



MAP OF DREAMS

HOW A **BUSINESS PLAN** CAN GUIDE YOUR **ENTREPRENEURIAL VISION**



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If you dream about starting your own business, the most daunting obstacle you face is figuring out how to get from vision to reality. As overwhelming as that might seem, millions of people have successfully used a simple tool—the business plan—to guide them through the complex process of starting a new enterprise.

A business plan is a methodical, consciously applied series of small steps that lead to One Big Thing: your new business.

A good plan does three things:

- 1.** Tells you what you must do to achieve your goal
- 2.** Tells the people you ask for help or money that you know what to do
- 3.** Is flexible enough to give you wiggle room—such as providing alternative scenarios for operating with different levels of funding or staffing—yet is unyielding in setting deadlines, cut-off dates, and milestones that tell you whether your idea is still a “go”

WHAT TYPICAL **BUSINESS PLANS** COVER

**MOTIVATION
AND GOOD
INTENTIONS
AREN'T ALWAYS
ENOUGH.**



Experts list business plan components in different ways, but all business plans address five major areas:

- 1. Concept:** What is your business idea? What makes yours different enough from other similar businesses to make it succeed? What makes you qualified to run this business?
- 2. Market:** Who is the market for your services? Where is the market going? Who are your competitors? How will you compete against—or around—them? How will you reach your target market? Do you anticipate eventually trying to acquire or merge with similar businesses?
- 3. Organization:** Who will your managers be? What are their qualifications? What duties will they perform? What will their compensation be? What kind of equipment, office space, and staffing will you need?
- 4. Money:** How will you finance your start-up? How will you pay off investors or creditors? How will you spend money daily, weekly, monthly, quarterly? What are your financial goals for the first three years of operation?
- 5. Timeline and what-ifs:** What are your milestones—market research completed; funding by a certain date; staffing by a certain date; opening by a certain date? What will you do if you cannot honor them?

THE THREE CHAPTERS **EVERYONE** WILL READ

**IF YOU'RE ASKING
PEOPLE FOR
MONEY,
YOU MUST TELL THEM
HOW MUCH IT WILL
TAKE TO OPEN,
STAFF,
MARKET, AND
OPERATE YOUR
BUSINESS.**

Business plans typically begin with an **Executive Summary**, a one or two-page synopsis of the entire plan. Think of it as highlighting your plan's most powerful and persuasive points.

Everyone who reads your plan will start here. If this section is short, clear, and concise, most people will continue. But if your summary is overwritten, with terminology that's complex or unclear, forget about it. "The purpose of this enterprise is to increase the rapidity of the interface between shoe consumers and the delivery of shoe appearance improvement services" doesn't make it. "I want to open a service for busy workers that can guarantee great shoe shines in three minutes" does.

The **Management** section tells potential investors who's going to be minding the store and why they're qualified to do so. Be careful here; motivation and good intentions aren't always enough. "My brother, Ned Smith, is really excited about my party planning service and will bring a man's unique point of view to it" doesn't read quite as well as, "My former PR agency colleague, Janet Jones, has worked for five years with corporate event planners and brings with her an in-depth knowledge of their skills and contacts."

For many readers, **Financials** will be the heart of your plan. If you're asking people for money, you must tell them how much it will take to open, staff, market, and operate your business. You also must tell them how you intend to fund those activities: Loans? Private investors? And very important, how fast will you "burn through" your initial funding and when do you project you'll make a profit?

KEEP IT **SIMPLE**



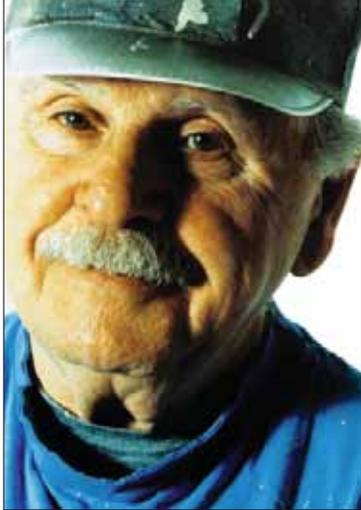
In the early 1980s, NBC TV Producer Brandon Tartikoff had a concept for a new cop show. He wanted people to quickly grasp his idea, so he called it "MTV Cops." "MTV Cops," aka *Miami Vice*, became one of television's all-time successful programs.

Although you don't have to be as succinct as Tartikoff in explaining your idea, like him, you want people to get it right away. A simple guide for brevity is the "elevator test" or the "cocktail party test." Can you explain to a stranger on a 20-second elevator ride or in a 30-second cocktail party encounter the answer to, "What's your business idea?"

