strategy, and whether or not you can improve your business by improving your product sourcing.

But sourcing is not just for product-based companies. For example, a professional service company, such as an accounting practice, medical practice, law practice, management consulting firm, or graphic design firm, is normally going to provide the service by employing professionals. In this case, the cost is mainly the salaries of those professionals. Other service businesses are quite different. The travel agency provides a service through a combination of knowledge, rights, and infrastructure, including computer systems and databases. The Internet provider or telephone company provides a service by owning and maintaining a network of communications infrastructure.

A restaurant is a service business whose costs are a combination of salaries (for kitchen and table waiting) and food costs.

Technology

Once technology changed lives only when the next wave of invaders swept across the Mesopotamian farmlands. Now technology can change our lives as we read the morning paper. Explain how technology affects your business, the products you sell, the means you use to sell them, and the needs of the customers you serve.

In some cases this might be a change in scanning technology, retail point-of-sale systems, or even video displays. In others, technology changes the nature of the goods or services you sell, such as cellular phones or DVD videos that didn't even exist a few years ago. Do you want to include the Internet? Will a Web site change the way you do business?

Sometimes, technology can be vital to a service company, such as the case of the Internet provider that uses wireless connections as a competitive edge, or the local company that offers conference rooms for video conferencing. An accounting practice might gain a competitive advantage from proprietary software or wide-area network connections to its clients. A medical laboratory might depend completely on certain expensive technologies for medical diagnostics. A travel agency might depend on its connection to an airline reservation system.

Technology can be critical to a manufacturing business in at least two ways: first, the technology involved in assembly or manufacturing, such as in the manufacture of computer chips; and second, the technology incorporated in your product, such as proprietary technology that enhances the value of the product. In either case, technology can be a critical competitive edge. If you are writing a plan for outsiders, then you need to describe the technology and how well or thoroughly you have the technology protected in your business, through contracts, patents, and other protection.

Technology might be a negative factor, something to be included in a plan because a threat should be dealt with. For example, that same travel agency that depends on a computerized reservation system might also note growing competition from Internet reservations systems available to consumers who prefer to buy direct.

Not all businesses depend on technology. Technology might also be irrelevant for your business. If so, you can delete this topic if it doesn't seem important.

Future Products

Now you want to present your outlook for future products or services. Do you have a long-term product strategy? How are products developed? Is there a relationship between market segments, market demand, market needs, and product development?

Here again, what you include depends on the nature of your plan. In some cases future products are the most important point for investors looking to buy into your company's future. On the other hand, a bank is not going to lend you money for product development or hopes for future products; so in a plan accompanying a Loan Application, there would probably be much less stress on this point.

You may also need to deal with the issue of confidentiality. When a business plan includes sensitive information on future products, then it should be carefully monitored, with good documentation of who receives copies of the plan. Recipients might reasonably be asked to sign non-disclosure statements and those statements should be kept on file.

Sales Literature

It is generally a good idea to include specific pieces of sales literature and collateral as attachments or appendices to your plan. Examples would be copies of advertisements, brochures, direct mail pieces, catalogs, and technical specifications. When a plan is presented to someone outside the company, sales literature is a practical way to both explain your services and present the look and feel of the company.

If it is relevant for your business, you should also use this topic to discuss your present situation regarding company literature and your future plans. Is your sales literature a good match to your services and the image your company wants to present? How is it designed and produced? Could you improve it significantly, or cut the cost, or add additional benefits?

Depending on the purpose of your plan, you should provide good, practical information on the products or services you sell. Give your plan readers what they will need to evaluate the plan. Make sure they understand the need you serve, how well you satisfy that need, and why your customers buy from you instead of somebody else. Ideally, the descriptions in this chapter make your sales forecast seem realistic and even conservative.

Forecasting Your Sales

Developing your sales forecast isn't as hard as most people think. Think of your sales forecast as an educated guess. Forecasting takes good working knowledge of your business, which is much more important than advanced degrees or complex mathematics. It is much more art than science. Whether you have business training or not, don't think you aren't qualified to forecast. If you can run a business, then you can forecast its sales. Most people can guess their own business' sales better than any expert device, statistical analysis, or mathematical routine. Experience counts more than any other factor.

Break your sales down into manageable parts, and then forecast the parts. Guess your sales by line of sales, month by month, then add up the sales lines and add up the months.
The illustration gives you an example of a simple sales forecast that includes simple price and cost forecasts which are used to calculate projected sales and direct cost of sales and estimate total dollar value for each category of sales.

