

Guide to Business Planning

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INTRODUCTION

What is a business plan? A business plan is a written statement describing what the business is, how it operates, how it is managed, how it fits in the marketplace, and how it functions financially. A business plan should explain your products and services, markets, competition, industry, operations, and opportunities in detail.

Why write a business plan? Every business should have a business plan of some sort. Without a plan, a business may lose focus of its goals. If you don't know where you want your business to go, how will you know if your business is moving in the right direction? A business plan is a roadmap for building, growing, and sustaining a successful business. It also serves to communicate the company's value proposition to employees, advisors, partners, customers, lenders, and investors. Finally, business plans are the vehicle by which companies "get in the door," and are the documents most heavily scrutinized by financial institutions and investors.

- *Establish credibility:* To establish credibility, it is critical that a business plan does not overestimate market sizes, underestimate competition, or project results over-aggressively. Rather, a business plan must present realistic game plans for achieving success.
- *Highlighting past accomplishments:* The best indicator of future success is a company's past track record. The business plans of previously funded companies must show what milestones they have achieved with those funds. New businesses must show how the past successes of the management team will enable the business to overcome expected challenges. The business plan should give a clear statement of the qualifications of the management team.
- *Understanding and defining the "relevant market":* Improper sizing of a company's target market is a telltale sign of a poorly reasoned business plan. For example, though the U.S. healthcare market is a trillion dollar market, there is no company that could reap \$1 trillion in healthcare sales. Rather, a more meaningful metric is the *relevant market size*, which equals the company's sales if it were to capture 100% of its specific niche of the market.
- *Understanding and catering to customer needs:* Lenders and investors have a laser sharp focus on the relationship between a company and its customers. In its business plan, a company must clearly communicate how its products and services meet specific customers' wants and needs, and identify which target markets most exemplify these needs. The business plan must also outline an easy to follow and credible roadmap of how the company plans to penetrate its target markets. It should answer the question: why would anyone want to buy this product or service?
- *Proving barriers to entry:* A business plan must include strategies that demonstrate that the company can and will build long-term barriers around its customers. Claiming a first mover advantage is simply not compelling in today's environment.
- *Developing realistic financial assumptions:* Many lenders and investors skip straight to the financial section of the business plan. It is critical that the assumptions and projections in this section be realistic and not overly optimistic. Plans that show penetration, operating margin and revenues per employee figures that are poorly reasoned; internally inconsistent or simply unrealistic greatly damage the credibility of the entire business plan. In contrast, sober, well-reasoned financial assumptions and projections communicate operational maturity and credibility.

KEY ELEMENTS

Prospera's Business Planning Guide details the key elements that lenders and investors expect in a business plan. It is organized by five key business plan sections as follows:

- I. Executive Summary
- II. Organization/Operation Plan
- III. Marketing Plan
- IV. Financial Plan
- V. Supporting Documents/Attachments

FORMATTING, CHARTS, PICTURES, AND GRAPHICS

Business plans, like marketing communications documents, should be visually appealing and easy-to-read. This can be accomplished by using charts and graphics and by formatting the plan for readability. These techniques will enable the reader to more quickly and easily understand the company's value proposition. The plan should have a well-prepared and professional appearance.

LENGTH

How long should the business plan be? A business plan needs to be whatever length is required to excite the reader (often times an investor or lender), prove that management truly understands the market, and details the execution strategy. This length could be up to 15 to 25 pages of text. Any more than this and the time-constrained reader will be forced to skim certain section of the plan, even if they are generally interested, which could cause them to miss essential elements. Any less and the reader will think that the business has not been fully thought through, or will simply not have enough information to make an investment decision.

Finally, it is crucial to present lenders and investors with a realistic, credible, and compelling business plan. Such a business plan distinguishes the company from all of the other companies and individuals seeking financing, and signals that the company is soberly managed and poised for success.

BUSINESS PLAN LAYOUT

COVER PAGE

EXECUTIVE SUMMARY

ORGANIZATION/OPERATION PLAN

- A. Mission statement and business goals
- B. Business Description summary
- C. Date founded and by whom
- D. Location and facility
- E. Legal Structure / Form and ownership
- F. Key officers and management team
- G. Personnel
- H. Production/services methods
- I. Accounting and Recordkeeping
- J. Billing and collection process
- K. Insurance

MARKETING PLAN

- A. Industry Trends
- B. Target Market Description
- C. Competitive Analysis
- D. Distribution Channels
- E. Pricing Strategy
- F. Promotional Plan

FINANCIAL PLAN AND FINANCIAL DOCUMENTS

- A. Summary of financial needs
- B. Source and Use of Funds
- C. Start-up expenses (include description and cost)
- D. 3-Year Cash Flow
- E. 3-Year Profit and Loss/Income Statement
- F. 3-Year Balance Sheet
- G. Revenue estimate

V. SUPPORTING DOCUMENTS/ATTACHMENTS

Below is a list of possible attachments to support the business plan. These should be included only if they are applicable to the business.