You do this by making your description short and to the point: "I want to open a shop that modifies sporting equipment for people with special needs." "I want to operate an independent appraisal service that real estate companies can call on short notice 24/7." "I want to publish a guide to wedding venues for brides-to-be in a major metro area."

Remember that your readers, no matter how much they like you, will be busy. You don't have to describe everything about your concept in detail. Just provide enough information to show them that you've given your idea some thought and to spur their interest in learning more from you—preferably face to face.

BEFORE STARTING ANYTHING, TEST **YOURSELF** AND YOUR **CONCEPT**



**DO A
TEST RUN
WITH A
POTENTIAL
CLIENT
TO LEARN ABOUT
YOUR
FINANCIAL,
PEOPLE, AND
TIME-HANDLING
SKILLS.**

All the business plan writing advice in the world can't help you if your idea won't work. You need to see whether it will fly before you commit to it. Ways to check the viability of your concept include:

- Ask potential customers if they'd buy your service.
- Ask people who already are doing what you'd like to do for advice. (They should be noncompetitors outside your market area.)
- Learn who will be your competitors. Try to get samples of their work, information about their fees, and how long they've been in business.
- Do a test run with a potential client to learn about your financial, people, and time-handling skills.
- Before formally approaching them, learn what your potential backers' investment criteria are by discussing "what-if" scenarios with them.

A business seeking a loan should answer the following questions in its business plan:

- 1.** How much money do you need and what is the owner's capital commitment?
A rule of thumb is that 20% to 30% investment in the company needs to come from the owner, from either personal cash and savings or equity in the business.
- 2.** What will you use the money for? Give a clear description of how you'll use the money and how you intend to pay it back.
- 3.** How will the loan affect your financial position?
- 4.** What will you pledge as collateral? You'll have to pledge some tangible asset—such as stocks, certificates of deposit, or property—to obtain a loan. If the loan is for the purchase of equipment or real estate, that can become collateral.
- 5.** How will you repay the loan?
- 6.** When will you repay the loan?
- 7.** If you don't realize projections, can you still repay the loan? For example, do you have a spouse with outside employment?
- 8.** How much can your business afford to lose and still remain viable?
- 9.** How will the business manage risk?
- 10.** For an existing business, how has it performed to date? Is the financial position of the business improving or declining?

WRITE THE PLAN

What goes in a business plan? The Small Business Administration offers this model.



You can divide the body into four sections:

1. Description of the business
2. Marketing
3. Finances
4. Management

Addenda should include an executive summary, supporting documents, and financial projections.

Although there is no single formula for developing a business plan, some elements, summarized in this outline, are common to all business plans:

ELEMENTS OF A BUSINESS PLAN

1. Cover sheet
2. Statement of purpose
3. Table of contents

I. The Business

- A. Description of business
- B. Marketing
- C. Competition
- D. Operating procedures
- E. Personnel
- F. Business insurance

II. Financial Data

- A. Loan applications
- B. Capital equipment and supply list
- C. Balance sheet
- D. Break-even analysis
- E. Pro forma income projections (profit & loss statements)
 - Three-year summary
 - Detail by month, first year
 - Detail by quarters, second and third years
 - Assumptions upon which projections were based
- F. Pro forma cash flow

III. Supporting Documents

- Tax returns of principals for past three years
- Personal financial statement (all business lenders have these forms)
- For franchised businesses, a copy of franchise contract and all supporting documents provided by the franchisor
- Copy of proposed lease or purchase agreement for building space
- Copy of licenses and other legal documents
- Copy of résumés of all principals
- Copies of letters of intent from suppliers.

CAN YOU EXPLAIN
TO A **STRANGER**
ON A
20-SECOND
ELEVATOR RIDE
THE ANSWER TO,
“WHAT’S YOUR
BUSINESS
IDEA?”

RESOURCES

- Talk to the business loan officer at your credit union for guidance.
- Review sample business plans at <http://www.bplan.com/samples/sba.cfm>
- Explore federal tax issues for small business owners and self-employed at <http://www.irs.gov/businesses/small/index.html>
- Small Business Development Centers (SBDCs) provide management assistance to current and prospective small business owners. There are now 63 Lead SBDCs—one in every state (Texas has four, California has six), the District of Columbia, Guam, Puerto Rico, Samoa, and the U.S. Virgin Islands—with a network of more than 1,100 service locations: <http://www.sba.gov/sbdc/>
- SCORE—Service Corps of Retired Executives—has thousands of volunteer business counselors who offer their mentoring services free <http://www.score.org>



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