

## **How to Write a Business Plan**

### **1 Course Introduction**

#### ***1.1 Course Purpose***

Welcome to the How to Write a Business Plan course.

Produced by the SBA's Office of Entrepreneurship Education, the How to Write a Business Plan course expands on topics relevant to those individuals who are planning to write a business plan

The How to Write a Business Plan course is comprised of two topics.

The course begins and sets the tone by defining a business plan as well as appropriate audiences and its importance to business success.

The course continues by explaining in detail the contents of each section within a business plan.

We recommend completing the Course Introduction and Topic 1: What is a Business Plan? before proceeding to other topics.

Click the Next button below to get started; use this button to navigate through the course Or, to go directly to a specific topic, select the desired topic from the menu to the right.

#### ***1.2 Course Logistics***

The How to Write a Business Plan is a self-paced 45-minute training course that offers practical training with real life examples and helpful tips for writing a business plan.

You will find the course easy to follow and the subject matter indexed for quick reference and easy access. Accessibility enhancements such as keyboard shortcuts, image tags, and transcripts are available for the content as well as the course. The course also includes audio narration so adjust your speakers accordingly.

When you complete the course, you will have the option of printing a certificate of completion from the SBA.

Resources available throughout the course provide reference materials to apply what you have learned to your personal business situation and engage you in the process of writing a business plan.

At the conclusion of the course, access the downloadable Checklist that outlines the business plan sections covered in the course.

Finally, the ACT NOW! screen provides additional references (Article, Course, and Tool) specifically related to writing a business plan.

Note that additional time will be needed to review these materials.

#### ***1.3 Course Objectives***

By the end of this course, you should be able to apply planning principles and design practices when writing a business plan.

To accomplish this objective, you will one, define a business plan; and two, explain the components of a business plan.

## **2 Topic 1: What is a Business Plan?**

### **2.1 Topic 1 Objective**

By the end of this topic, you should be able to define a business plan. To meet the objective, this topic will cover the following discussion points:

- Planning = Success.
- Blueprint for Business.
- Audience Consideration
- “One Size Does Not Fit All” Video

### **2.2 Planning = Success**

“By failing to prepare, you are preparing to fail.” – Benjamin Franklin.

Imagine you throwing a surprise party for your favorite relative who is turning 90. Would you plan the food, entertainment, table setup, etc.? Of course you would. Starting or running a business without proper planning is like throwing a party for 100 people, without a plan.

Planning will help shape the end result and provide the best path to get you there. Planning gives you a roadmap to follow.

If you don’t plan for the success of your business, you will likely fail. It is that simple.

### **2.3 Blueprint for your Business**

Like throwing a party without an agenda, if you’re running a business without a plan, you won’t know in what direction you’re headed.

For businesses, planning is usually presented in the form of a business plan.

As the blueprint for your business, a business plan provides an outline to the framework of your business, declares your visions, and showcases the necessary steps to fulfill the vision you’ve outlined.

It summarizes your business’s history and background and models your core values and mission.

As the roadmap for your business, a good business plan helps you navigate your business towards your strategic direction.

The more thorough you are, the better your blueprint for success will be.

### **2.4 The Big Picture**

To put it into perspective, a business plan explains:

- Who you are
- Why you’re in business
- What you do,
- How you do it

- Where you operate
- How you will generate profits
- Who your customers are
- Why your business is important

### **2.5 Audience Consideration**

So who will read your business plan? Who's your audience?

Business plans are designed to communicate to a specific target audience: internal or external stakeholders. Stakeholders include anyone with a potential vested interest in your business.

Even if you're not looking for outside funding, a business plan is useful for persons internal to the business: you, employees, management, sales, etc. to know your mission and vision as well as your target market and customer.

However, business plans are often the first thing an outside funder will request; therefore, much of what is in the plan will be directed at an external audience such as potential investors or lenders (government). So, for investors, banks, and loan advisors, business plans are essential.

### **2.6 Tailoring Your Plan**

Tailor your plan to your intended audience. And, remember, as your business expands, so will your plan.

When writing for internal stakeholders, focus on the detailed operation of the business. For example, include comprehensive data on the operating budget, market research, competitor analysis, sales lists, product design specifications, etc.

When writing for external stakeholders, focus on the financial aspect of the business. For example, if you're looking for a traditional loan – you should include the amount you're looking for, how the funds will be used, what those funds will accomplish, how you plan to repay, and any collateral you have to offer.

If you're looking for investors, talk about growth; e.g. what funds you will need in the short term as well as the long term (up to five years) and how you will use those funds to grow.

Calculate Return on Investment (ROI) estimations and how financial reporting will work. Tell them what percent ownership you're willing to give to investors, what milestones or conditions you will accept, how you expect them to be involved (board membership, management, etc.), and any proposed investor exit strategy (such as buyback or sale options).

### **2.7 Categories of Plans**

There are two main categories of business plans: traditional and alternative.

