

# How to Write a Business Plan



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**Schenectady County Community Business Center offers confidential entrepreneurial services including: small business development assistance, one-on-one technical assistance, as well as financial support in the form of several loan programs.**

## **Rules to Follow When Writing a Business Plan**

1. The business plan should be written as a professional document. All of the questions from the Business Plan Outline should be answered in complete sentences, in paragraph form.
2. Each section generally is a minimum of one page in length (typed), with the exception of the Statement of Purpose, where one-half to three-quarters of a page is acceptable.
3. ***Avoid using personal pronouns such as “I” or “We.”*** Instead, speak in the third person throughout the business plan narrative, i.e.:
  - a. Mr. /Ms. Jones is requesting a loan in the amount of...
  - b. McGee’s Grooming Service is a sole proprietorship...
  - c. The principal(s) are requesting a loan in the amount of...
4. Whenever possible, please submit your draft business plan narrative via email in a Microsoft Word document.
5. Always keep a copy of your draft business plan narrative and any supporting documentation that you submit.
6. Pages must be numbered

The following pages will take you through the development of your business plan. The questions being asked throughout this outline are intended to get you thinking about your business. You should keep in mind that when developing this plan you need to be clear and concise with your ideas. You need to conduct research in order to write an effective, well thought out plan. When writing this plan you should answer all questions posed to you with clear, comprehensive written responses. All responses should be made in complete sentences, preferably in paragraph form.

***You will be repeating information throughout the plan!***

## **Introduction to Business Plan Development**

The business plan is a series of topics describing the various aspects of the business. This is not a place for your personal opinion; it is a factual document based on research. The business plan can be used for financing your business or as a policy and planning guide for its operation. Either way, the objective of the business plan is to make clear the following:

1. What the business is now or will be in the near future.
2. The scope of the market the business will service, including the size of the market.
3. Advantages and disadvantages the company will have compared to its competition.
4. Advantages and disadvantages of the business location
5. What management, professionals, and other personnel are available and required for the smooth operation of the business.
6. Why, if appropriate, a loan for this business will make the business more profitable.

### **Things you need to know when applying for a business loan:**

1. You, as the owner, will need to invest your own money. Typically, 10 to 20% of the total project costs in the form of an investment is standard.
2. You must have a **written business plan** with a *title page* and *table of contents*.
3. You must have collateral to back the full loan amount.
4. Your personal credit counts and a credit rating will be pulled by the financial institution.
5. You will be required to fill out a Personal Financial Statement.
6. Cash flow projections, with notes, must be included.
7. Include your resume.
8. Three years of your personal Income Tax Returns will be requested.
9. Copies of advertising copy and/or marketing materials, if you have them, should be included. (include actual copies that are being used)

### **Examples of items that may be used for collateral**

- a) Real Estate \*
- b) Stocks
- c) Bonds
- d) Accounts Receivable
- e) Savings Account
- f) Cash Value of Life Insurance Policies
- g) Equipment
- h) Business assets including inventory
- i) Contracts

\* NOTE: A description of the property should include:

- a) The type of property
- b) Location of property
- c) Age of property
- d) Physical condition of property
- e) Improvements that have been made to the property
- f) Approximate market value of property and equity you have in the property
- g) Property tax receipts showing they are paid to date.

## **Executive Summary**

This section should summarize all of the ideas that have been developed in the business plan. It should show that the sections support each other logically and coherently.

**It is the last section you complete.**

Remember, when developing this section to highlight the more essential items that have been developed within the body of the plan. The easiest way to do this is to summarize the plan in the order that it was written. For instance, start with the Description of the Business, Competition, Market, etc (add other sections). In this way you can be assured of mentioning the most pertinent items of interest to the reader.

Finally, it should be written in a way that leaves the reader with a concise, convincing statement that both the project and plan are feasible.

