

WHAT SHOULD THE BUSINESS PLAN INCLUDE?

Before beginning the process of developing, “editing,” or reviewing a plan, the business buyer should clearly understand who will be the most important users and what information they require. As a rule of thumb, the plan should be no more than 20 pages and should answer the following critical questions:

1. Who are your potential customers and how do you plan to reach them?
2. Once you establish your market, how do you plan to make a profit with this revenue?
3. Who are your competitors and why do you think that you can beat them?
4. What numbers do you have to back up your claims?

For example, it may be that a “business plan” is demanded by the lender, who is really only interested in projected cash flow numbers for the next five years. The engagement should then be limited to developing or reviewing that information unless the client wants, and is willing to pay for, additional “bells and whistles” such as a marketing plan.

While the format and content of plans can obviously vary with the circumstances, a complete plan will generally include the following elements:

1. Plan Summary (including a mission statement).
2. Description of Business Activity.
3. Descriptions of Products/Services.
4. Assessment of Competition.
5. Marketing Plan.
6. Operational Plan (including locations and facilities).
7. Management Profiles.
8. Capitalization and Business Form.
9. Financial Data.

Small Business Administration (SBA) loan literature advises that financial information should include projected profit and loss and cash flow statements, a separate schedule of cash requirements, and other appropriate financial data for both the business and the owner. The SBA also advises that resumes of key management personnel should be included in the section on management profiles

Obviously, the components listed above can be arranged in different order, and several may be combined within one section of the plan. For example, the information on the capitalization and business form may be included within the business description section. The assessment of competition may be within the marketing plan section. The description of the business activity may be inseparable from the description of products and services.

Some sections may be unnecessary; e.g., if the business is a sole proprietorship, the management profiles section may be unnecessary (a biography/resume of the owner in the business description section would suffice).

Recommendation: For voluminous plans, it is helpful to place the material in a binder, include a table of contents, and provide tabs for the most important sections (or all sections).

Plan Summary

This section (sometimes referred to as the “executive summary”) is often omitted when the plan is intended only for internal use (client and client personnel). It is generally completed after the rest of the business plan has been finished.

Specifically, a plan summary can include the following:

1. The mission statement for the business.
2. Reasons for developing the plan and its intended uses.
3. Background information—e.g. events or demographic trends that make the particular business attractive, commentary on locations, the market niche to be exploited, etc.
4. Summaries or highlights of the other sections of the plan.

In essence, the plan summary can serve both as an introduction and a synopsis of the more detailed information in the later sections; or it can simply serve as an introduction. For relatively brief plans for simple-to-understand businesses, a plan summary may be unnecessarily redundant. If so, the summary should be omitted.

Description of Business Activity

This section will cover:

1. The products/services offered.
2. The current phase of the business (in terms of the business lifecycle—e.g., start-up operation, expanding, or mature).
3. The history of the business.
4. The geographic area to be served and facility locations.
5. The “business idea” (in other words, the un-served or underserved customer or client needs to be met by this business).
6. The strengths and weaknesses of the business (in terms of management; personnel; technology, products, or services; access to labor and suppliers; presence in growing or shrinking markets; etc.).
7. Future opportunities and foreseeable limitations (in terms of profitability, competition, access to needed capital, capabilities of management, etc.).

If the business has significant growth expectations, this should be mentioned here along with supporting information and some discussion of the game plan for taking advantage of growth opportunities. For example, if the owner has already identified suitable locations for expansion of a retail business, this can be mentioned.

A key question to be addressed in this section is whether foreseeable events are likely to be favorable or unfavorable for the business. For example, how good does the retail video rental industry look in light of the probable continued growth in cable and satellite transmission services?

In summary, the focus of the business description section should be on conveying a clear understanding of the factors that have been critical to past success (or lack of success) of the business and the factors that will be critical in the future. How relevant factors will be addressed in the future should be explained in the sections that follow this one.

Descriptions of Products/Services

This section provides more detailed information about the product line and/or services to be offered. The user of the business plan should be given a clear understanding of two key points:

1. Why customers/clients need or want the products/services.
2. How the products/services are different from or better than what is available from competitors.

When appropriate, this section can also include physical descriptions of the products (possibly accompanied by photos, illustrations, or diagrams). If available, this is a good place to include supporting documentation from third parties, such as articles or studies that provide evidence of customer need and/or product superiority.