- A. Copies of personal financial statement and credit reports

- B. Three years of personal and business (if applicable) tax returns
- C. Copies of lease or rental agreements and other contracts or legal documents
- D. Copies of business licenses and permits (if required)
- E. Copies of insurance policies
- F. Resumes
- G. Organization chart and detailed job descriptions
- H. Personal and business letters of reference
- I. Samples of marketing materials (business cards, brochures, ads, flyers, price lists, etc)
- J. Schematic of floor plan, signage, and picture of business location
- K. Product endorsements
- L. Proof of compliance with particular legal requirements for your type of business (for example, medical license for health care provider)
- M. Articles of Incorporation, Partnership Agreement

COVER PAGE

The Cover Page of the business plan is like the cover of a book. It needs to be attractive and contain important contact information for the reader. It serves as the first impression for your business! The cover page should contain the following information:

- Exact legal name of business name, physical address, mailing address, and phone number
- Owner name, mailing address, and phone number
- Email addresses and Website addresses
- Business logo
- Date of business plan

EXECUTIVE SUMMARY

The Executive Summary will be the last part of the business plan to be written. The primary purpose of the Executive Summary is to capture the reader's attention by briefly summarizing the business plan. The goal is to get the reader interested enough to read the rest of the plan.

Most lenders and investors are inundated with business plans, and often give them no more than a cursory review. Therefore, it is crucial that the Executive Summary stimulates and motivates the reader to learn more about the business. In ten sentences or less include the following:

- A concise explanation of the business: The Executive Summary must simplify the definition of the business to develop interest and promote a clear understanding. The rest of the plan can tell the full, complex story.
- A description of the market size and the market need for the business
- A discussion of how the company is uniquely qualified to fulfill this need
- How much financing you will need and how much you will match with your own investment.

The Executive Summary should also address each of the following key points:

- Management: Description of ownership and management
- Marketing Plan: How the company will effectively penetrate its target market
- Financial Plan: Summarize the financial projections of the company

The Executive Summary should address all of the key points of the business plan and should be in the same order as the following sections. The parts should all fit together in a cohesive summary, not a collection of loosely related parts. The Executive Summary can be from one to three pages in length, but most will be less than one page.

ORGANIZATION/OPERATION PLAN

The Organization/Operation Plan is the section of the business plan that describes how the business will internally function to produce, deliver, and monitor its products and services. It covers all of the logistics of the business — the operating and control systems and details of how the business is put together in

order to function in an efficient and cost-effective manner. The Organization/Operation Plan should also detail:

- 1) the processes that must be performed to serve customers everyday (short-term processes) and
- 2) the overall business milestones that the company must attain to be successful (long-term processes).

Keep in mind, as you address each of the following areas, you will need to approach them in terms of the associated revenues and expenses of each. This information will be used in developing the financial statements in the Financial Plan.

A. MISSION STATEMENT AND BUSINESS GOALS

The Mission Statement and Business Goals section of a business plan outlines the fundamental purpose and aspirations of the company. This section typically starts with a clear, concise mission statement that captures the essence of the business's values, purpose, and core objectives. Following the mission statement, the business goals are detailed, highlighting both short-term and long-term targets. These goals are often specific, measurable, achievable, relevant, and time-bound (SMART), covering various aspects such as market expansion, revenue targets, customer acquisition, product development, and operational milestones. Together, the mission and goals provide a strategic direction and a roadmap for the company's growth and success.

B. BUSINESS DESCRIPTION

The business description should address how the product or service is produced by describing the production process in detail. If it is a service, there should be a description of how the service is performed. This section should also address whether the clients come to an office or if the service is performed at another site. What are the hours the business is open? It is also important to mention both current and future products and services here, but to focus primarily on the short-to-intermediate term horizon.

C. DATE FOUNDED AND BY WHOM

Date the business was founded and founding owners. Include any changes or updates in ownership in this section.

D. LOCATION AND FACILITY

The location and facilities section of a business plan should begin with a detailed description of the business's physical location. This includes the address, the type of area (urban, suburban, or rural), and the proximity to key infrastructure such as major highways, public transportation, and other businesses. Give background information on your site choice and tell why it was your choice. It's important to highlight why this location is strategically beneficial for the business, whether it's due to high foot traffic, ease of access for customers and suppliers, or the availability of a skilled local workforce. Any advantages the location offers in terms of visibility, convenience, and market reach should be clearly articulated. If location is a significant marketing consideration, it should be further explained in the marketing section.

For example, if you are opening a retail shop and need to be directly accessible to your customers, your choice of location will be determined by your target market and would therefore need to be addressed in your Marketing Plan.

The next part of this section should focus on the facilities themselves. This includes a description of the buildings and spaces the business occupies, such as offices, manufacturing plants, warehouses, or retail stores. Details about the size of these facilities, their layout, and any specialized areas (like production lines, storage areas, or customer service spaces) should be included. Mention any significant features or amenities that support business operations, such as advanced machinery, technology infrastructure, loading docks, or meeting rooms. If the business plans to expand or renovate these facilities in the future, these plans should also be outlined.

Finally, the section should address any logistical considerations related to the location and facilities. This includes discussing the lease or ownership status of the property, the terms of any leases, and any zoning regulations or permits required for operation. It should also cover how the facilities will be maintained and secured, including information on utilities, waste management, and safety protocols. Any challenges associated with the location, such as high rent or potential zoning changes, should be acknowledged along with the business's strategies for managing these issues. This comprehensive overview ensures that stakeholders understand the operational environment and its alignment with the business's strategic goals. You may want to include copies of pictures, layouts, or drawings of the location in the Supporting Documents section.

