

**THE ELEMENTS
OF A
BUSINESS PLAN**

Copyright © By Ceasar T. Anquillare
All Rights Reserved

THE ELEMENTS OF A BUSINESS PLAN

I. THE PRODUCT OR SERVICE

Description

- What it does
- How it does it
- What customer needs, wants, and buying preferences does it satisfy?
- What is unique about it?
- How does that uniqueness satisfy customer needs?
- How well is it suited to company experience, capabilities, and overall business strategy?
- How does it compare with competitive products? (catch-up, me too, superior?)

Brief look at possible second-generation products

II. THE VENTURE TEAM

- Are the players already identified? What skills do you (they) bring to the party -- (experience - talent - education - funds)
- What other kinds of skills are needed -

leader	service
marketing	quality control
sales	human resources
technology	product champion
manufacturing	high-level sponsor/mentor
finance/controller	technical gate-keeper
training	inventor
- How will you find individuals with them
- Organizational chart How will you compensate key members of the venture team? salary - bonus - ownership?
- What implied emotional contracts exist between you and the business (what does it promise?) . . . between you and others?

- What are the prime emotional needs of the key players in connection with this venture?

III. THE MARKET YOU WILL OPERATE IN

- What is the general market category in which your product or service will be sold?

Is it growing or changing? How and why?
(Trends?)

Where is the product or service used?

Who is the customer?

When is the product used?

What types of need might it serve?'

What is the subsequent spare parts/market?

What is the current and projected size of this market?

What share do you expect to achieve?

Who are your key competitors?

What market share does each have?

Describe their products and services

How do they position themselves?

What are their key strengths and weaknesses?

How might they respond to your market entry?

Who else might enter this market? Why? How?

Can you specify a niche that gives you a good position relative to competition?

How can you grow out of that niche into larger markets?

IV. THE MARKETING AND SALES PLAN

- What are the key unique benefits you will use to pitch your customer (unique selling proposition?)
- How will you communicate your unique selling proposition to potential customers?

advertising, mailings, brochures, personal contact, friends, location and signs, point of purchase display, etc.

How will the product or service reach your customers? (distribution channels)

- Who will sell the product?

How much time does it take to sell it?

Steps

(S sales/person/month or some such)

Sales tools and trainings

How long will it take to achieve your expected - share of the market?

How much resources must be expended to achieve this share?

V. HOW WILL YOU MAKE THE PRODUCT OR DELIVER THE SERVICE

- What will you make?.
- What will you buy?

Royalties to be paid

- What volumes can be handled?

Types of capital equipment needed?

- Who will do it (type of persons needed)

Rough estimate of productivity

(S output per year/S of fixed capital equipment)

- Materials, expendables, and supplies

Space and utilities

type needed

floor plan

weekly production/square foot

leasehold improvements

advertising, mailings, brochures, personal contact, friends, location and signs, point of purchase display, etc.

How will the product or service reach your customers? (distribution channels)

- * Who will sell the product?
How much time does it take to sell it?
Steps
(\$ sales/person/month or some such)

Sales tools and trainings

How long will it take to achieve your expected - share of the market?

How much resources must be expended to achieve this share?

V. HOW WILL YOU MAKE THE PRODUCT OR DELIVER THE SERVICE

- What will you make?.
- What will you buy?
- Royalties to be paid
 - What volumes can be handled? Types

of capital equipment needed?

- Who will do it (type of persons needed)
- Rough estimate of productivity (\$ output
per year/\$ of fixed capital equipment)
- Materials, expendables, and supplies

Space and utilities

type needed
floor plan
weekly production/square foot
leasehold improvements

How long will it take to pool up?

