Business Plans

A PERSON does not just decide to open a business on a whim. Starting a business requires a lot of research and preparation. A business plan is an essential piece of the puzzle. It forces the prospective business owner to evaluate what is needed to start the business. In this unit, you will learn what a business plan entails, and you can develop one.

Objective:

Explain how to develop a business plan.

Key Terms:

- appendix (appendices)
- assets
- bankrupt
- business plan
- corporation
- debt
- executive summary
- liabilities
- limited liability company (L.L.C.)
- losses
- mission statement
- organizational chart
- partnership
- profit
- sole proprietorship
- stakeholders

Developing a Business Plan

A **business plan** is a variety of written and financial worksheets that require a business evaluation. It helps you determine what is needed to start a new business, and it helps you focus on ways to change or improve an existing business. A business plan is something that will likely change over time, as you reevaluate the business and update your goals and strategies.

BUSINESS PLAN TYPES

Various types of business plans exist. A generic business plan may be used for a variety of businesses because it is not specific to a business type. Yet an established business plan is used for an annual evaluation of business practices of an established company. A start-up business plan may be used for presentations to bankers or investors. It represents a short operating history. Specific business plans represent an industry, such as manufacturing, service, technology, or retail.

Main Parts

A business plan is an organized packet of materials with three main parts. The first part is a cover sheet or title page that includes the company name, date, address, and contact information (e.g., phone numbers and addresses). The second part includes a table of contents that lists various sections of the plan. The third part is an **appendix** (**appendices**)—additional support documents and materials added to the end of the business plan.

Creation

To create a business plan, you must evaluate the business or company. First, critically research and evaluate the facts related to the company. Explain the who, what, when, where, how, and why of the business. Match the strengths of the business to opportunities. Develop and think through a business plan before deciding whether to invest. This may help you avoid investing in a business that would ultimately end up **bankrupt**—legally determined unable to pay off debts.

Evaluation

A business plan is evaluated by the content and the quality of the writing. It is important to write a first draft of the plan and then to edit the plan as many times as necessary to create a quality product. A clear explanation is more important than the number of pages in the business plan.

SECTIONS OF A BUSINESS PLAN

A business plan will vary in its style, length, and tone, according to the type of business, the author, and various other factors. However, certain parts are expected in a business plan and must be present if the owner is seeking funding from outside sources.

Mission Statement

The **mission statement** is a declaration about the tasks the company wishes to accomplish. It may include the company's vision for growth and indicates the general purpose of the company.

Executive Summary

The **executive summary** is a concise (no longer than two pages) section of the written business plan that answers the questions who, what, and why. It should leave the reader wanting to know more about the company and is found at the end.

Business Description

The business description includes a description of the company and the industry, a company history, and any forecasted changes for the industry. It also lists company strengths or the factors that will make the company a success. The business description also explains the ownership of the company. There are four legal forms of ownership: a sole proprietorship, a partnership, a corporation, and a limited liability company.

Sole Proprietorship

A **sole proprietorship** is a company owned by one person. It is the simplest form of business. It is set up by registering the owner's name and by securing the proper local licenses. The owner is personally liable for all **debt**—obligations of money or service accrued by the business. Earned income is considered personal income and is filed along with personal income tax returns.

Partnership

According to the IRS, "A **partnership** is the relationship existing between two or more people who join to carry on a trade or business." Partners contribute skills, money, and/or time. They also share in the **profit**, which is the income after expenses are paid. Yet partners also share in any **losses**, the amount by which expenses exceed income or profit.

Corporation

A **corporation** is a legal group authorized by the state and must follow the laws of the state and other states where the corporation conducts business. It pays taxes and can enter into contracts. A corporation consists of a person or a group of **stakeholders**—people or groups with a direct interest, involvement, or investment in a business. Examples of stakeholders are shareholders, employees, officers, and customers.