E. LEGAL STRUCTURE (FORM AND OWNERSHIP)

Describe the legal structure you have chosen for your business and give the reasons for your choice. Include copies of business license, articles of incorporation, or articles of organization in the supporting documents section.

F. KEY OFFICERS AND MANAGEMENT TEAM

The Management Team section of the business plan must prove to the reader why the key company personnel are “eminently qualified” to execute on the business model. This section should include biographies of key team members and describe their responsibilities. Biographies should include the past positions that the individuals have held and specific successes in each. Biographies should also include educational backgrounds and other pertinent information such as certifications and trainings. You can begin this section by developing an organizational chart that will show the flow of responsibility from the chief decision-maker down through each layer of the business. Investors and lenders will be particularly interested in the background and relevant experience of the management team.

Be sure to include pay and benefit information for management and owners. This information will be included in the financial plan. Include resumes for the management team in the supporting documents section.

G. PERSONNEL

The Personnel section of the business plan should describe how key functional areas will be filled. This section should clearly define the roles that these positions will play and identify the key characteristics of the individuals that will be hired. What are the job positions to be filled? What are the qualifications needed of new hires? If you have already hired or plan to hire specific individuals, provide a brief description of their qualifications and relevant experience. Provide job descriptions and develop an organizational chart to reflect the division of duties and responsibilities. Include copies of any employee contracts or resumes in the supporting documents section. Be sure to include pay and benefit information for personnel. This information will be included in the financial plan.

The Personnel section should also address how the business will add personnel with growth. What is your plan for increasing personnel as the business grows? What is the cost of adding a new employee? How does hiring new personnel affect productivity and sales volume?

H. PRODUCTION /SERVICE METHODS

The Production/Service Methods section of a business plan provides a thorough explanation of how the business creates its products or delivers its services. This section should begin with a detailed description of the production or service delivery process, outlining each step from start to finish. For product-based businesses, this includes sourcing raw materials, manufacturing processes, assembly, quality control, packaging, and shipping. For service-based businesses, this includes the step by step process, from the initial client contact through the completion of the service.

Manufacturer and or Distributor of a Product: List your products. Give a brief description of the development from raw materials to finished product. Develop a flow chart. It will help you identify stages of production and will serve as a visual representation of product development, in case you wish to approach a lender or investor.

The flow chart will help you develop a time line to demonstrate when materials must be ordered, how much time is needed in the production process, and how much time is involved in inventory storage and in shipping and handling. What materials are used to produce the product? How much do the materials cost? Who are the suppliers and where are they located? Is there more than once source of supply? Are these suppliers reputable and reliable? Do they supply the best quality at the most competitive prices? How are suppliers chosen? Include cost breakdowns, and rate sheets in the supporting documents section to backup your statements. Although you may order from one main supplier, include information on alternate suppliers. Address how you could handle a sudden increase in orders or a loss of a major supplier. How will the work get done, by whom, and at what cost? Project peak production times and determine when money will be needed for key purchases. You will use labor cost projections in the financial assumptions for the cash flow statement.

This section should address the specific methods and technologies employed in the production or service delivery process. This includes any specialized equipment, software, or methodologies that are integral to efficient and high-quality production or service delivery. Highlight any innovative techniques or proprietary technologies that give the business a competitive edge. Additionally, describe the roles and responsibilities of the personnel involved in these processes, including any specific skills or training required.

The Production/Service Methods section should discuss the logistics and supply chain management that support production delivery. This includes sourcing of materials or components, inventory management,

workflow scheduling, and coordination with suppliers and distributors. Also, outline any quality control measures and performance metrics used to ensure consistency and reliability in production or service delivery. Address any scalability considerations, such as how the business plans to handle increased demand or expand its production/service capacity. This comprehensive overview demonstrates the business's operational capability and preparedness to meet customer needs effectively.

Describe your production equipment and other product assets in terms of what you already own, what it is valued at, what you plan to purchase, and how much it will cost. Purchase prices and depreciation of production equipment and assets owned by your company will appear as balance sheet items in the financial documents section of your plan. Cash to be expended in the next year on any of those assets will show up on your cash flow statement.

If you are developing a product for export or anticipating importing raw materials or finished products for sale in this country, expand your business plan to include global information. Developing a flow chart will help to identify the steps involved in bringing goods into this country or in shipping them overseas along with the time and costs involved. You may be working with foreign manufacturers and agents. You will deal with freight forwarders and custom brokers. The cost of their services, as well as the time and method of payment will become part of your financial assumptions. (This might be alternately addressed under Methods of Distribution in the Marketing Plan).

Retailer: Describe the products you sell and provide information about your primary and secondary sources of supply. Describe your product selection process and explain why specific suppliers or vendors were chosen. Research and list alternate suppliers. Include all product descriptions and price sheets in the supporting documents section.

You may want to develop a flow chart to demonstrate the distribution process. How do the products you sell get from the manufacturer through your industry's normal distribution channels, into your store, onto your shelves, and into your customers' hands?

Do you have a system for managing and tracking inventory? What volume of goods do you stock in inventory, how do you determine the value of your inventory, who will be responsible for inventory control?