A Simple Sales Forecast

Sales	May	Jun	Jul	Aug
Retainer Consulting	$20,000	$20,000	$20,000	$20,000
Project Consulting	$30,000	$40,000	$20,000	$10,000
Market Research	$8,000	$15,000	$10,000	$5,000
Strategic Reports	$0	$0	$0	$0
Other	$0	$0	$0	$0
Total Sales	$58,000	$75,000	$50,000	$35,000
Direct Costs	May	Jun	Jul	Aug
Retainer Consulting	$2,500	$2,500	$2,500	$2,500
Project Consulting	$5,000	$6,500	$3,500	$1,500
Market Research	$6,000	$10,000	$6,000	$4,000
Strategic Reports	$0	$0	$0	$0
Other	$0	$0	$0	$0
Subtotal Direct Cost of Sales	$13,500	$19,000	$12,000	$8,000

click to enlarge

Use Text to Explain the Forecast and Related Plans and Background

Although the charts and tables are great, you still need to explain them. A complete business plan should normally include some detailed text discussion of your sales forecast, sales strategy, sales programs, and related information. Ideally, you use the text, tables, and charts in your plan to provide some visual variety and ease of use. Put the tables and charts near the text covering the related topics.

In my standard business plan text outline, the discussion of sales goes into Chapter 5.0, Strategy and Implementation. You can change that to fit whichever logic and structure you use. In practical terms, you'll probably prepare these text topics as separate items, to be gathered into the plan as it is finished.

Sales Strategy

Somewhere near the sales forecast you should describe your sales strategy. Sales strategies deal with how and when to close sales prospects, how to compensate sales people, how to optimize order processing and database management, how to maneuver price, delivery, and conditions. How do you sell? Do you sell through retail, wholesale, discount, mail order, phone order? Do you maintain a sales force? How are sales people trained, and how are they compensated? Don't confuse sales strategy with your marketing strategy, which goes elsewhere. Sales should close the deals that marketing opens.

To help differentiate between marketing strategy and sales strategy, think of marketing as the broader effort of generating sales leads on a large scale, and sales as the efforts to bring those sales leads into the system as individual sales transactions. Marketing might affect image and awareness and propensity to buy, while sales involves getting the order.

Forecast Details

Your business plan text should summarize and highlight the numbers you have entered in the Sales Forecast table. Make sure you discuss important assumptions in enough detail, and that you explain the background sufficiently. Try to anticipate the questions your readers will ask. Include whatever information you think will be relevant, that your readers will need.

Sales Programs

Details are critical to implementation. Use this topic to list the specific information related to sales programs in your milestones table, with the specific persons responsible, deadlines, and budgets. How is this strategy to be implemented? Do you have concrete and specific plans? How will implementation be measured?
Business plans are about results, and generating results depends in part on how specific you are in the plan. For anything related to sales that is supposed to happen, include it here and list the

person responsible, dates required, and budgets. All of that will make your business plan more real.

How Many Years?

I believe a business plan should normally project sales by month for the next 12 months, and annual sales for the following three years. This doesn't mean businesses shouldn't plan for a longer term than just three years, not by any means. It does mean, however, that the detail of monthly forecasts doesn't pay off beyond a year, except in special cases. It also means that the detail in the yearly forecasts probably doesn't make sense beyond three years. It does mean, of course, that you still plan your business for five, 10, and even 15-year time frames; just don't do it within the detailed context of business plan financials.

Financials

Expert opinions may vary, but in general there are some standard analyses that a business plan ought to have, regardless of specifics. We'll be looking at each of these in detail later on in this book, but let's discuss here what probably ought to be included in a business plan.

- Cash flow is the most important. Businesses run on cash. No business plan is complete without a cash flow plan.
- Profit and loss, incorporating sales, cost of sales, operating expenses, and profits. This of course is also a pro forma income statement. In most cases it should show sales less cost of sales as gross margin, and gross margin less operating expenses as profit before interest and taxes (also called gross profit, and contribution to overhead). Normally there is also a projection of interest, taxes, and net profits.
- Pro-forma balance sheet: Aside from cash and income, there is the balance of assets, liabilities, and capital.
- Sales forecast: The form may vary to suit the business, but it is hard to imagine a plan without a sales forecast. Some plans forecast in excruciating detail, some summarize, but the forecast should be there. In the simplest of plans, the sales forecast might be a single line in the pro-forma income statement.
- Personnel plan: Personnel costs are so intimately related to fixed costs that they should often be set aside and discussed. In some simple plans, they too, like the sales forecast, can be just a line or two in the income statement.
- Business ratios: The numbers are there, when there is pro-forma income, cash, and balance sheet, so the ratios can be calculated. This isn't as necessary for an internal plan as for one for bankers and investors, but some key ratios are almost always a good idea. They should probably include some profitability ratios like gross margin, return on sales, return on assets, and return on investment; plus some liquidity ratios such as debt to equity, current ratio, and working capital. You

already know which ratios you like to use, and how to calculate them. A banker will have a similar view.