Limited Liability Company

A **limited liability company (L.L.C.)** is a combination of a partnership and a corporation. The company has a limited liability similar to a corporation. According to Wikipedia, "The primary characteristic it shares with a partnership is the availability of pass-through income taxation." Therefore, the L.L.C. does not pay income taxes directly. Instead, the income is passed through to the individual person or people receiving profits or distribution from the L.L.C. The individual or individuals pay the taxes.

Appendix

The business plan should describe in detail the products and services of the business, but the appendix should be used to attach drawings, photos, news releases, and/or brochures. The plan should refer to any attached appendices in the product discussion. It is important to explain what makes the company product(s) or service(s) competitive. The plan should describe how the product or service is unique and what competition, if any, exists.

MANAGEMENT SECTIONS

The management section of the business plan details the operational and financial management for the business.

Operational Management

The operational management section describes how the company is organized. It also explains needs, such as equipment, personnel, and neighboring areas. An **organizational chart** is a visual representation of the company that shows the role and relationship between people or groups of people within an organization. Examples are a flow chart or line and staff chart. The organizational chart shows the structure of the personnel and administration as well as their roles and responsibilities. It may include a short career history of the company's officers, such as the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), President, Board Chair, and Board of Directors.

FIGURE 1. The business plan may include a short career history of the company's officers.

This section may include information on the legal form of ownership, if the ownership is not explained in the company description. It should discuss compliance with any required zoning laws, permits, and/or special licenses. In addition, it should describe any equipment needs and inventory. Also, this section should explain the location of the business facilities and should include information regarding the amount of space, as well as access to utilities, transportation, and customers.

FURTHER EXPLORATION...

ONLINE CONNECTION: Why Do You Need a Plan?

In this unit, you learned how to develop a business plan. But do you know why you need one? Many of the uses are relevant to start-up companies that need to secure funding, find a location, and conduct business. But there are many reasons why existing businesses need a plan.

Visit the following websites to research the purpose of business plans in regards to existing businesses. Choose two or three reasons, and explain them. Give specific examples in a short report that you can present to your classmates.

http://www.entrepreneur.com/article/83818

http://online.wsj.com/article/SB125391138155241963.html

http://www.allbusiness.com/business-planning-structures/business-plans/1716-1.html

Financial Management

The financial management section evaluates the business finances. It explains production costs and the cost of operating the facilities. These expenses include the rent or lease of the property, utility costs, maintenance, remodeling, and insurance costs. Also, this section includes an inventory of assets and liabilities. **Assets** are property owned by the person or organization. Assets include supplies owned by the company, finished goods, and the value of the equipment, as well as all other material goods owned by the company. All debts and other financial obligations are considered **liabilities**.

Bankers and investors often want to see the personal financial statement of each owner and major stockholder involved in a start-up business. This information includes the personal assets of the owners and major stockholders as well as the liabilities of the owners and major stockholders from outside businesses.

The financial section includes a 12-month profit and loss projection with the numbers and a one-year narrative describing the projected company income and expenses. Occasionally, a three- or four-year profit and loss projection is added to the business plan.

Summary:

A business plan consists of a variety of written and financial worksheets that require a business evaluation. To create a business plan, you must evaluate the business or company. Include a mission statement, and explain the ownership of the company. The management section details the operational and financial management for the business. This section includes an inventory of assets and liabilities. The financial section includes a profit and loss projection.

Checking Your Knowledge:

1. What is a business plan?
2. What are three types of business plans?
3. What is included in a business plan?
4. What are the four legal forms of business ownership?
5. What are assets and liabilities?

Expanding Your Knowledge:

Every business plan should include a mission statement. Conduct some research to find the mission statements of four businesses that operate in your area. You may need to visit local shops and ask the owner or manager for the mission statement if it is not available online and is not posted in the store or written on a brochure. Compare the mission statements, and look for key words or phrases that are repeated in all of the mission statements. Do you think the businesses live up to their mission statements?

Web Links:

How to Write a Mission Statement

http://www.tgci.com/magazine/How%20to%20Write%20a%20Mission%20Statement.pdf

Introduction to Business Plans

http://www.entrepreneur.com/startingabusiness/businessplans/article38290-2.html

Writing a Business Plan

http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/writing-business-plan