When appropriate, this section can discuss the stage of development for products/services that are not yet available. For example, a new software product may be in the development phase, prototype phase, or beta test phase.

Assessment of Competition

The issue of competition may be implicit throughout the business activity description and products/services description sections. However, the competition factor should be explicitly dealt with somewhere in the business plan—preferably in its own section.

Potential lenders and investors will almost certainly raise questions regarding competition. In any event, the owner should not be satisfied until the competition has been assessed and there is a game plan for beating it.

Issues to be addressed here could include:

1. Evaluation of strengths and weaknesses of existing competitors.
2. Potential threat of entry in the local market by national chains (for example, a retail hardware store could be threatened by a new Wal-Mart in the area; a pizza restaurant would be threatened by a new Pizza Hut).
3. For franchise businesses, the threat of competition from the franchisor itself.
4. Competition from alternative distribution sources (for example, a retail business specializing in outdoor clothing and related gear could potentially lose sales to mail order operations or even to competitors selling via the Internet; an Internet service provider may face competition from phone companies and cable operators).

Marketing Plan

The marketing plan documents the market opportunity to be exploited and how this will be accomplished. It will focus on clearly defining target markets and plans to attack those markets over a period of time (often the next five years). A good marketing plan should answer four key questions:

1. Who are my customers?
2. What do they want?
3. Where are they located?
4. How can I reach them?

The plan can cover the following issues:

1. Definition of the target market(s) (for example, the geographic area and demographic groups to be served by a retail business).
2. Estimated size and growth potential of target market(s).
3. Large customers, if applicable.
4. Competitors and their market shares.
5. The basic selling strategy (discount pricing, telemarketing, direct mail, etc.) to be employed by the business.
6. Specifics regarding advertising and promotional campaigns.
7. Foreseeable factors influencing the target market(s) (government regulations, technology changes, demographic trends, etc.) and how these affect the marketing plan.

In summary, this section should present information on the size and growth potential of target markets, current market shares, plans to maintain or increase market shares, factors that will potentially affect target markets in the future, and planned responses to such factors.

Operational Plan

The operational plan describes the “nuts and bolts” details regarding how the products/services will be produced and delivered to buyers. The following could be covered:

1. Facility and equipment needs and how they will be met.
2. Labor requirements.
3. Suppliers, vendors, and professional advisers that will be utilized (be sensitive to possible negative effects of reliance on one supplier for critical components or services).
4. Near-term expansion needs and how they will be met.
5. Significant near-term repair, maintenance, and capital spending requirements.
6. Significant near-term research and development activities and how they will be managed.

Some of the above elements may be addressed in other sections. For example, labor requirements may be discussed in a section that also includes management profiles, and suppliers and vendors may be covered in the products/services section.

In some businesses (especially retail and distribution), the location and condition of business facilities is of paramount concern. Demographic trends and anticipated costs of maintaining, upgrading, or relocating facilities should be accounted for.

For example, the business may be a local restaurant chain with five locations, two of which are known to be in declining areas. This section of the business plan may include specifics regarding closing the two stores and moving them to more promising locations. The estimated costs of moving and establishing a business presence in the new areas would be included in the financial data section.

Management Profiles

In some cases, this section will be viewed as the most important part of the business plan. This is because lenders and equity investors often say they invest in people, rather than in businesses. Only people can actually execute a business plan, no matter how promising the opportunity appears to be.

This section will include the names and functional responsibilities of each key member of the management team (an organization chart can be an appropriate exhibit). Additional details can include:

1. Mini-bios of key management personnel with job title, name, age, education, and experience along with detailed job descriptions for each individual. Resumes could be included as exhibits for this section.
2. Unfilled positions of significance and the plans for dealing with the vacancies.
3. Information about key employees outside the management group (for example, a biotech company may include mini-bios for their more prominent research scientists).

In some cases, it may be appropriate to disclose planned compensation and benefit arrangements with key personnel. For example when unwanted turnover is a potential problem, the owner may intend to install a “golden handcuffs” deferred compensation plan and/or enter into multi-year employment contracts with certain individuals.

On the other hand, the owner may intend to oust certain members of the existing management group to reduce compensation expenses and possibly bring in new members. There should be a realistic plan (perhaps best left unwritten) to achieve this goal without legal problems and distractions.