While traditional business plans cover key established business aspects, alternative business plans offer their target audience innovative approaches that emphasize speed, flexibility, and the ability to change direction and adapt.

## **2.8 Traditional Business Plan**

Depending on a company's needs, a traditional business plan can cover key business concepts such as marketing and finances, and/or be used as a tool to effectively operate the business by organizing company goals and objectives.

A traditional business plan can save your business money because its primary function is to manage current and future financial projections. You are better equipped to manage spending since budgets are set within the plan.

In addition, marketing dollars are allocated more effectively because the plan helps pinpoint the characteristics of the company's target market.

A business plan contains mini-plans to address the different aspects of your business:

Sales and Marketing analysis provides specific information regarding the industry in which the business operates.

Financial information such as accounts payable and receivable, break even projections, and the current financial picture of the business give an accurate depiction of the business's finances.

Ownership and management structure of the business is also a key element of the business plan, detailing the qualifications and duties of the individuals in charge.

## **2.9 Alternative Business Plan**

Alternatives to the traditional business plan provide the target audience with an innovative approach when outlining the business framework.

## **2.10 Video: One Size Does Not Fit All**

This video discusses a variety of business plans and considerations when deciding what's best for your business idea.

## **2.11 Scenario: Michael and Jennifer**

Michael and Jennifer, who are brother and sister, have both worked in their mother's veterinary clinic as technicians for many years after college. While clients are very happy with the veterinary care, many clients have voiced concerns about having nowhere to take their animals for grooming services.

Michael and Jennifer decided to open a separate business catering to their furry friends that initially will provide grooming, supplies, and dog walking services, but depending how the business goes, may eventually steer towards kenneling the animals as well.

As you progress through this course, Michael and Jennifer will need your assistance with making decisions that will help them write their business plan.

## **2.12 Think About It**

Let's see how you apply what you've learned in this topic.

As Michael and Jennifer begin the planning process, what vital document, considered the blueprint of the business, do they need to create for themselves as well as for the bank?

- a. Marketing Plan.
- b. Financial Plan.
- c. Business Plan.
- d. Staffing Plan.

The correct answer is c. Business Plan.

All other options are incorrect because they are components of the business plan; the business plan is the blueprint, the roadmap for the entire business.

### **2.13 Think About It**

Let's see how you apply what you've learned in this topic.

Michael and Jennifer will need a financial loan to start the business. Based on what you have learned about the categories of business plans and given what you know about Michael and Jennifer's situation, which type of business plan do you think they should write?

- a. Their business is too small for any type of documented plan.
- b. Traditional business plan
- c. Alternative business plan
- d. Marketing plan

The correct answer is b. Traditional business plan.

The other options are incorrect because they will not provide the detailed financial data essential for the lender.

### **2.14 Topic 1 Summary**

This topic presented the definition of a business plan and its importance to business success.

## **3 Topic 2: Traditional Business Plan Components**

### **3.1 Topic 2 Objective**

By the end of this topic, you should be able to explain the components of a traditional business plan. To meet the objective, this topic will cover the following discussion points:

- Company Description
- Market Research
- Product/Service Line
- Marketing & Sales Strategies
- Funding Request
- Financial Projections
- Optional Appendices
- Executive Summary
- Putting It All Together – where we discuss best formatting practices, cover page, and table of contents

You may notice the discussion point, Executive Summary, is towards the end of the topic. Although it is the first section (after the Cover Page and Table of Contents) of a Business plan, it is the last section you will write. Therefore, we will discuss this section later in this course.

### **3.2 *Creating a Traditional Business Plan***

When establishing your business, writing your business plan is one of the most important steps you will take because the plan serves as your road map for the early years of your business.

The business plan generally projects 3-5 years ahead and outlines the route a company intends to take to reach its yearly milestones, including revenue projections. A well thought out plan also helps you to step-back and think objectively about the key elements of your business venture and influences your decision-making on a regular basis.

A well-organized business plan is simple, flexible, and manageable. A well-written business plan declares your business's vision as well as the steps to achieve the vision.

Small business owners or new entrepreneurs are often intimidated when it comes to writing a business plan, thinking it's complicated or simply unnecessary. Nothing could be further from the truth.

### **3.3 *Principle Questions to Consider***

Your business plan should be a living document, constantly revised to match changing markets and business needs.

Before you begin writing your business plan, consider these four core questions:

1. What service or product does your business provide and what need does it fill?
2. Who are the potential customers for your product or service and why will they purchase it from you?
3. How will you reach your potential customers? And,
4. Where will you get the financial resources to start or grow your business?

Reflect on the answers to these questions as you progress through the course.

Topic 2 follows the template of the free SBA business plan tool. At the end of this course (and available 24/7 on the SBA website), you will have the opportunity to use SBA's business plan tool.

Now that we've learned why business plans are important, let's begin explaining the various sections of a business plans.