(to do this accurately, sales volume estimates are needed)

Quality control plans

Service and warranty plans

VI. **PRODUCT OR SERVICE DEVELOPMENT PLANS**

- What stage is your first product or service currently in?
 - concept
 - prototype
 - manufacturing design
 - in production**
- What are the steps, ,time, person-power requirements and costs to bring it into **production?**
- **How** will you expand the product or service line into a business large enough to make the chairman's year?
- New product and service strategies
 - development tasks
 - schedule of performance of tasks
 - resources required to achieve tasks

THE FOLLOWING IS A ROUGH CHART OF THE STEPS TO BE TAKEN IN DEVELOPING EACH NEW PRODUCT LINE.

A plan for each product line should include:

- Detailed list of all the sub-tasks needed to achieve each major task
- Critical path analysis to make sure it is possible to meet all schedules
- Manpower needs for each sub-task

Preliminary "test assignment" of personnel for each sub-task
Critical path analysis in light of personnel requirements

- Accountabilit^y check

- Costing on all sub-tasks

Establishment of budgets

VII. FACILITIES, ADMINISTRATION AND OVERHEAD

Consider what you will need in running the day-to-day administrative activities of the business

- **Capital equipment**
e.g., office furniture and machines
- **Overhead**
 - **rent and utilities**
 - Office supplies
 - Administrative staff or administrative time
or other staff
 - Postage
 - Insurance
 - Fringe benefits
 - Lawyers, accountants & bookkeepers
 - Corporate overhead charges

Interest

VIII. ORGANIZATIONAL STRUCTURE

- A chart is often helpful

Job function descriptions

- Who will actually do what

How will decisions be made

Who will actually decide what

- What kind of performance review will you use?

IX. OVERALL MONTH-BY-MONTH PLAN

Identify all tasks required to accomplish the goals

Schedule the beginning date and completion date for each of these tasks

Manpower, materials, equipment, facilities, and other resources required to accomplish each task

Identify resources which remain to be required

- Test assignment of personnel to tasks
- Critical path analysis
- **Revised** plan and schedule
- Revise detailed plans Sections I. ---- VIII. to fit overall plan and schedules
- **Determine** budgets for **all activities**
- Schedule dates for status and progress reports and **reviews**

X. FINANCIAL PLANS AND PROFITABILITY ANALYSIS

Background and Encouragement

The financial plan will receive the most detailed scrutiny of any portion of your business plan. Nonetheless, it is not that difficult to do a good job if you have done your homework in Sections I. through IX. If those Sections are complete, the financial plan will follow naturally from them. It will take considerable time working closely with the controller.

Proforma Cash Flow

The proforma cash flow estimates should be made on a month-by-month basis for the first year, quarterly for the second and third year, and annually for the fourth, fifth and sixth years.

The proforma cash flow is the heart of the financial plan. All you have to do is list anticipated disbursements and receipts. In the plan, assume you will have to pay very promptly and will be paid very slowly. Be sure to leave a large margin for unexpected expenses as there are always more of these when doing something new.

Proforma P&L and Proforma Balance Sheet

These can be done on an annual basis for the first six years.

Notes and Calculations

Show how you arrived at your figures in a separate appendix to this Section.

Three Plans

It is best to do three sets of financials:

pessimistic, moderate, and optimistic. Watch out for capacity and cash flow problems in the optimistic scenario. What will you do?

XI. RISKS/THREATS/OPPORTUNITIES AND PROBABILITY OF SUCCESS

- ◆ What might go wrong?
- ◆ If it does, what would be its consequences?
- ◆ What can you do to prevent it?
- ◆ Who might cause problems (competition/suppliers/staff)

Your response?

- ◆ What factors for success are there and how strong a leverage do they exert?
- ◆ Considering the factors for success and those that might inhibit success, what is the probability of success?

XII. FANTASIES ABOUT WHAT THE BUSINESS WILL ACHIEVE THAT YOU CONSIDER VALUABLE

Many entrepreneurs have a fantasy about what his or her venture might become that serves his or her deepest goals and aspirations. You won't need this Section for corporate review, but let your ideals hang out a bit for your own benefit. You may find something that will help you remember why you are in the business, later, when the day-to-day business consumes most of your attention.