If your products involve establishing and maintaining proprietary rights, (copyright, patent, or trademark), this is a good place to address the issue. It is also advantageous here to be sure that you have adequately done any other due diligence that is required to clear your rights in future negotiations of contracts concerning your products (work for hire, permission for contributions, etc.). You can back up your statements by including copies of photos, diagrams and certificates in the Supporting Documents.

Service: Tell what your service is, why you are able to provide it, how it is provided, who will be doing the work, and where the service will be performed. Tell why your business is unique and what you have that is special to offer to your customers. Will you be providing service at the customer's location or will you work at your place of business? How much time is involved in the services you will be providing, and how many of those hours are billable to the client? Remember that maintaining the highest possible number of billable hours is the key to success in a service business.

Will you have vehicle expenses? List equipment and supplies that you will need to perform your service and estimate the costs involved. Also project any other costs of related overhead.

Think about related products that you could add to your business to increase your revenues. If you have both a product and a service that work together to benefit your customer (such as computer peripherals sold by a computer consultant or, conversely, repair services offered by an appliance retailer), be sure to mention this in your plan. Tell why your business is unique and what you have that is special to offer to your customers.

In All Cases: Think about related products that you could add to your business to increase your revenues. If you have both a product and a service that work together to benefit your customer (such as computer peripherals sold by a computer consultant or, conversely, repair services offered by an appliance retailer), be sure to mention this in your plan. Tell why your business is unique and what you have that is special to offer to your customers. Try to anticipate potential problem areas and work out a plan of action.

You may hear a lender or investor refer to the worst-case scenario. This means that he or she wants you to be able to anticipate and solve potential problems. It is also to your advantage to think in terms of alternatives and to prepare for the unexpected so that your business can continue to run smoothly. Some businesses fail because they become too successful too soon. For this reason, it is good to plan for the best-case scenario. If you suddenly experience a large increase in demand for your products and/or services, your business plan should contain the information needed to step up production, buy more product, hire additional employees, or whatever else may be necessary to effectively service your customer.

I. ACCOUNTING AND RECORDKEEPING

The Accounting and Recordkeeping section should describe how the business will maintain a universally accepted method of financial recordkeeping. The system should be simple to use, accurate, timely, and consistent. It provides business management information for the owner but must also be designed for understanding by others with an interest in the business.

What recordkeeping tools or systems are in place? Identify the types of records kept. Who is responsible for recordkeeping? Does the business use outside professional recordkeeping services? Does the business use a CPA or accountant for income tax advice? Describe daily, weekly, and monthly recordkeeping routines. Identify financial reports used to measure and monitor the business condition. How often are these reports prepared? If you are using outside professional services, include any fees, salaries, or retainers paid for accounting services in the financial plan.

J. BILLING AND COLLECTION PROCESS

The Billing and Collection Process section of a business plan should comprehensively outline how the business manages its financial transactions with customers, ensuring efficient and timely revenue collection. This section should begin with a detailed description of the billing process. Explain how invoices are generated, including the software or systems used, the information included on invoices, and the timeline for issuing them. Clarify the payment terms offered to customers, such as due dates, accepted payment methods (credit cards, bank transfers, checks, etc.), and any early payment discounts or late payment penalties.

Next, describe the collection process, outlining the steps taken to follow up on overdue payments. Detail the communication strategy for reminding customers about their outstanding balances, including the timing and method of reminders (emails, phone calls, letters). Discuss the escalation process for handling delinquent accounts, such as sending final notices, involving collection agencies, or pursuing legal action if necessary. This section should also address any policies for handling partial payments or disputes over invoices, ensuring transparency and fairness in the collection process.

Finally, this section should include measures for monitoring and managing the overall billing and collection system. Describe any reporting tools or dashboards used to track outstanding invoices, payment statuses, and collection rates. Outline the roles and responsibilities of the personnel involved in billing and collections, including their qualifications and training. Discuss any internal controls and audit procedures in place to prevent errors and fraud, as well as strategies for maintaining customer satisfaction while ensuring prompt payment. This comprehensive overview demonstrates the business's commitment to financial health and operational efficiency.

K. INSURANCE

The Insurance section of the business plan should describe the type(s) of insurance coverage needed by the business. This should include the name of the policy, the name of the insurance agent, the name of the insurance company, and a description of the level of coverage. This information will be incorporated in the financial plan.

MARKETING PLAN

The marketing plan describes and demonstrates how the business will penetrate the market with its products and services. The marketing plan requires extensive research and can be the most difficult section of the business plan to put together. A clear description of the target market is critical to the marketing plan to demonstrate that there will be a large enough market for the business and that the business will meet important customer needs with a high-value-added benefit to customers

The Marketing Plan should include “the four P’s” – Product, Place, Price, and Promotion.

Products (and/or Services): The “P” stands for Product, but includes all products and services that the company offers; it is whatever the business sells. In the business description section under Organization/Operation Plan, you should have already detailed all the features of the products and services, how they work, their unique/proprietary attributes, etc. For products that are patented and/or technical in nature, drawings and backup materials should be presented in the Supporting Documents. Be sure to describe the product features or characteristics as well as the product benefits (what the feature or characteristic does for or gives to the customer).

