BUSINESS PLAN GUIDELINES

Every business can benefit from the preparation of a carefully written business plan. The purpose of the business plan is to:

1. Help you think through the venture and ensure you have considered all your options and anticipated any potential difficulties.

2. Convince lenders and investors that you are in control of the project and that their money will be safe with you.

3. Serve as an operating guide as you turn your idea into a viable business.

4. Furnish a standard against which to judge future business decisions and results.

Give your plan a businesslike appearance by typing on high quality paper and putting it in a vinyl or cardstock binder or a three-ring binder.

REFINING YOUR BUSINESS PLAN

The generic business plan outline should be modified to suit your specific type of business and the audience for which the plan is written.

1. For Raising Capital

For Bankers

Bankers want assurance of orderly repayment. If you intend using this plan to present to lenders, include:

- Amount of loan
- How the funds will be used
- What will this accomplish (how will it make the business stronger?)
- Requested repayment terms (number of years to repay). You will probably not have much negotiating room on interest rate, but may be able to negotiate a longer repayment term, which will help cash flow.
- Collateral offered, and list of all existing liens against collateral

For Investors

Investors have a different perspective. They are looking for dramatic growth, and they expect to share in the rewards.

- Funds needed short term
- Funds needed in 2 to 5 years
- How company will use funds, and what this will accomplish for growth.
- Estimated return on investment
- Exit strategy for investors (buyback, sale, or IPO)
- Percent of ownership you will give up to investors
- Milestones or conditions you will accept
- Financial reporting to be provided
- Involvement of investors on the Board or in management

2. <u>Refine for Type of Business</u>

Manufacturing

- Present production levels
- Present levels of direct production costs and indirect (overhead) costs
- Gross profit margin, overall and for each product line
- Possible production efficiency increases
- Production/ Capacity limits of existing physical plant
- Of expanded plant (if expansion is planned)
- Production/ Capacity limits of existing equipment
- Of new equipment (if new equipment is planned)
- Prices per product line
- Purchasing and inventory management procedures
- Anticipated modifications or improvements to existing products
- New products under development or anticipated

Service Businesses

Service businesses sell intangible products. They are usually more flexible than other types of business, but they also have higher labor costs and generally very little in fixed assets.

- Prices
- Methods used to set prices
- System of production management
- Quality control procedures
- Standard or accepted industry quality standards
- How is labor productivity measured?
- What percent of total available hours are actually billed to customers?
- Breakeven billable hours
- Percent of work subcontracted to other firms
- Profit on subcontracting?
- Credit, payment, and collections policies and procedures
- Strategy for keeping client base
- Strategy for attracting new clients

High Technology Companies

- Economic outlook for the industry
- Does company have info systems in place to manage rapidly changing prices, costs, and markets?
- Is company on cutting edge with its products and services?
- What is the status of R&D? And what is required to:
- Bring product/service to market?
- Keep the company competitive?
- How does the company:
    - Protect intellectual property?
    - Avoid technological obsolescence?
    - Supply necessary capital?
    - Retain key personnel?
- If your company is not yet profitable or perhaps does not yet even have sales, you must do longer-term financial forecasts to show when profit take-off will occur. And your assumptions must be well document and well argued.

Retail Business

- Company image
- Pricing:
  - Explain markup policies.
  - Prices should be profitable, competitive and in accord with the company image.
- Calculate your annual inventory turnover rate. Compare this to industry average for your type store.
- Customer service policies: should be competitive and in accord with company image.
- Location: Does it give the exposure you need? Is it convenient for customers? Is it consistent with company image?
- Promotion: methods used, cost. Does it project a consistent company image?
- Credit: Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?