OUTLINE
EVALUATING AND STARTING
A NEW BUSINESS

I. PRELIMINARY SURVEY

- Review, evaluate and document the goals for the new business
- Review, evaluate and document personal as well as financial implications of ownership
- Review and document — marketing data
 - nature of product or service
 - demand for the product or service
 - opportunities for market penetration
- Assess financial resources and management capabilities to satisfactorily handle proposed venture
- Summarize preliminary survey
 - Proceed with project and prepare formal feasibility study
 - Proceed with alternate objectives
 - Abandon the project

II. INITIAL RESEARCH TO BUSINESS START UP

- Data Gathering
 - Management capabilities and goals
 - Location and facilities
 - Nature of competition
 - Products or services
 - Marketing
 - Regulations
 - Risk Factors
- Analyze and Report on Results
- Management Capabilities
 - General business experience
 - Education
 - Employment histories
 - Time available for the business
- Management goals
 - Capital growth
 - Return on investment
 - Retirement benefits

- Succession plans
- Compensation levels
- Time constraints
- Other goals
- Location(s)
 - Customer demographics
 - Transportation requirements
 - Pedestrian and vehicular traffic pattern
 - Access to vendor sources
 - Space requirements
 - Zoning regulations
 - Environmental protection requirements
 - Local ordinance
 - Special requirements
- Facilities
 - Accommodation of anticipated needs
 - Cost effectiveness required repairs, maintenance and/or renovations
 - Purchase or lease — term and rate
 - Insurance coverage — fire, theft, natural disaster
 - Special requirements
- Industry Overview
 - Product and profit margins
 - Selling price ranges
 - Income statement and balance sheet data comparisons
 - Units produced — sold
 - Location and volume of producers
 - Industry trends
- Products or Services
 - Nature of product or service
 - Elasticity of demand
 - Technological effects
 - Life cycle and potential obsolescence

— Sources of domestic an/or foreign raw materials and components

- Competition
 - Competitors names, locations
 - Estimate of annual volumes
 - Market share and distribution

- Customer Marketing
 - Customer opinion survey program
 - Pilot distribution program
 - Identification of current and potential consumers, manufactures, wholesalers and retailers

- Risk Factors
 - Product quality
 - Risk of consumer injury
 - Permits, licenses and rights required
 - Business insurance requirements and costs

- Analysis of Results — Positive Response
 1. Have skills or experience to be successful
 2. Have financial resources to initiate and operate the business
 3. Have adequate time to develop the business
 4. Market can be cost-effectively penetrated or created

III. START-UP - TAX AND LEGAL CONSIDERATIONS

- The Form of Organization — Type — Advantages Disadvantages
 - Sole Proprietorship
 - Partnership
 - Corporation
 - S-Corporation

- Selecting a Bank
 - Financial knowledge of industry
 - Access to broad range of financial resources
 - Full-service capabilities
 - Degree of personal services
 - Overall understanding of needs
 - Authority and ability of personnel to make decisions
 - Lending reputation
 - Familiarity

- Selecting an Attorney
 - Personal compatibility
 - Experience
 - Ethics
 - P
 - Philosophy
 - Competence
 - Aggressiveness
 - Reputation
 - Free structure
 - Availability when needed
 - Specialty in industry
- Selecting Insurance Agents — Coverage
 - Property and casualty
 - Liability
 - Business Interruption
 - Automobile
 - Officers or keyman life
 - Worker's compensation
 - Group life and health
 - Accident and disability
 - Special requirements
- Reviewing Legal Documents Articles of Incorporation, by-laws, organizational minutes, stock certificates
 - Franchise agreement
 - Partnership agreement
 - Retirement plan trust
 - Buy-sell agreements
 - Union agreements
 - Public offering circular
 - Patents, copyrights
 - Bond indentures
 - Lease agreements
 - Mortgage security agreements
 - Trade name affidavit