Place (or Distribution): The second “P” refers to “Place” or “Distribution” and explains where the company does business. Be sure to address location issues such as customer habits and preferences, business credibility, trade area or territory, and distribution channels (the means by which materials move from producer to customer. This section is crucial because if customers cannot access products and services, they cannot purchase them. This section is especially critical for high-growth, capital-constrained companies. Attaining profit-effective distribution channels is often the most vexing challenge

for these businesses. Examples of distribution methods include: retail location, website, and direct mail catalogs. Many companies have multiple distribution methods to deliver their products and services to customers and each should be described here.

Price: Pricing strategy is one of the most challenging tasks for a business. Price too low and you don't cover your costs. Price too high and you have no customers and go out of business. It is crucial to examine what influences pricing decisions and to have some comparative method for determining price. This section of the plan should detail the price point(s) at which the company's products and services will be sold. If the products/services are sold as bundles, these should be detailed in this section. Rationale for the pricing should be given when applicable (i.e. why the company has chosen an initiation fee plus monthly membership fees versus a one-time lifetime membership fee). Be sure to address costs, customer demand, perceived value, and pricing wars (keeping up with competitors).

Promotion: Promotion is the largest of all marketing strategies and generally refers to the tactics used to sell your product or service. Promotion includes each of the activities that induce a customer to buy the company's products and services. It is a huge misconception that promotion solely refers to advertising. Promotion activities include advertising, public relations (P.R.), networking, customer service, free samples, discounts, direct mail, telemarketing, partnerships, etc. This section of the business plan discusses which promotions will be used and how they will be used. This section must be as specific as possible, particularly as it relates to discussing future promotions. To say that a company is going to generate PR in trade magazines is simply too vague. Rather, the plan must explain the type of article/feature that may be written about the firm and why, which specific trade journals that will be targeted and/or the projected publication dates. In discussing how the company will promote itself, it is important to discuss how the company will *position* itself. This positioning statement details the attributes that customers will assign to the company, its products and services. The choice of promotional activities must support this positioning. For example, discounts might not be consistent with a desire to be considered an upscale brand.

A. INDUSTRY TRENDS

Be alert to changes in your industry. The wise business owner follows industry trends, analyzes the economy, projects "best and worst case scenarios," and looks for ways to keep the business healthy.

Utilize trade and professional associations and their journals and industry reports. Analyze the economy and be aware of financial and political forecasts. Project some best- and worst-case scenarios for the future.

The Industry Trends section of a business plan should provide an in-depth analysis of the current and emerging trends within the industry in which the business operates. This begins with an overview of the market dynamics, including recent growth rates, market size, and significant changes in consumer behavior. Highlight key factors driving these trends, such as technological advancements, regulatory changes, economic conditions, and shifts in demographics or cultural preferences. By presenting this data, the section demonstrates the business's awareness of the broader industry landscape and its implications.

In addition to current trends, this section should explore future projections and potential disruptions that could impact the industry. Discuss anticipated technological innovations, regulatory developments, and evolving consumer demands that may shape the market in the coming years. Highlight opportunities for growth and potential challenges the industry may face, such as increased competition, supply chain disruptions, or changing environmental regulations. Explain how these trends align with the business's strategic goals and how the business plans to leverage opportunities or mitigate risks. This forward-looking perspective assures stakeholders that the business is proactive and well-prepared to navigate the evolving industry environment.

B. TARGET MARKET DESCRIPTION

The target market has been defined as *"that group of customers with a set of common characteristics that distinguish them from other customers."* Identify and describe the "set of common characteristics" of your target customer. In doing so, answer the four Ws: Who? What? When? Where?

Who: Who is the right audience for your product or service? Who wants to buy your product or service?

- **Demographic** (age, gender, income, ethnic background, education and occupation)
- **Geographic** (climate, region and population density)
- **Behavioral** (attitude towards product/service, user status, usage rate)
- **Psychographic** (interests, lifestyle, activities, attitudes and values)

Classify the customers that will need your product or service and rank them from easiest to hardest to reach. Plan to begin your marketing with the easiest first.

What: What is the right message to reach your target audience? What motivates your customer to purchase? Identify the specific characteristics of your target customer and determine what the value of that customer is to you in potential revenue. What pricing, promotions, and packaging is attractive to the customer needs? This will help you to determine the most cost-effective marketing to use and if you will need additional promotions, premiums, or offers, to generate or increase demand.

When: When is the right time to reach your target audience? When will your customer purchase your product or service? Identify any unique qualities that your customers have in common such as buying patterns. That will assist you in determining the frequency of your type of purchase.

Where: Where is the right place to reach your target audience? Where will your customer purchase your product or service? Identify popular hobbies, magazines/papers read by your customers. This will guide you as to where you will want to market your products and services (including stores, specialty shops, magazines, seminars, trade shows, and locations frequented by your customers).

C. COMPETITIVE ANALYSIS

The analysis should also identify major industry players, their market shares, and any notable shifts in their strategies or market positions.

How many competitors are there in the marketplace? Who are your competitors or who will be your competitors? Where does your business fit in the marketplace? What market segment niche are you pursuing? How will your business gain an advantage over the competition (competitive advantage)?

Direct competition is a business offering the same product or service to the same market.

Indirect competition is a company with the same product or service but with a different market.

