Building a Business Plan

Create a business plan as the first step on your path to business success

Learning Objectives

- At the end of this module, you will be able to:
  - Identify the essential elements of a business plan.
  - Identify how a good business plan can create an anchor for continued success.
  - List additional resources that can help you develop an effective business plan.

About FDIC Small Business Resource Effort

- The Federal Deposit Insurance Corporation (FDIC) recognizes the important contributions made by small, veteran, and minority and women-owned businesses to our economy. For that reason, we strive to provide small businesses with opportunities to contract with the FDIC. In furtherance of this goal, the FDIC has initiated the FDIC Small Business Resource Effort to assist the small vendors that provide products, services, and solutions to the FDIC.
- The objective of the Small Business Resource Effort is to provide information and the tools small vendors need to become better positioned to compete for contracts and subcontracts at the FDIC. To achieve this objective, the Small Business Resource Effort references outside resources critical for qualified vendors, leverages technology to provide education according to perceived needs, and offers connectivity through resourcing, accessibility, counseling, coaching, and guidance where applicable.
- This product was developed by the FDIC Office of Minority and Women Inclusion (OMWI). OMWI has responsibility for oversight of the Small Business Resource Effort.

Executive Summary

- A business plan helps you evaluate the **feasibility** of a new business idea in an objective, critical, and unemotional way. Owners should be directly involved in the development of the business plan.
- A business plan provides the detail behind your business concept. It includes an assessment of the relevant market, how you will operate, how you do marketing, and financial reports. Together, the parts create a roadmap for your business' success.
- Key investors will look at your business plan before providing capital.
- You should prepare a business plan, although, in reality, many small business owners do not. No plan (or a poor plan) is a leading cause of business failure.

What is a Business Plan?

- A business plan is a written document that defines the goals and objectives of your business and describes how you will attain those goals.
- A business plan is worth your considerable investment of time, effort, and energy.
- A business plan sets objectives, defines budgets, engages partners, and anticipates problems before they occur.

10 Reasons Why You Need a Strong Business Plan

1. To attract investors.
2. To see if your business ideas will work.
3. To outline each area of the business.
4. To set up milestones.
5. To learn about the market you plan to enter.
6. To secure additional funding or loans.
7. To determine your financial needs.
8. To attract top-level people.
9. To monitor your business and measure success.
10. To devise contingency plans.

How Detailed Should Your Plan Be?

- Business plans differ widely in their length, appearance, content, and the emphasis placed on different aspects of the business.
- Depending on your business and your intended use, you may need a very different type of Business Plan:
  - **Mini-plan:** Less emphasis on non-critical details. Used to test your assumptions, concept, and measure the interest of potential investors.
  - **Working Plan:** Almost total emphasis on details. Used and updated continuously to review business operations and progress.
  - **Presentation Plan:** Emphasis on marketability of the business concept. Used to give information about the business to bankers, venture capitalists, and other external resources.

Seven Common Parts of a Good Business Plan

- Business plans must help investors understand and gain confidence on how you will meet your customers' needs.
- Seven common parts of a good business plan are:
  1. Executive Summary
  2. Company Description
  3. Market and Competitive Analysis
  4. Organization and Management
  5. Marketing Plan and Sales Strategy
  6. Funding Request
  7. Financial Projections

Part 1: Executive Summary

- The executive summary is generally a 3-5 page introduction to your Business Plan.
- This section is critical because **many individuals (including venture capitalists) only read the summary.**
- The executive summary includes:
  - A paragraph that introduces your business.
    - Your business name and location.
    - A brief explanation of customer needs and your products or services.
    - The ways that the product or service meets or exceeds the customer needs.
    - An introduction of the team that will execute the Business Plan.
  - Subsequent paragraphs that provide key details about your business, including projected sales and profits, unit sales, profitability, and keys to success.
  - Visuals that highlight important information, including market share projections and customer demand charts.

Part 2: Company Description

- The company description provides details about the business concept and shows evidence that the product or service is viable and capable of fulfilling a customer's particular needs.
- The company description:
  - Articulates your company’s vision, how you plan to meet the unique needs of your customers, and your plan for financial success.
  - Provides results from feasibility studies you have conducted for your products or services.
  - Discusses diagnostics sessions you had with prospective customers for your services.
  - Defines your value proposition and how you differ from your competitors.

Part 3: Market and Competitive Analysis

- The market analysis includes detailed knowledge you've gained through researching the market that best fits your product or service. This helps define your market strategy and position your business to obtain its share of sales.
- The market analysis section:
  - Defines your target market and target customers.
  - Projects your market share.
  - Positions your products and services.
  - Discusses pricing and promotions.
  - Identifies communication, sales, and distribution channels.
  - Discusses competitors in your target market, including:
    - Competitor product or service offerings and strategies.
    - Competitor strengths and weaknesses.
    - Competitor market share.
    - Indirect or secondary competitors.

Part 4: Organization and Management

- The management team section includes:
  - **Organizational Structure:** Defines the ownership structure and outlines responsibilities and decision-making powers. Provides a basis for projected operating expenses, personnel expenses and overhead expenses.
  - **Management Team:** Provides resumes and biographical data of management and key employees, including qualifications, experiences, or outstanding skills, which could add a competitive edge to the image of the business.
  - **Working Structure:** Defines how your management team will operate within your defined organizational structure.
  - **Expertise:** Discusses the business expertise of your management and senior team. You may also include special knowledge of budget control, personnel management, public relations, and strategic planning.
  - **Development Plan:** Depicts how you plan to improve your company's overall skills or expertise, such as training or continuing education.
  - **Personnel Plan:** States current and future staffing requirements and costs.

