

University of Missouri Extension

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Business Plan

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By the time you get serious enough about an idea to need a business plan, you will have already spent a lot of time thinking about it and doing a great deal of informal research. Now you have to refine all your vague guesses and suppositions.

There is no easy way to do it. You can't just fill in the blanks; each business plan has to be a custom job. Before you are done, you'll wind up talking to everyone you can find with expertise in your field, and you'll probably be good friends with your University Extension specialists.

As much as you can, do the research and writing yourself. That way you can make better use of it later. Also, potential investors can quickly spot plans done by outsiders or financial projections spewed out by someone else's canned computer program and may turn off to the deal from the start.

Your business plan should include a cover listing the name, address and phone number of the business, the name and position of the person to contact and the issue date of the plan.

The next one to three pages, summarizing the entire plan, are the most important. They are written last, but this is the part an investor will probably read first. If your summary does not arouse interest, your chances of getting money are slim no matter what the rest of the plan says.

The summary should explain the company's current status, products or services and the benefits to the customer from them; the financial projections; the goals for the next three to five years; the amount of money you need and for what; how much of the company is for "sale"; and the future benefits to investors. Highlight what makes your company special such as greater emphasis on customer service or higher quality than your competitors.

Table of contents

List each section and subsection of the plan, with page numbers for easy reference.

Description of the business

This section covers the history of the company, when it was founded, where and by whom. Mention the business's legal structure, such as corporation or partnership. Include a concise definition of the company's business and what makes it unique. Describe its products and/or services and price range. State the company's goals as specifically as possible, such as increasing sales to a stated level or opening future outlets on a time table.

Products and/or services

Describe in detail each product or service the company offers and any unique features. Specify the cost and profit attached to each. Discuss the reliability of any sources of supplies. Forecast changes in your products or services and discuss opportunities to develop new ones.

Discuss any patents or other legal protection involved. Explain any relevant government regulations, such as zoning laws or licensing requirements.

Market analysis and strategy

You might want to make this section longer than the product section because the sizable return investors want depends more on the market than on the product. You'll really use your research here as you indicate the total number of potential customers in your target area, the share of the market you expect to capture and why.

You have to identify your target audience by the characteristics that play a role in their decision to buy from you, such as income, age or lifestyle. You also have to discuss trends in your market and industry and explain how your company reflects them and plans to deal with change. Time spent analyzing census and other statistical data and talking with insiders, such as suppliers and other entrepreneurs, will help you make informed projections.

Specify the attributes of your product or service that you plan to emphasize. Discuss how you arrived at your prices and how they compare with your competition. Explain how you will sell the product or service — with salespeople, retail outlets or telephone contacts?

Discuss how you will advertise and where. Outline your policies on selling on credit, service, warranties and customer discounts. Analyze advantages and disadvantages of things like your location, source of supply and cost.

Competition

Identify your competitors and their share of the market as well as their strengths and weaknesses. Forecast what your competition may do to fight you and explain what your responses will be.

Management

To investors, this is one of the most important parts of your plan. They want to know who is involved. Describe the prior experience and background of each person and each one's responsibilities. Include an organizational chart. If skills are missing, indicate where and when you will get them.

Risks

Present your contingency plans if things don't go as expected. You might decide to keep this part of the plan for your own use rather than include it with the rest of the package.

Financial statements and projections

If you use an accountant for this part of the plan, he or she should do the projections with you, if possible, and not for you. You have to understand the numbers as well as you do the rest of the plan.

You'll need profit-and-loss and cash-flow projections and a balance sheet showing total assets and liabilities for the next five years, plus a break-even analysis, which shows when total sales equal total costs.

Those educated guesses are important because they set a value on the company that forms the basis of how much of the company equity investors will receive for their money. The assumptions you state have to be reasoned and consistent with the market picture you painted in the other parts of the business plan and with those common in the industry you are entering.

Explain what you are going to do with the money you're seeking and indicate if you expect to need more in the future. Most importantly, always tell potential investors when they will get their return on investment and how much it will be. When you're finished, have someone whose judgment you trust, perhaps an entrepreneur who helped you, go over the plan.

All of this is a tall order for a document that shouldn't be much longer than 25 double-spaced pages (not including such supporting documents as your resume, personal financial statement and any contracts and leases you've signed). However, constructing a business plan is an investment in your future — one you will be glad you made!

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