FOR EXAMPLE: A gift shop is in *direct competition* with another gift shop and in *indirect competition* with a catalog company that offers the same products. If you are a CPA who goes to the client, your *indirect competition* will be other CPAs working in an office. The difference between direct and indirect competition is most often determined by the *method of delivery* of a product or service.

Develop Competition Comparisons: Compare products, pricing, distribution, and promotional strategies.

Evaluate both types of competitors. You want to determine the competitors' images. To what part of the market are they trying to appeal? Can you appeal to the same market in a better way? Or can you find an untapped market? This section should explain how you will distinguish, how you are different from competition and why the customer will buy from you instead

D. DISTRIBUTION CHANNELS

Distribution is the manner in which products are physically transported to the consumer and the way services are made available to the customer. Distribution is closely related to your target market. Describe all the activates involved in getting the right quantity of your product to your customers at the right time and at a reasonable cost including the purchasing channels between the company and end user. Describe how the product reaches the customer, including specific methods of delivery.

Explore different ways of distribution that might expand and grow your business in the future. (Keep in mind the "worst-case scenarios" mentioned in the organizational section.) If possible, include a three & five-year plan for distribution.

If your choice of location is related to your target market, you will cover it in this section, along with any financial implications of your location choice.

E. PRICING STRATEGY

Your pricing structure is critical to the success of your business and is determined through market research and analysis of financial considerations.

The Pricing Strategy section of a business plan outlines how the business will price its products or services to attract customers, compete in the market, and achieve financial goals. This section should begin with a clear explanation of the companies pricing strategy and structure. Explain why this strategy is appropriate for the business, considering factors such as production costs, market demand, and the value perceived by customers.

Next, provide a detailed analysis of the pricing structure for each product or service offered. This includes the base price, any tiered pricing levels, discounts, and promotional pricing strategies. Discuss how the pricing will be positioned relative to competitors, highlighting any unique value propositions that justify a higher or lower price point. Include a comparison of competitor prices and how the business's pricing strategy will differentiate it in the market.

Finally, outline how the pricing strategy aligns with the overall financial goals of the business, such as achieving profitability, capturing market share, or positioning the brand. This comprehensive approach

ensures that the pricing strategy is well thought out and aligned with the business's objectives and market dynamics.

Be specific as to how you arrived at your pricing structure and leave room for some flexibility. Ensure that your pricing strategy is reflected accurately in the financial projections and financial plan.

F. PROMOTIONAL PLAN

Marketing means running a first-rate business and letting people know about it. Promotion of your business involves using all means available to get the message to your customers that your product or service is good and desirable. The uniqueness and benefits of your products or services will carry through all of your promotion and develop your image. Every action your business takes sends a marketing message. Building a business image is not something invented by a public relations firm; it is a reflection of what you do and how you do it. Many established small businesses have discovered that they do not need to advertise to prosper. A large majority of small businesses operate successfully without advertising.

Marketing communication is the link between a business and its potential customers. It really isn't a question of whether or not to use marketing communication tools; you must. The important questions to answer are: what is the message or messages? How to advertise and promote effectively? How much is needed? What media to select and when to use it? An effective marketing communications program uses advertising and promotion to connect its potential customers.

Strategies and Tactics - The Promotional Plan section of a business plan outlines the strategies and tactics the business will use to market its products or services to its target audience. This section should correlate with the target market section of your plan. Understanding who your customers are helps tailor the promotional strategies to effectively reach and engage them. This section should detail the specific promotional strategies the business will employ. This can include traditional advertising methods such as print, radio, and television ads, as well as digital marketing tactics like social media campaigns, email marketing, search engine optimization (SEO), and pay-per-click (PPC) advertising. Each strategy should be described in terms of its objectives, the key messages to be communicated, the mediums to be used, and the frequency of the promotions. Additionally, outline any public relations activities, event marketing, sponsorships, and partnerships that will be utilized to enhance brand visibility and reputation.

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Evaluation of promotional opportunities - Useful techniques to evaluate the various advertising and marketing medium option channels:

- **Cost per contact:** How much does it actually cost to reach a prospective customer?
- **Frequency:** How frequent are the contacts or message deliveries?
- **Impact:** Does the medium in question offer full opportunities for appealing to the appropriate senses?

- **Selectivity:** Can the message be restricted to people who are known to be the most logical prospects (your target market)

Financial resources - Furthermore, this section should include a promotional budget, detailing the financial resources allocated to each promotional activity. It's important to explain how the effectiveness of each promotional tactic will be measured, such as through key performance indicators (KPIs) like website traffic, conversion rates, social media engagement, and return on investment (ROI). Be sure to develop your promotion plan in terms of projected costs and expected response (i.e. return on investment). A promotion plan is only effective if it generates revenues to justify the expense.

Timeline - Lastly, discuss the timeline for implementing these promotional activities, ensuring a cohesive and sustained marketing effort. This comprehensive plan demonstrates the business's commitment to building brand awareness, attracting customers, and driving sales.

FINANCIAL PLAN

The Financial Plan section of a business plan provides a comprehensive overview of the business's financial health, projections, and funding requirements. The Financial Plan explains how the execution of the company's vision will reap great financial rewards for the owners, investors and /or lenders. As such, it is the section that investors or lenders often spend the most time scrutinizing.