This section of the analysis/plan should be a summary of the plans objectives and should include what the plan will be used for, i.e. operating and policy guide or loan proposal. The following questions should be included but not limited to:

1. The type of business, i.e. sole proprietorship, partnership, or corporation.
2. Who is requesting the loan, if applicable?
3. How much money is required?
4. How will the money be used?
5. Total cost of the project.
6. The benefits the business will receive from the money.
7. Why the loan makes sense.
8. How will the loan be repaid?

These questions will be supported by the rest of your plan. It is important that before you write this section you have a detailed estimate of how much money you need to borrow. You should know exactly what your start up expenses and working capital requirements are. This will become much more evident once your cash flow projections are completed. The Schenectady County Community Business Center can assist you with your cash flow projections, if needed.

## **Description of the Business**

The description of the business should include:

1. The type of business; i.e. primarily merchandising, manufacturing or service.
2. The status of the business; i.e. start up, expansion, take-over, or existing business.
3. The business form; i.e. sole proprietorship, partnership, or corporation.
4. Description of products or services.
5. Why this business will be profitable.
6. Where the business is now and where you expect it to be 5 years from now.
7. What will be the hours of operation.
8. Any seasonal fluctuation the business may experience.

If the business has been in existence, give a summary of its history, discussing any problems that arose during its operation and how these problems were resolved. If the project includes a planned expansion, explain what problems the present size has caused and how the expansion will correct these problems.

If the business is new, your description should explain why the owners will be successful, what their experience is, what other people involved in this kind of business feel about this business, what will be special about this business, and when it will open. Also included should be what, if any, managerial or technical help will be provided by trade suppliers, what the industry credit terms are and how the company will offset possible slow payments by customers.

For a business take-over there should be a brief history of the business to be purchased. This history should include: when and by whom the business was founded; why the owner is selling the business; and how you arrived at a purchase price. There should also be information regarding the trend of sales. If this trend is downhill, why is it downhill and how can it be turned around? How does management plan to make the business more profitable? To purchase an existing business, you will also need to provide the lender with three (3) years of that businesses tax returns.

## Competition

To be competitive, you must first know who your competition will be and what are the positive and negative aspects of their businesses. ***Every business has competition!*** Your competition is any business providing a similar service - it doesn't have to match what your product or service exactly to be considered competition. This section should answer the following questions:

1. Identify who the competition is in your targeted area. What is the reputation of the competition?
2. What products and/or services do they offer?
3. Why will your operation be better?
4. What are the strengths and weaknesses of the competition?
5. How does your business compare to its competition? What are its similarities? Its differences?
6. What can be learned from watching the competition?

It is important to study the competition closely so that your business does not become involved in a market that is already being adequately serviced.

## **Market Strategy**

In order to be profitable, a business has to be able to sell its product or service to enough customers to cover its costs. To do this, there must be a defined marketing strategy which includes certain basic marketing concepts. These include:

1. Defining the market:
  - a) Who needs the product or service? If the products or services are unique or new to the area, explain the need that they will fill. If you are already in business and are using this business plan to expand operations, elaborate on your company's marketing history, as well as your objectives.
2. Analyzing the size of the market and your ability to cover it:
  - a) How many and what type of people do you plan to reach with your goods and services?
  - b) What are the ideal characteristics of your potential customers? (i.e., male, female, age, income level, etc.)
3. Identify the business' place within the market. This section should note your operation's special abilities and strengths that will assist you with meeting the demands in the market place.
4. Explain how you arrived at your pricing practices and why, and compare them to that of competitors'. Also, explain what standard industry mark ups are for the products that you carry or the services that you perform.
5. Explain the types of media that will be used to reach your target market and the costs associated with the mediums used (advertising and sales promotional activities). Be sure to identify competitors' advertising and sales promotional strategies and state how yours will be similar or different from theirs.
6. Being aware of the market changes:
  - a) Will the business's share of the market increase, decrease, or stay constant as the market changes?
  - b) What is the potential growth of this market?

7. Strengths and weaknesses:

- a) How will the company take advantage of its strengths within the market that they are serving.