- Government Regulations
 - Federal Tax ID Number
 - State Tax ID Number
 - City/County Tax ID Number
 - Unemployment Tax determination filing
 - Sales Tax License
 - Public Health License
 - Fire safety and zoning permits
 - Consumer Credit Protection Act
 - Special use permits

IV. START-UP - OPERATIONAL CONSIDERATIONS

- Management Information and Accounting Systems
 - Computer feasibility
 - Selection of hardware and software
 - Staff training and follow-up
 - Application selection
 - Accounts receivable
 - Accounts payable
 - Inventory control
 - General Ledger
 - Payroll
 - Financial statements
 - Budget control system
- Marketing
 - Sales through catalogue
 - Telephone solicitations
 - Outside representatives
 - Direct mail
 - Advertising
 - Personnel Policies
 - Compensation
 - Incentive consideration
 - Consultants
 - Independent contractors
- Temporary help
- Benefits

- Plans for Continuity of the Business
 - Succession Plan
 - Redemption or transfers of equity ownership
 - Valuations for transfer
 - Funding
 - Retirement planning
- Owners Compensation
 - Types of compensation
 - Costs and tax effects
 - Family members
 - Fringe benefits
 - Retirement plans
- Cash Flows
 - Cash needs forecast
 - Purchasing policies — credit requirements
 - Credit terms — customer terms
- Inventory Control
 - Inventory levels — cost of carrying
 - Perpetual inventory control system
 - Age coding
 - Staple stock
 - Stock balancing
- Lease vs. Purchase
 - Needs and debt service requirements for initial operating equipment and real estate
 - Working capital needs
- Sources of Financing
 - Forecasts and projections — monthly
 - Capitalization and financing needs
 - Sales of ownership interests
 - Debt financing
 - Personal loans secured by business or personal assets
 - Loans from family or friends
 - Advances from customers
 - Loans from equipment manufacturers or suppliers

- Loans from financial institutions
- Loans from venture capitalists
- Loans from factor lenders

V. IMPLEMENTATION SCHEDULE

- Establish the legal framework for the form of organization chosen, include tax indemnification, numbers, regulatory agency registration, licenses
- Arrange for financing and financial report
 - Plant and equipment
 - Site selection
 - Zoning
 - Equipment acquisition
 - Inventory
 - Operating supplies
- Develop accounting information systems and procedures including monitoring methods
- Develop the organizational structure and personnel policies and procedures
- Implement the marketing plan, including initial publicity
- Arrange for a grand opening

PHASE I - BUSINESS PROFILE SURVEY

DATA COLLECTION

Latest Three Years Tax Reports
Latest Three Years Financial Statements
Operational Analysis
Organizational Structure
Ownership Structure Personnel
Survey
Financial Analysis

QUESTIONNAIRE & DATA GATHERING

General Information on Company
Personal Objectives of Entrepreneur
Ownership Structure
Organizational Structures
Buy-Sell Agreements
Markets
Customer Base
Labor Relations
Suppliers & Creditors
Facilities
Governmental Regulations
Quality Control
Production Process

Documents checklist- Business Oriented

PHASE II - EVALUATION PROFILE

Marketing Resources
Personnel
Plant and Equipment
Finances
Public Relations
Operations
Strengths
Problems
Opportunities
Goals
Conclusions

PHASE III — PLAN DEVELOPMENT AND IMPLEMENTTION

**Growth — production, organization, internal operations, profitability,
marketing image, takeover, potential, projects and tasks**

Program

Project

Task

Responsibility

PHASE IV — SUMMARY REPORT

Description of Business and Business Owner Objectives

Operations

Current Status Problems

Goals

Recommendations

Key Events Schedule

PHASE V — FOLLOW UP AND EVALUATION

Key Events Schedule

Monitoring Program

Action/review Dates

Comparison Actual to Plan

Recommendations for Corrective Action

— Revisions

— New Goals etc.