Overview - The Financial Plan overview should also address the business's funding requirements and strategy for securing necessary capital. This includes detailing how much funding is needed, the purpose of the funds (such as for startup costs, inventory, equipment, leasehold improvements, working capital, etc) and the proposed sources of funding, whether it be through loans, investors, or other means. Discuss any existing financial arrangements, such as lines of credit or investor agreements, and outline the terms and conditions associated with these. Include a break-even analysis to show the point at which the business will become profitable. This analysis helps investors understand the viability and scalability of the business model.

Assumptions and Projections - The Financial Plan must also detail the key assumptions such as penetration rates, operating margins, headcount, etc. It is critical that these assumptions are feasible. Tell how you came up with your projections, what are they based on? Ensure that your projections are based on actual market data - *do not guesstimate*- and be reasonable and conservative.

For example, if the company is categorized as a networking infrastructure firm, and the business plan projects 80% operating margins, this will raise a red flag because investors can readily access the operating margins of publicly-traded networking infrastructure firms and find that none have operating margins that high. Accessing and basing financial projections on those of similar firms will greatly validate the realism and maturity of the financial projections.

If your business has historic sales, utilize these figures to establish projections that are reasonable and based upon historic sales trends. If you are projecting a shift from industry standards or historic data, *explain why*.

Explain and Summarize Key Assumptions in Table Format - When creating a business financial plan, it's essential to include charts/tables to enhance the clarity and impact of your data. Start by identifying the key financial metrics you want to highlight, such as revenue projections, profit margins, cash flow, and expense breakdowns. Use tables illustrate trends over time, and highlight key assumptions. Ensure that each visual is clearly labeled. Provide a brief explanation accompanying each chart to interpret the data for your audience. Table format also allows for reader to evaluate the feasibility of your assumptions and the accuracy of your calculations. This approach not only makes your financial plan more professional and engaging but also helps stakeholders quickly grasp the essential financial aspects of your business, facilitating better decision-making and communication.

Risk and contingency plan - Finally, include an analysis of financial risks and a contingency plan to manage potential financial challenges. This comprehensive overview reassures stakeholders of the business's financial stability and its strategy for achieving long-term profitability.

Format – The Financial Plan section will include a text overview, but needs to be supported by charts, figures and financial calculations that support and demonstrate the projections. The financial documents should further detail the overall finances of the business .

FINANCIAL DOCUMENTS

Business plan financials estimate how well your business will perform under certain assumptions. The Financial Plan documents must numerically detail the revenue model through past (if applicable) and pro-forma (projected) income statements, balance sheets, and cash flow statements. It is critical that the figures used in the Financial Plan flow from the analyses in every other section of the business plan. For example, the relevant market size should be reflected, as should assumed operating margins, customer acquisition costs, employee salaries, etc.

The financial statements most commonly included in a business plan are a summary of financial needs including: source and use of funds, list of start-up expenses, pro-forma (projected) cash flow statements, income statements, and balance sheets. Most start-up business plans also will include a personal financial statement. Below are summary explanations of the financials commonly included in a business plan followed by samples in the final pages of this guide.

Source and Use of Funds

The Source and Use of funds is a summary of financial needs is a quick and easy way to begin developing the financial plan. It is a brief listing of the sources and the uses of funds for the business. It is a useful starting point to developing projected cash flow statements. The sources of funds primarily include outside investments (for example, equity investments, bank loans, etc.) and

operating revenues. Uses of funds could include expenses involved with marketing, staffing, technology development, office space, etc.

Start-up Expenses

In the start-up expenses section of the financial plan, detail all the initial costs required to launch the business effectively. For example, the start-up expenses include the costs of securing a business location, such as lease deposits and renovation expenses, and purchasing necessary equipment and furniture. Additionally, account for the initial inventory and supplies needed to begin operations, as well as any technology investments, including computers, software, and point-of-sale systems. Include professional fees for legal, accounting, and consulting services that assist in setting up the business structure. Marketing and promotional expenses, such as website development, logo design, and initial advertising campaigns, should also be covered. Lastly, factor in working capital to cover operational costs for the first few months, such as salaries, utilities, and insurance premiums. Providing a detailed breakdown of these start-up expenses helps stakeholders understand the financial requirements to get the business up and running.

Financial Projections - Financial projections (proforma) are not only essential for potential investors who need to see how you are going to repay the loans, they help you determine if starting a new business or expanding an existing business makes financial sense. For existing companies, the Financial Projections should note any significant deviations between past and projected results, such as increases in margins. The Financial Projections section should include a 3 year Cash flow statement, 3 year income statement and 3 year balance sheet. A Microsoft Excel worksheet containing these proforma or projected financial statements (with calculation formulas already entered!) is available via Prospera.

Revenue Estimate - The revenue estimate sheet in financial projections for a business plan includes detailed forecasts of the business's potential income over a specified period. It typically outlines various revenue streams, pricing strategies, and sales volume estimates. This sheet considers market trends, customer demographics, and competitive analysis to predict the business's gross income. Additionally, it may include assumptions about growth rates, seasonality effects, and any anticipated changes in market conditions. The revenue estimate sheet is essential for assessing the financial viability and potential profitability of the business, providing a foundation for further financial planning and decision-making.