### **3.4 *Company Description***

This section provides a general background and description of your company. You should include things like a mission statement, company goals and objectives, and a general overview of your product or service, target market, and industry. You will also go into detail about your company's management, organizational, and legal structures.

Total suggested page length for this section of the business plan: 3 - 5 pages

Select each element of the Company Description to learn more.

**Mission Statement:** The mission statement is a brief statement about who the company is and what it stands for. Some companies use the mission statement as a marketing slogan. However, the true intent of a mission statement should be to describe the purpose of the business – a futuristic expression of hope inspiration. For example, Google’s mission statement is “Organize the world’s information and make it universally accessible and useful.” Michael and Jennifer’s mission statement might be: “To provide the best service for your pet at an affordable price to foster the collective care and love of our furry friends.” Don’t just write down a mission statement, think about it, get input from others, and carefully develop a statement that is an expression of your business.

**Business Goals and Objectives:** Your business goals and objectives should be specific and attainable. Remember, goals that are not specific will probably not be achieved. An example could be that your business meets a specific level of customer satisfaction or reaches an annual sales target. If your business is already in operations, describe any major accomplishments or successes.

**Products or Services:** How is your product or service new and exciting? How are products developed or services provided? Give a brief yet enticing overview of your product or service to include descriptions, pricing explanation, and competitive edge. Keep it short (details come later in the plan). Reference applicable graphics and brochures (in the appendix).

**Target Market:** This section should briefly describe to whom you will market your products. You will describe this more later, but give a short description of who you think will buy your product and why. To give a frame of reference, include your company’s location and whether you anticipate moving in the future.

**Industry:** Here briefly describe your industry; you will go into more detail later. What is your industry? Is your industry growing? What changes do you foresee and how does your company plan to take advantage of these changes? How does your company compare to competitors in your industry?

**Management Structure:** This section should describe the processes that support what your company does. For instance, how is your company’s management organized? Who makes decisions? What are the values that drive your company? How many employees do you have, what do they do, and how are they paid? Do you anticipate this changing?

**Organizational Structure:** This section should describe the leadership of your company and include an organization chart, if you have one. Who are the principal members of your company and what are their roles? This section of the plan should include a brief resume on each key manager within the company to show that they are qualified to complete this work. If you have a board of directors or outside advisors (such as an attorney or accountant), list them here and describe the relationship. In this section, you should also explain how things get done in the company. Talk about your company’s core competencies.

**Legal Structure:** What is the legal structure of your business? Here describe what legal requirements your business faces, such as licenses and/or permits your company operates with or needs. It is also an opportunity to highlight special operating achievements or certifications your company has. For instance, your business may have specific security clearances, hold patents, or be quality certified as an ISO 9000 firm. This section should also describe how the company is organized. Specifically, it should explain the legal form of ownership such as the business model. That is, are you organized as a proprietorship, partnership, or corporation and why.

### ***3.5 Market Research***

Your market is an important part of the business plan. Before you can sell something, you have to know who might buy it and what price they're willing to pay for it. Research is the foundation to marketing. To conduct market research, you must gather facts and opinions in an orderly, objective way about your target: the industry and your potential customers.

Select each button to learn more about the two elements that comprise your market and how to include the results from your research into your business plan.

Total suggested page length for this section of the business plan: 9 - 20 pages.

### ***3.6 Market Research: Industry***

The first step in defining your market should be to describe the industry you operate in, as well as the potential or prospects for your business within that industry. Your industry knowledge as well as the prospects for your business should be clearly illustrated in the plan. For instance, if you are a retail store selling pet care services, describe the general outlook for sales, as well as your potential for capturing a growing segment of the market.

To describe the industry in which you operate, as well as the potential or prospects for your business within that industry, answer these questions within this section of your plan:

- What is your industry?
- What is your industry's current size and what share of that market will you have? When identifying characteristics of your target market you should also determine the size of your potential market. You can determine the size of your market by examining the number of potential customers in a particular area; reviewing the geographic area they live in; analyzing prior annualized sales and considering market growth. If you don't know who your customers are, you can't develop a strategy to reach them. And, if you can't reach them, you will likely not be effective in selling your products and services
- Who are your competitors in your industry? Who will be your direct competitors?
- Are there any regulations that apply to your industry?
- What are the trends in your industry (growth, consumer preferences, product development)?
- How and where does your company fit in the industry? What advantages or disadvantages do you have over your competitors? Do a competitive analysis to show how you stack up against your direct competitors on things like price, your products, service, etc.

- What are the barriers to entering this industry? (Such as high initial capital costs, unique technology, or customer need for brand recognition)

### **3.7 Market Research: Customers**

The next step in this section of your plan is to identify your target market and profile your customers. Your goal is to find out what people want to buy, not just what you want to sell them.