If the company is a new business, explain the industry's marketing strategy. For an existing business, explain the current strategy being used. This section should also include a brief paragraph on the industry's credit terms and the anticipated credit terms of the company involved.

## **Location**

Proper site location is very important. Location can make or break a business, especially a new one. While clientele may eagerly seek out some types of businesses, no matter how obscure their location, many businesses require an easily accessible, highly traveled location to be profitable. This is especially true if the sales are based on impulse buying. Therefore, if this is a new business, the ideal site location should be decided first. Keeping in mind that rent is the combination of the cost of space plus advertising, it should be determined how close to this ideal location the company can settle. Items to be included in this section are:

1. The business address.
2. The physical features of the building or buildings.
3. Whether the building will be owned or leased. If leased, state the terms.
4. What renovations are needed, if any.
5. The type of neighborhood, including zoning laws and permits required.
6. Types of businesses in the area.
7. Why this building and/or site is desirable.
8. What effect this site has on operating costs.
9. If purchasing property, it is important to know what the tax payments on the site will be.

Chambers of Commerce, trade sources, planning commissions, bankers, and real estate brokers are good sources of information for availability, costs, and traffic patterns for different sites.

## Management

This section should include the management's resumes.

1. Principals' personal histories
  - a) Business background
  - b) Management experience
  - c) Education, both formal and informal
    - i) Reasons for going into business
    - ii) Why the principals will be successful
2. Related work experience
  - a) Operational experience in this type of business
  - b) Managerial experience in this type of business
  - c) Managerial experience from other areas
3. Duties and responsibilities (chain of command)
  - a) Who does what
  - b) Who reports to whom
  - c) Who makes final decisions
4. Salaries
  - a) Reasonable, but not excessive
  - b) Cost of living budgets

Information included in this section should indicate that the business is aware of skill both inside the company (management, employees, etc.) as well as that outside the company. Resources av

1. Accountant
2. Lawyer
3. Business, trade or civic organizations
4. Consultants
5. Colleges and universities
6. Federal, state and local agencies

Include name, location, telephone number and purpose of the resource.

## **Personnel**

You do not have to list specific individuals by name, just by required skill set. Questions that this section should answer include:

1. What are the present and future personnel needs?
2. What skills, if any, will be required?
3. Are the necessary type of people available?
4. Will these employees need to be trained? If so, what are the costs?
5. How many full- and part-time employees are needed?
6. How much will each employee earn and will they
7. Paid hourly or by salary?
8. What fringe benefits, if any, will there be?
9. Is any overtime expected?

It is important to remember that good employees can make a marginal business successful while poor employees can easily destroy an excellent business.

## Use of Funds

This section will be used if the company is planning to finance the project by obtaining loan or through individual investors. This section should include responses to the following:

1. How much money *you* are investing into the business? This is important because no financial institution will lend you money if you are not risking your own capital.
2. How will the loan monies be spent? (i.e., building equipment, inventory, working capital, etc.)
  - a) What are the actual items to be purchased?
  - b) Who will supply these items?
  - c) How much will they cost? (include sales tax, installation charges, freight, etc.)
  - d) How you plan to pay back the loan?

This section ties into the Executive Summary but goes into more detail by breaking down individual items and their costs. For instance, if you are looking to borrow \$50,000, then explain that it will be used as follows:

Inventory	\$25,000
Renovations	\$8,000
Working Capital	\$11,000
Initial Advertising	\$4,500
1 <sup>st</sup> Month's Rent/Security Deposit	\$3,000
Licenses	\$2,500
Racks	\$1,000
TOTAL	<u>\$55,000</u>

Then explain how these items will make the business successful.

Also explain the total project costs and where funds are coming from:

### Proposed Sources of Funds

<u>Purpose</u>	<u>Source</u>	<u>Amount</u>
Inventory	Owners Equity	\$ 5,000
Startup costs	Financial Institution	\$30,000
Startup costs	other lender	<u>\$20,000</u>
	<b>Total Project Costs</b>	<b>\$55,000</b>