Cash Flow Statement

A cash flow statement shows how much cash is coming into the business and how much cash is going out. It also shows how much cash will be left over or how much additional cash will be needed to pay expenses. The cash flow shows the income and expenses on a monthly basis. The sample document provided is a one-year projected monthly cash flow for the first year, with projected annual cash flow for the second and third years.

Income Statement

An income statement shows how much revenue the business will generate from the sale of products or services and lists the operating expenses. Revenue minus expenses is how much income your business produces. The income statements should account for all significant costs, such as salaries,

rent, utilities, marketing, and production expenses. Additionally, it should project revenue streams based on sales forecasts, market trends, and growth strategies.

Balance Sheet

Typically, at the end of every month of operation, a balance sheet is built showing how the operation of the business affected the assets, liabilities, and equity of the business.

Personal Financial Statement

Many lenders will require the submission of a personal financial statement in addition to the business financials. A personal financial statement is a detailed snapshot of your personal financial situation. It lists your personal assets and liabilities (debt) with a description of sources of income; payables (debt); stocks, bonds, and real estate owned; unpaid taxes; other liabilities (debt); and life insurance held.

SUPPORTING DOCUMENTS AND ATTACHMENTS

Below is a list of possible attachments to support the business plan. These should be included only if they are applicable to the business. Many of the additional financial documents will pertain to a business that is seeking financing from a lender or investor.

- A. Copies of personal financial statement and credit reports
- B. Three years of personal and business (if applicable) tax returns
- C. Copies of lease or rental agreements and other contracts or legal documents
- D. Copies of business licenses and permits (if required)
- E. Copies of insurance policies
- F. Resumes
- G. Organization chart and detailed job descriptions
- H. Personal and business letters of reference
- I. Samples of marketing materials (business cards, brochures, ads, flyers, price lists, etc)
- J. Schematic of floor plan, signage, and picture of business location
- K. Product endorsements
- L. Proof of compliance with particular legal requirements for your type of business (for example, medical license for health care provider)
- M. Articles of Incorporation, Partnership Agreement

Table Formatting Examples:

Including charts/tables enhances clarity of your data. Use tables illustrate trends over time and highlight key assumptions. Ensure that each visual is clearly labeled. Provide a brief explanation accompanying each chart to interpret the data for your audience.

1 Location - Tracy & Main, Bozeman, MT						
2023 BZN Summer Visitor Statistics: 164,000 visitors to Downtown (May - Sept)						
Projected Sales: 5% of foot traffic (The Works) 1% of foot traffic (water)						
Year	Total Customers	The Works	Water	Total Sales	Diff.	
2024	8196	\$ 81,963	\$ 4,918	\$ 86,881		
2025	9016	\$ 90,159	\$ 5,410	\$ 95,569	10%	

Note: 2025 - 10% increase due to extended hours (3 additional tours per day)

Businesses with Historical Sales Data

Utilize tables to illustrate key assumptions and how projections reflect or differ from historical data and trends. If you are projecting a significant change, explain why this is a reasonable estimate.

MIKE'S HOT DOGS											
						Year1			Year2		
						2024			2025		
2020	2021	% Change	2022	% Change	2023	% Change	Projections	% Change	Projections	% Change	
Sales	\$ 84,000		\$ 86,000	2%	\$ 89,000	3%	\$ 92,000	3%	\$ 95,000	3%	\$104,500 10%

2024 Sales
{5% of tourist foot-traffic per day)

MIKE'S HOT DOGS							
1 location - Main & Tracy, Bozeman, MT							
Income	May	June	July	August	September	TOTAL	
Days of Operation	16	30	31	31	15	123	
Tourist foot-traffic per day (per tourism data)	1250	1325	1500	1425	900		
Customers per Day (5% of tourist foot-traffic per day)	63	66	75	71	45		
Total Customers	1000	1988	2325	2209	675	8,196	
The Works - dog, chips & soda - \$10	\$10,000	\$19,875	\$23,250	\$22,088	\$6,750	\$81,963	
Bottled Water - \$3 (1% of tourist foot-traffic per day)	\$600	\$1,193	\$1,395	\$1,325	\$405	\$4,918	
Total Income:	\$10,600	\$21,068	\$24,645	\$23,413	\$7,155	\$86,880	

Projected 2025 Sales
(5% of tourist foot-traffic per day)

MIKE'S HOT DOGS							
1 location - Main & Tracy, Bozeman, MT							
Income	May	June	July	August	September	TOTAL	
Days of Operation	16	30	31	31	15	123	
Tourist foot-traffic per day*	1375	1458	1650	1567.5	990		
Customers per Day (5% of tourist foot-traffic per day)	69	73	83	78	50		
Total Customers	1100	2186	2558	2430	743	9,016	
The Works - dog, chips & soda - \$10	\$11,000	\$21,863	\$25,575	\$24,296	\$7,425	\$90,159	
Bottled Water - \$2 (1% of tourist foot-traffic per day)	\$660	\$1,312	\$1,535	\$1,458	\$446	\$5,410	
Total Income:	\$11,660	\$23,174	\$27,110	\$25,754	\$7,871	\$95,568	
*Increase in traffic due to extended hours (3 additional hours)					% Increase:		10%