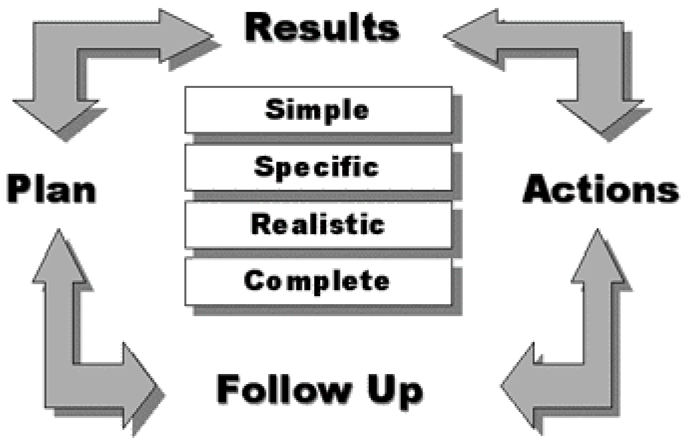
- Break-even analysis: Most of the break-even analyses included with business plans have little value—more on that later—but most bankers and analysts like to see them.
- Market forecast: Aside from the sales forecast, which is essential, a market forecast is also a good idea. How many potential customers are there? How does market growth stand to impact this business?

What Makes a Good Plan?

Is it the length of the plan? The information it covers? How well it's written, or the brilliance of its strategy. No.

The following illustration shows a business plan as part of a process. You can think about the good or bad of a plan as the plan itself, measuring its value by its contents. There are some qualities in a plan that make it more likely to create results, and these are important. However, it is even better to see the plan as part of the whole process of results, because even a great plan is wasted if nobody follows it.

Planning is a Process, Not Just a Plan



A business plan will be hard to implement unless it is simple, specific, realistic and complete. Even if it is all these things, a good plan will need someone to follow up and check on it. The plan depends on the human elements around it, particularly the process of commitment and involvement, and the tracking and follow-up that comes afterward.

Successful implementation starts with a good plan. There are elements that will make a plan more likely to be successfully implemented. Some of the clues to implementation include:

1. Is the plan simple? Is it easy to understand and to act on? Does it communicate its contents easily and practically?
2. Is the plan specific? Are its objectives concrete and measurable? Does it include specific actions and activities, each with specific dates of completion, specific persons responsible and specific budgets?

3. Is the plan realistic? Are the sales goals, expense budgets, and milestone dates realistic? Nothing stifles implementation like unrealistic goals.
4. Is the plan complete? Does it include all the necessary elements? Requirements of a business plan vary, depending on the context. There is no guarantee, however, that the plan will work if it doesn't cover the main bases.

Use of Business Plans

Too many people think of business plans as something you do to start a company, apply for a loan, or find investors. Yes, they are vital for those purposes, but there's a lot more to it.

Preparing a business plan is an organized, logical way to look at all of the important aspects of a business. First, decide what you will use the plan for, such as to:

- Define and fix objectives, and programs to achieve those objectives.
- Create regular business review and course correction.
- Define a new business.
- Support a loan application.
- Define agreements between partners.
- Set a value on a business for sale or legal purposes.
- Evaluate a new product line, promotion, or expansion.

No Time to Plan? A Common Misconception

"Not enough time for a plan," business people say. "I can't plan. I'm too busy getting things done." A business plan now can save time and stress later.

Too many businesses make business plans only when they have to. Unless a bank or investors want to look at a business plan, there isn't likely to be a plan written. The busier you are, the more you need to plan. If you are always putting out fires, you should build fire breaks or a sprinkler system. You can lose the whole forest for too much attention to the individual trees.

Keys to Better Business Plans

- Use a business plan to set concrete goals, responsibilities, and deadlines to guide your business.
- A good business plan assigns tasks to people or departments and sets milestones and deadlines for tracking implementation.
- A practical business plan includes 10 parts implementation for every one part strategy.

- As part of the implementation of a business plan, it should provide a forum for regular review and course corrections.
- Good business plans are practical.

Business Plan "Don'ts"

- Don't use a business plan to show how much you know about your business.
- Nobody reads a long-winded business plan: not bankers, bosses, nor venture capitalists. Years ago, people were favorably impressed by long plans. Today, nobody is interested in a business plan more than 50 pages long.

Common Business Plan Mistakes

While including the necessary items in a business plan is important, you also want to make sure you don’t commit any of the following common business plan mistakes:

Putting it off.

Too many businesses make business plans only when they have no choice in the matter. Unless the bank or the investors want a plan, there is no plan.