You should describe your customers' needs, including information about the degree to which those needs are (or are not) currently being met. Again, if you are selling pet care services, explain why customers will want your services and products. Specifically, what needs are you satisfying with your business.

To determine what needs your business will satisfy, answer these questions within this section of your plan:

- Who are your current or prospective customers? Describe demographic information like age, gender, income level, etc. For businesses that sell to governments or other businesses, describe demographic information such as industry, location, size, and typical purchases.
- What do they buy and why? Can they, and will they, buy my product? What price will they pay? Why might your customers prefer your product over the alternatives? Try to describe how each of your major products or services gives value to the customer.
- And, what market segments or groups are more likely to buy your products?

### **3.8 Market Segment**

A market segment or targeted group of customers is a grouping of people sharing one or more characteristics that cause them to have similar product needs. Market segmentation or target marketing is the process of dividing a market into distinct segments that behave the same way or have similar needs. Because each segment is somewhat similar in their needs and attitudes, they will likely respond similarly to a specific marketing strategy. This is an important point and we will discuss marketing to targeted groups later on in this course. However, it is critical that you understand the value of defining your market

### **3.9 Product/Service Line**

In the Product/Service Line section, you will identify and describe all of the products and services your business sells or provides. You should also explain how the items you sell are priced. In addition, and perhaps most importantly, this section should explain how your products and services are competitive.

Keep this section focused, easy to follow and emphasize your competitiveness. It is easy to list your products, but, it is far more worthwhile to explain how you are competitive. Finally, if you have pictures or brochures describing your products, reference them in this section and include them in an appendix to the business plan.

Total suggested page length for this section of the business plan: 4 – 10 pages

### **3.10 Product/Service Line, cont.**

To provide your audience with a clear understanding of why you are in business, what you sell, and how you compete answer these questions within this section of your plan:

- What product or service will your company provide? For each product describe:
  - What is unique about it? What are its important features?
  - What will it do for the customer? How does it benefit them? Why is it better for the customer when compared to the competition?
- Describe your pricing structure.
- What factors give you a competitive advantage or disadvantage?
- Do you keep inventory? What kind and how much? How is your inventory turnover?
- Who are your suppliers?
- In which lifecycle stage is your product or service?
- What research and development activities are you performing or planning?
- What intellectual property rights do you have for your product or service?

### **3.11 Think About It**

Let's see how you apply what you've learned so far.

As co-owners of their business, Michael and Jennifer are the only two employees at this time. However, both come with an extensive background in animal care and services. In what section of the business plan are descriptions of the owner's background and experience included?

- a. Product/Service Line.
- b. Market Research.
- c. Cover Page.
- d. Company Description.

The correct answer is d. Company Description. As the principal members of their business, the resume (background and experience) are important to include as part of the company description in their business plan.

All other options are incorrect because they are not the appropriate sections of a business to include the background and experience of the owners.

### **3.12 Think About It**

Let's see how you apply what you've learned so far.

After researching their market, Michael and Jennifer learned their business is unique to their area, with many pet owners living in a 5-mile radius of their location. Therefore, they want to properly describe their products and services in their business plan for their audience. What contribution does the Product/Service Line section give to the business plan?

- a. Provides a clear understanding of why you are in business, what you sell, and how you compete.
- b. Provides a general background and description of your company.
- c. Gives information about the industry and potential customers.

- d. Describes legal requirements, such as licenses and/or permits.

The correct answer is a. Provides a clear understanding of why you are in business, what you sell, and how you compete.

All other options are incorrect because they are descriptions of other sections of the business plan.

### ***3.13 Marketing & Sales Strategies***

After you've conducted your market research, you can create your marketing and sales strategy to reach your customers.

To develop your marketing and sales strategy, answer these questions within this section of your plan:

- What is your plan to grow your company?
- How will you communicate with your customers?
- How will you sell your product or service?

Total suggested page length for this section of the business plan: 4 – 6 pages.

### ***3.14 Marketing Strategy***

Marketing is the process of promoting and selling your products or services. Don't confuse advertising and marketing as one in the same. Advertising is a component of the entire marketing process; other components are:

- Community involvement
- Customer support
- Distribution
- Market research
- Media planning
- Product pricing
- Public relations
- Sales strategy

In simple terms, marketing activities and strategies result in making products available that satisfy customers while making profits for the companies that offer those products.

Creating a marketing strategy can be difficult. It deals with people and their constantly changing feelings and behaviors, which are influenced by countless subjective factors.

### ***3.15 Marketing Strategy, cont.***

- A good marketing strategy identifies market segments in which a business can better serve than its competitors.
- It also tailors product offerings, prices, distribution, promotional efforts, and services toward those identified segments.

- Ideally, the strategy will address unmet customer needs that offer adequate profitability for the business and focus on the target markets it can serve best.
- However, both customer needs and the business environment in which you operate are constantly changing. Your marketing strategy needs to consider what changes are taking place, and emerging opportunities and threats.
- A marketing strategy will also help you assess how successful you are at meeting your customers' needs, as well as how successful your competitors are.
- It may also help you identify new markets that you can successfully target.
- A good marketing strategy will be based on your market research to determine what customers want and what they will pay for.