Part 5: Marketing Plan and Sales Strategy *(Slide 1 of 2)*

- The marketing plan and sales strategy section details how your product or service will be delivered to customers, the cost to promote and distribute your product or service, and how you will measure the effectiveness of your methods.
- The marketing plan covers the five "P's":

– Product: Defines your product or service and how it differs from the competition.

– Price: Details how you price your product competitively and includes variable costs, fixed costs, and break-even point.

– Place: Explains where you plan to sell your product or service, e.g., Internet, direct sales, government contracts, etc.

– Promotion: Provides the methods you will use to advertise your products and services.

– People: Discusses the qualifications of your sales team or customer service representatives.

Part 5: Marketing Plan and Sales Strategy *(Slide 2 of 2)*

- The sales strategy:
- – Sales Force:
  - Will you use an internal sales team or independent representatives?
  - How will they be trained? They must know your value proposition forward and backward.
  - How will they be compensated? Bonus structure?
- – Sales Activities:
  - Prioritize your prospects.
  - Determine how many sales calls you will make in a day, week, month, etc.
  - Determine how many sales calls it will take before you make a sale, the average dollar amount per sale , and the average dollar amount per client.

Part 6: Funding Request

- This section covers whether you are investing your own money, seeking a loan, or outside investment (equity).
- Basic questions you should answer include:
  - What is the total funding required?
  - How will the loan or investment be used?
  - How will the loan or investment make the business more profitable?
  - When will the loan be repaid?
  - If you are seeking an equity investment:
    - What percent of your company are you willing to sell to an investor?
    - What rate of return is possible for the investor? (Note: If you are seeking private investors, consult legal counsel to ensure compliance with securities laws.)

Part 7: Financial Projections

(Slide 1 of 2)

- The financial plan translates your company's goals into specific financial targets.
- The financial plan section:
  - **Clearly defines what a successful outcome entails.** The plan isn't merely a prediction; it implies a commitment to making the targeted results happen and establishes milestones for gauging progress.
  - **Provides you with a vital feedback-and-control tool.** Variances from projections provide early warnings of problems. When variances occur, the plan can provide a framework for determining the financial impact and the effects of various corrective actions.
  - **Anticipate problems.** If rapid growth creates a cash shortage due to investment in receivables and inventory, the forecast should show this. If next year's projections depend on certain milestones this year, the assumptions should spell this out.

Part 7: Financial Projections

(Slide 2 of 2)

- The financial projections plan is the most essential part of your business plan. It shows investors how much money you need to cover start-up costs, how the money will be spent, when you will repay the money, and your timeframe for being profitable.
- New businesses with no operating history will refer to financial statements as "pro forma," meaning projected, as shown below.
- Some elements of the financial projections plan include:
  - Important Assumptions
  - Key Financial Indicators
  - Break-even Analysis
  - Projected Profit and Loss
  - Projected Cash Flow
  - Projected Balance Sheet
  - Business Ratios
  - Long-term Plan

Different Financial Planning Options *(Slide 1 of 2)*

- **Short-term Forecast:** Projects either the current year or a rolling 12-month period by month. This type of forecast should be updated at least monthly and become the main planning and monitoring vehicle.
- **Budget:** Translates goals into detailed actions and interim targets. A budget should provide details, such as specific staffing plans and line-item expenditures.
  - The size of a company may determine whether the same model used to prepare the 12-month forecast can be appropriate for budgeting.
  - In any case, unlike the 12-month forecast, a budget should generally be frozen at the time they are approved.

Different Financial Planning Options *(Slide 2 of 2)*

- **Strategic Forecast:** Incorporates the strategic goals of the company into the projections. For startup companies, the initial Business Plan should include a month-by-month projection for the first year, followed by annual projections for a minimum of three years.
- **Cash Forecast:** Breaks down the budget and 12-month forecast into more detail. The focus of these forecasts is on cash flow, rather than accounting profit, and periods may be as short as a week in order to capture fluctuations.

Ways to Sabotage Your Business Plan

- Making the following mistakes may sabotage your business plan or prevent lenders from considering you as a serious business owner:
  - Submitting a draft copy.
  - Outdated financial information.
  - Inability to understand financial information.
  - Unrealistic approach with no consideration for issues.
  - Inability to explain assumptions or other items.
  - Scope is too broad with no defined niche market.
  - No accountability or investment by business owner.
  - Unwillingness to personally guarantee any loans.
  - Business plan requests an unrealistic amount of equity or unfavorable terms.
  - Inability to commit projected profits to loan repayment.

Key Takeaways From This Module

- Business plans are critical for the success of a company.
- Different businesses will require different types of business plans.
- All business plans have some essential sections that explain the core aspects of the company.
- In order to help your company have a better chance of gaining interest and investors, a business plan should include seven essential sections:
  1. Executive Summary
  2. Company Description
  3. Market and Competitive Analysis
  4. Organization and Management
  5. Marketing Plan and Sales Strategy
  6. Funding Request
  7. Financial Projections
- Be aware of and avoid sabotaging your business plan.

Sources and Citations

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