Don't wait to write your plan until you think you’ll have enough time. "I can't plan. I'm too busy getting things done," business people say. The busier you are, the more you need to plan. If you are always putting out fires, you should build firebreaks or a sprinkler system. You can lose the whole forest for paying too much attention to the individual burning trees.

Cash flow casualness.

Most people think in terms of profits instead of cash. When you imagine a new business, you think of what it would cost to make the product, what you could sell it for, and what the profits per unit might be. We are trained to think of business as sales minus costs and expenses, which equal profits. Unfortunately, we don’t spend the profits in a business. We spend cash. So understanding cash flow is critical. If you have only one table in your business plan, make it the cash flow table.

Idea inflation.

Don't overestimate the importance of the idea. You don't need a great idea to start a business; you need time, money, perseverance, and common sense. Few successful businesses are based entirely on new ideas. A new idea is harder to sell than an existing one, because people don't understand a new idea and they are often unsure if it will work.

Plans don't sell new business ideas to investors. People do. Investors invest in people, not ideas. The plan, though necessary, is only a way to present information.

Fear and dread.

Doing a business plan isn't as hard as you might think. You don't have to write a doctoral thesis or a novel. There are good books to help, many advisors among the Small Business Development Centers (SBDCs), business schools, and there is software available to help you (such as Business Plan Pro, and others).

Spongy, vague goals.

Leave out the vague and the meaningless babble of business phrases (such as “being the best”) because they are simply hype. Remember that the objective of a plan is its results, and for results, you need tracking and follow up. You need specific dates, management responsibilities, budgets, and milestones. Then you can follow up. No matter how well thought out or brilliantly presented, it means nothing unless it produces results.

One size fits all.

Tailor your plan to its real business purpose. Business plans can be different things: they are often just sales documents to sell an idea for a new business. They can also be detailed action plans, financial plans, marketing plans, and even personnel plans. They can be used to start a business, or just run a business better.

Diluted priorities.

Remember, strategy is focus. A priority list with 3-4 items is focus. A priority list with 20 items is certainly not strategic, and rarely if ever effective. The more items on the list, the less the importance of each.

Hockey-stick shaped growth projections.

Sales grow slowly at first, but then shoot up boldly with huge growth rates, as soon as 'something' happens. Have projections that are conservative so you can defend them. When in doubt, be less optimistic.

The Different Types of Business Plans

Business plans are also called strategic plans, investment plans, expansion plans, operational plans, annual plans, internal plans, growth plans, product plans, feasibility plans, and many other names. These are all business plans.

In all these different varieties of business plan, the plan matches your specific situation. For example, if you're developing a plan for internal use only, not for sending out to banks or investors, you may not need to include all the background details that you already know. Description of the management team is very important for investors, while financial history is most important for banks.

Some of these specific case differences lead to different types of plans:

- The most standard business plan is a start-up plan, which defines the steps for a new business. It covers standard topics including the company, product or service, market, forecasts, strategy, implementation milestones, management team, and financial analysis. The financial analysis includes projected sales, profit and loss, balance sheet, cash flow, and probably a few other tables. The plan starts with an executive summary and ends with appendices showing monthly projections for the first year.

- Internal plans are not intended for outside investors, banks, or other third parties. They might not include detailed description of company or management team. They may or may not include detailed financial projections that become forecasts and budgets. They may cover main points as bullet points in slides (such as PowerPoint slides) rather than detailed texts.

- An operations plan is normally an internal plan, and it might also be called an internal plan or an annual plan. It would normally be more detailed on specific implementation milestones, dates, deadlines, and responsibilities of teams and managers.

- A strategic plan is usually also an internal plan, but it focuses more on high-level options and setting main priorities than on the detailed dates and specific responsibilities. Like most internal plans, it wouldn't include descriptions of the company or the management team. It might also leave out some of the detailed financial projections. It might be more bullet points and slides than text.

- A growth plan or expansion plan or new product plan will sometimes focus on a specific area of business, or a subset of the business. These plans could be internal plans or not, depending on whether or not they are being linked to loan applications or new investment. For example, an expansion plan requiring new investment would include full company descriptions and background on the management team, as much as a start-up plan for investors. Loan applications will require this much detail as well. However, an internal plan, used to set the steps for growth or expansion funded internally, might skip these descriptions. It might not include detailed financial projections for the whole company, but it should at least include detailed forecasts of sales and expenses for the company.

- A feasibility plan is a very simple start-up plan that includes a summary, mission statement, keys to success, basic market analysis, and preliminary analysis of costs, pricing, and probable expenses. This kind of plan is good for deciding whether or not to proceed with a plan, to tell if there is a business worth pursuing.