Central to any successful marketing strategy is an understanding of your customers and their needs. The ability to satisfy your customers' needs better than your competitors can help you build customer loyalty and increase sales. Remember, trying to convince people to buy something they don't want is extremely expensive and seldom successful.

### ***3.16 Marketing Mix: The 4Ps***

A successful marketing strategy will typically mix the 4Ps of marketing – place, price, promotion, and product – to reflect the wants and desires of consumers in the target market.

Select each puzzle piece to learn more.

- Place refers to how the product gets to the customer. Specifically, it refers to the channel by which a product or service is sold or distributed. This is an important piece of information. Are you selling online, in a store, or through sales agents? In your own store or in someone else's? Is that consistent with what your customers want? Is it convenient, comfortable, or ideal for them? How does your distribution channel compare to your competitors? If you have a physical location, how far are you from your competitors?
- Pricing refers to the process of setting a price for a product, including discounts. You'll want to discuss how you set prices. How does your price compare with your competition? How sensitive to price are your potential customers? How much of your product do you think you will sell at various price points? Are you going to change your prices often?
- The product aspects of marketing deal with the specifications of the actual goods or services, and how it relates to the end-user's needs and wants. In this section of your business plan, you can talk briefly about where your product fits in the market.
- Promotion includes advertising, sales promotion, and publicity, and refers to the various methods of promoting the product, brand, or company. How do you plan on communicating with customers? What message will you communicate? You'll want to discuss your promotional plans, the budget for this promotion, and how that budget will change through your business's life cycle.

### **3.17 Sales Strategy**

You will also want to include a sales forecast. Prepare a month by month projection based on historical sales (if available), industry and market research, and the marketing plan described earlier. You may create more than one projection based on multiple scenarios, particularly if this is a new business or new product. Align forecast assumptions with your market research or historical sales. Don't pull numbers out of thin air. Finally, discuss how these sales will lead to company growth.

### **3.18 Funding Request**

In this section, identify exact (no estimates!) amounts of funding you will need to start your business or have already invested and make sure it ties specifically to your Financial Projections.

If necessary, you can include different funding scenarios, such as best and worst case scenarios, but remember that later, in the Financial Projections section, you must be able to back up these requests and scenarios with corresponding financial statements and projections.

If you are planning to self-fund your business, be aware that while it may not be a required section of your plan, it might be advantageous to know this information for future planning purposes.

If you are seeking funding for your business, include these funding requirements in your business plan.

- Your current and future (5 years) funding requirement. Include time period that each request will cover, type of funding you would like to have (e.g., equity, debt), and the terms that you would like to have applied.
- How you intend to use the funds you receive: Is the funding request for capital expenditures? Working capital? Debt retirement? Acquisitions? Whatever it is, be sure to list it in this section.
- Any strategic financial situational plans for the future, such as: a buyout, being acquired, debt repayment plan, or selling your business. These areas are extremely important to a future creditor, since they will directly impact your ability to repay your loan(s).

Total suggested page length for this section of the business plan: 2 – 4 pages.

### **3.19 Align the Numbers**

As you move to the next section of the business plan (Financial Projections), ensure your financial projections match your funding requests.

All possible credit sources will be on the lookout for inconsistencies and few, if any, will allow you to correct problems they have uncovered.

It's much better if you catch mistakes before they do; it can mean the difference between approval and decline.

### **3.20 Financial Projections**

The financial structure of your business is its foundation; therefore, the Financial Projections section of your business plan is critical to write well.

This important section explains your revenue forecasts, how much money you have and need, and when and how the business expects to make a profit. It also details what your marketing and operational processes and plans will cost.

To clarify your business's financial situation, the Financial Projection section of the plan includes economic estimates and three financial statements: Projected Balance Sheet, Cash Flow Projection, and Profit and Loss (Income) Projection.

This section of your business plan is considered the most important as it outlines the complete financial situation of your business. Therefore, ensure this section is reviewed by a financial professional, such as your accountant.

Total suggested page length for this section of the business plan: 12 - 25 pages.

### **3.21 Financial Projections, cont.**

The financial performance of any business is measured by the interrelationships among six essential elements.

These elements comprise the three financial statements (Projected Balance Sheet, Cash Flow Projection, and Profit and Loss [Income] Projection) and are: revenue, expenses, profits/losses, assets, liabilities, and net worth.

A business will prosper or fail based on the owner's effectiveness in planning and controlling these components.

Select each financial statement term on the image to learn how these statements measure and illustrate your financial situation.

### **3.22 Projected Balance Sheet**

The Projected Balance Sheet represents the basic accounting equation: assets minus liabilities, equals net worth.

A balance sheet is made up of assets (items of value), liabilities (debts) and net worth (equity or the difference between a company's assets and liabilities).

The balance sheet provides a measure of a business's value at a particular point in time. It is considered a snapshot in time.

Click the image to view an automated Balance Sheet Template. Use the template to compose a balance sheet for your business.

### **3.23 Cash Flow Projection**

The Cash Flow Projection is a valuable tool that monitors and projects the amount of incoming and outgoing cash during a given period (usually monthly) to gauge financial performance.

It helps you determine how much cash your business has on hand at any point in time. If your business has a negative cash position, it means that you have more money going out than coming in and may find paying your bills somewhat challenging.

The Cash Flow Projection shows you if your working capital is adequate and help you determine how much and when you may need to borrow money. Don't forget to account for things like selling or buying on credit or irregular expenses.

Click the image to view an automated Cash Flow Statement Template. Use the template to compose a projected cash flow statement for your business.

### **3.24 Profit and Loss Projection**

The Profit and Loss Projection is a measure of how a business's income has performed over a specific period of time, usually six months or one year.

It measures all income less all expenses to arrive at the amount of profit or loss generated by the business for the period.

The Profit and Loss Projection is also called an income statement or an income and expense statement.

Click the image to view an automated Profit and Loss (Income) Projection. Use the template to compose an income statement for your business.

### **3.25 Break-Even Analysis**

Another financial analysis you should include is a Break-Even Analysis. A Break-Even Analysis indicates when your business will be able to cover all of its expenses and begin making a profit.

This analysis calculates the minimum amount of sales needed to cover your costs. This is especially critical for startup businesses as it shows the sales threshold that needs to be surpassed before the business becomes profitable.

### **3.26 Breaking It Down**

The quantity of products you will have to sell per month to cover your costs is called the Break-even Quantity (BEQ) or the Break-even Point. To determine your Break-even Point, you will need the following information:

Fixed costs are expenses like monthly rent, salaries, and insurance premiums that are paid at regular intervals. If you pay certain fixed costs only once per year, determine the monthly portion of that cost. Make sure you calculate the monthly cost of each of these items for this analysis.

Variable costs include the costs for producing your product or delivering your service, maintaining your inventory, transporting products, and buying additional equipment. Variable costs change with sales volume.

Price is the amount of money your customers pays for a specific product or service.

### ***3.27 Michael and Jennifer’s Break-Even Point***

Let’s try the formula using Michael and Jennifer’s scenario. If Michael and Jennifer are selling designer pet beds in their store for \$300 each, buy them for \$50 each, and have monthly fixed costs of \$1000, their Break-even Point each month would be to sell 4 designer pet beds.

That is, until they sell 4 pet beds at \$300 each, they will not make a profit that month.

There are so many variables involved in calculating your break-even point that a concrete “template” may not be conducive for all circumstances. The better solution is to understand the concept, and then analyze your break-even situation based on expenses and costs specific to your business.

The SBA Learning Center offers additional resources about the concepts of Break-even Analysis. Take the SBA course Pricing Models for Successful Business and the access the accompanying worksheet Pricing Models for a Success Business.

### ***3.28 Continuing Your Financial Projections***

If you’re adding proposed loans into your business plan, include the sources, amounts, and terms in the Financial Projections section of your business plan.

If you have (or plan to get) investors, include how much will be contributed by each investor and what percent ownership they will have.

If you are submitting your business plan to a bank because you are applying for a loan, you should also include a current personal financial statement on each company principal and a copy of your business or individual Federal Tax return for the last three years.

Select each image to learn more about Financial Projections when you are a new or existing business.

### ***3.29 New Business Startup***

If you are a new business, all of your financial statements should be projected one, two, and three years forward and include accompanying narratives to explain any assumptions. It should also include a break-even analysis. Do your sales projections from the previous section indicate that you will reach your break-even point?

Do your research to accurately determine all of the potential costs and projections. Explain when you expect to become profitable and how you arrived at that conclusion.

### ***3.30 Existing Business***

If you are an existing business, you should include current and prior Projected Balance Sheets and Profit and Loss (Income) Statements, ideally for the last three years if available. Then, include projections for the next three years.

You should also include a current twelve-month Cash Flow Projection statement that predicts the flow of cash several months’ forward.

Include your business tax documents for the last three years as well, if applicable. If you plan to introduce a new product line or if you will require a large influx of capital up front to grow your business, consider adding a Break-Even Analysis.

Remember to include accompanying narratives to explain any issues or assumptions in your plan.

### ***3.31 Optional Appendices***

The last section of your plan is an optional appendix. This section can help define your business and highlight your accomplishments by including brochures, resumes, pictures and other important information.

You can use this section to add color and depth to your plan. Examples of things to include are:

- Brochures and advertising materials
- Blueprints or plans
- Maps
- Copies of leases or contracts
- Any press coverage of business
- Industry or Marketing studies
- Any other materials needed to support what you claim in the business plan

### ***3.32 Executive Summary***

The Executive Summary is a very important part of your business plan. As the name implies, it is a clear, concise snapshot or summary of your business.

As mentioned earlier, the Executive Summary is the first section of a business plan, but it is the last section you will write. And, while it's the last section you will write, it's the first section your audience will read. Therefore, the Executive Summary must be engaging, while simultaneously giving solid evidence that your business will succeed.

Total suggested page length for this section of the business plan: 1 - 2 pages.

### ***3.33 Executive Summary Contents***

The Executive Summary should include short descriptive summaries of each section of your business plan:

- Your company
- Products or services you sell or plan to sell
- Mission statement
- Management and organizational structure
- Target market and ideal customer
- Competition
- Future of your business and your industry
- Banking relationships and information regarding current investors
- Financial data and projections

### **3.34 Executive Summary Contents, cont.**

Essentially, the Executive Summary should answer these questions:

- What product or service will your business provide?
- How does it fill a customer need?
- What competitive advantage, if any, does your product/service have?
- Who are your target customers?
- What goals do you have for your company?
- Are you asking for money? If so, how much do you need from a loan or an investor and how will you use it?

### **3.35 Final Touches**

The icing on the cake, so to speak, is to include the cover page and a table of contents.

**Cover page:** Even though “we shouldn’t judge a book by its cover” - let’s face it, we do. Therefore, every business plan should have a professional-looking cover page that includes your name (and the name of any other owners), your business name, and your contact information (such as street address, telephone, and email). You can also put your logo on the cover page, if you have one.

**Table of Contents:** A table of contents brings organization and structure to your business plan by listing key sections within the plan and their corresponding order and location (page number). Most importantly, your audience will be able to find specific topics and areas of interest in your plan.

### **3.36 Putting It All Together**

Once written, assemble the sections of your business plan in a quality binder (separate the section with tabs) as follows:

- Cover Page
- Executive Summary
- Table of Contents
- Company Description
- Market Research
- Product/Service Line
- Marketing and Sales Strategies
- Funding Request
- Financial Projections
- Appendices (if applicable)

### **3.37 Video: How to Write a Business Plan**

This short 2-minute video showcases the highlights of writing a business plan.

### **3.38 Formatting Best Practices**

You’ve got an idea now of the main sections to include in your business plan. Investing the time to properly format your business plan will prove priceless as a well put-together document stands

out from a mountain of other papers and documents whose authors did not take the time to format.

Here are a few formatting best practices to follow when writing your business plan:

- Font types recommended: Times New Roman, New Century Schoolbook, Bookman, or Palatino
- Font size 11 or 12 pt
- Single space lines
- Use numerical, bolded headings (slightly larger font size than text).
- Use headers and footers (at minimum - company name in header; page number in footer)
- Do not underline; use italics sparingly.

### ***3.39 Formatting Best Practices, cont.***

- Include plenty of white space; use bullets
- Margins should be at least 1”
- Duplex print (both sides of the paper)
- Space once after all punctuation
- Use color sparingly
- DO NOT USE ALL CAPITAL LETTERS; not only are they difficult to read but in today’s world, using all capitals is conveyed as shouting.
- Include tabbed dividers within the binder

And finally, you have probably written, read, reread, rewritten to the point of exhaustion; therefore, hire a reviewer (or two) to read your business plan. You will be amazed at the errors they find and the questions they ask that may require further clarifications to the plan. If reviewers find mistakes, you can bet your end audience will too. It will be money well spent.

To minimize any possible misunderstandings, consider asking the reviewers to sign a confidentiality disclaimer stating the content is confidential and may not be disclosed.

### ***3.40 Think About It***

Let’s see how you apply what you’ve learned so far.

As a new business, Michael and Jennifer should include a Projected Balance Sheet, a Profit and Loss (Income) Projection statement, and a Cash Flow Projection statement in their business. These financial statements should be projected one, two, and three years forward and include accompanying narratives to explain any assumptions. In what section of the business plan are these statements included?

- a. Company Description.
- b. Executive Summary.
- c. Financial Projections.
- d. Marketing and Sales Strategies.

The correct answer is c. Financial Projections. Through these three financial statements, this important section of the business plan explains revenue forecasts, amount of money you have and need, when and how the business expects to make a profit.

All other options are incorrect because they are not the appropriate sections to include the financial statement.

### **3.41 Think About It**

Let's see how you apply what you've learned so far.

After writing the main sections of their business plan, Michael and Jennifer are ready to write the Executive Summary. Using the principles that you learned in this course, what advice can you give them?

- a. As a summary of the business plan, they should have written it first as a method to outline and structure the rest of the plan.
- b. Ensure to describe family dynamics as personal background is essential to the business plan.
- c. Other sections such as the Financial Projections require more time and energy; therefore, don't spend too much time writing the Executive Summary as it's not a section your audience often reads.
- d. Write an engaging 1 to 2-page clear, concise snapshot of their business giving solid evidence that it will succeed.

The correct answer is d. Write an engaging 1 to 2-page clear, concise snapshot of their business giving solid evidence that it will succeed. The Executive Summary is often the first section your audience reads; ensure it captures and anchors their attention.

All other options are incorrect because they give inappropriate advice for writing the Executive Summary.

### **3.42 Topic 2 Summary**

This topic explained the contents of each business plan section as well as best formatting practices.

### **3.43 Course Summary**

Congratulations! You have completed the How to Write a Business Plan course!

This course provided information for small business owners who are interested in learning about writing a business plan. You were presented with the following discussion points:

- Business planning parallels business success.
- The business plan is the blueprint for your business.
- Audience consideration is important to the business plan's scope.
- The "One Size Does Not Fit All" video showcased the variety of business plans and the 'How to Write a Business Plan' 2-minute video wrapped up the essentials.

- Explanations about the contents and importance of each section of a traditional business plan:
  - Executive Summary
  - Company Description
  - Market Research
  - Product/Service Line
  - Marketing & Sales Strategies
  - Funding Request
  - Financial Projections
  - Appendices
- Best practices when formatting a business plan.

### ***3.44 Checklist for Success***

It has been said that “Knowledge is power.” In reality, knowledge is only potential power. Without application or action, knowledge is just information.

To download the How to Write a Business Plan Checklist, click the graphic or select the Resources tab on this page.

### ***3.45 Resources***

SBA has a broad network of skilled counselors and business development specialists. Below is a short description of our resource partners:

- Over 900 Small Business Development Centers (SBDCs) provide a vast array of technical assistance to small businesses and aspiring entrepreneurs. By supporting business growth, sustainability and enhancing the creation of new businesses entities, SBDCs foster local and regional economic development through job creation and retention. As a result of the no-cost, extensive, one-on-one, long-term professional business advising, low-cost training and other specialized services SBDC clients receive, the program remains one of the nation’s largest small business assistance programs in the federal government. The SBDCs are made up of a unique collaboration of SBA Federal funds, state, and local governments, and private-sector resources.
- SCORE is a powerful, nationwide source of free and confidential small business advice to help build your business. More than 12,000 SCORE volunteers are available to share their expertise and experience in lessons learned in small business.
- Women’s Business Centers (WBCs) are education centers designed to assist women in starting and growing small businesses by providing management and technical assistance. Over 100 WBCs are located throughout the U.S. and Puerto Rico.
- The SBA has 84 District and Branch offices in all 50 states, as well as Puerto Rico, the U.S. Virgin Islands, and Guam. These offices support the growth of small business by connecting customers to resources, products and services provided by our resource and Agency partners at the Federal, State and local levels.
- The Veterans Business Outreach Program is designed to provide entrepreneurial development services such as business training, counseling and mentoring, and referrals

for eligible veterans owning or considering starting a small business. The SBA has 15 organizations participating in this cooperative agreement and serving as Veterans Business Outreach Centers (VBOC).

- The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses to help small business owners explore and learn about the many aspects of business ownership.

Find your local resource using our handy zip-code tool: [www dot SBA dot gov slash local assistance](http://www.dot.SBA.gov/slash/localassistance).

### **3.46 A.C.T. NOW!**

The Article, Course, and Tool below are related to the course you just completed. They are provided to help you take action on your path to entrepreneurial success. You can also get in-person assistance for all of your business needs through a local resource center. And, if you liked the course, please help spread the word by sharing it with your friends!

#### **Read an SBA Article.**

The article *How to Make Your Business Plan Stand Out* offers tips to help clarify what your business has to offer, identify the right target market for it, and build a niche for yourself. Click link: [How to Make Your Business Plan Stand Out](#) (link opens in a new window)

#### **Take Another Course.**

The *Marketing 101: A Guide to Winning Customers* course provides a basic overview of marketing for small business owners who are looking to reach a broader customer base and expand their markets. Learn what marketing is and why it is vital to growth. The course covers how to conduct market research and developing marketing strategies while providing marketing resources for small business owners. Click link: [Marketing 101: A Guide to Winning Customers](#) (link opens in a new window)

#### **Try a Tool.**

To help you build a successful business plan, SBA provides a free online business plan tool. The tool will prompt you through writing the various sections of the business plan with questions, guidance and tips. The tool is best used after you have reviewed this course and sample business plans (by doing an internet search). You can save your work and, when finished, print it out. Click link: [Build a Business Plan](#) (link opens in a new window)

#### **Find Local Assistance**

SBA works with a number of local partners to counsel, mentor, and train small businesses such as Small Business Development Center, SCORE Business Mentor, Women’s Business Center, Veteran’s Business Outreach Center, etc. [Click here to learn more.](#) (link opens in a new window)