

# How to Write an Effective Business Plan

A good business plan is an invaluable tool for any business owner, whether you are just starting your new enterprise, expanding or changing strategic direction. Not only does it provide potential creditors, investors and business partners with essential information about your business, but it also provides you, the entrepreneur, with a clear “roadmap” to follow and a tool to measure your performance.

The following is an outline of a basic business plan for a small business, but due to the varying nature of businesses, it may not be comprehensive. Not every point will necessarily pertain to your business, and some businesses will require more specific categories. If you require more information about preparing your business plan, please call WESBC.

## 1. Executive Summary

- a. A maximum one page summary of the key points covered in your plan, including:
  - Description of your company and product/service
  - Competitive advantage
  - Proposed sources and use of funds

## 2. Table of Contents

- a. Section titles and page numbers

## 3. Description of Company

- a. Nature of your business
  - Type of operation (retail, manufacturing, wholesale, service, etc.)
  - Company mission and goals
- b. Brief history of your business
  - When and by whom the business was started
  - Key milestones
- c. Management
  - Duties, responsibilities and relevant skills of management team
  - Include information about entrepreneurial and industry experience
- d. Company structure
  - Sole proprietorship, partnership or corporation
  - Ownership
- e. Company size and location
  - Location relative to your market
  - Size of facilities
  - Home-based or commercially-based

## 4. Description of your Product/Service

- a. Describe the key features and benefits of your Product/service
- b. Discuss any product protection in place, including patents, copyrights or trademarks

## 5. Market Analysis

- a. Industry Analysis
  - Total industry size (revenue generated, number of companies, etc.)
  - Growth potential and factors influencing the industry growth
  - Standards and regulations affecting the industry
  - Common costs and profit margins
  - Industry trends, including opportunities and threats

- b. Competitive Analysis
  - Detailed description of main competitors, including size, location, products/services, market share
  - Discuss the similarities and differences between your product/service and those of competitors as well as your competitors' relative strengths and weaknesses
  - Your competitive advantage - what makes your product/service unique, and how will you use this to your advantage?
- c. Market Research
  - A summary of all information you referred to in order to determine that there is a demand for your product/service
  - Particularly important section for start-up businesses or new products/services
    - i. Secondary research - This includes information from second-hand sources, including books, magazines, government sources, Internet, etc.
    - ii. Primary research - Information you collect firsthand, including personal interviews and discussions, surveys, etc.
- d. Target Market
  - Identify and define your typical customer segments
  - Characterize each segment by location, age, gender, income, lifestyle and any other relevant characteristics of the target group
  - Discuss the buying criteria of your target market - i.e. what motivates this group to make the purchase decisions it makes? (i.e. price, quality, location, etc.)
  - Market niche
  - Size of your market, and your anticipated market share
  - Market trends and outlook

## 6. Marketing Plan

- a. Pricing
  - Describe your pricing strategy and how you arrived at it, including your pricing relative to your costs
  - How do your prices compare to those of your competition?
- b. Product positioning
  - How your product/service is presented in the market (i.e. luxury item, impulse buy, necessity, specialty item, etc.)
  - Tools used to solidify the appropriate image and positioning of your product/service in the market
- c. Promotion and Advertising
  - Your promotional strategy, based on your target market and positioning
  - Detailed description of the types of advertising and promotion you will use to reach your target market (i.e. media advertising, direct mail, Internet, trade shows, press releases, etc.)
  - Include a timeline and associated cost for each major type of promotion and/or advertising you plan to use as well as an annual budget
  - Describe how you will measure the effectiveness of your promotional efforts
- d. Sales and distribution
  - i. *Sales strategy*
    - Based on your research and capacity, what are your sales goals (in units) per day/month/year, including any anticipated seasonality in sales
    - How will your sales be conducted and who will be primarily responsible for sales
    - Describe what resources will be allocated in sales in terms of both time and funds
    - Outline your company's services policies, guarantees, warranties, etc.
    - Credit and collection policies
    - Explain how you will determine customer satisfaction

ii. *Distribution strategy*

- Includes all aspects of how your product is routed from your business to your customer
- Where your product will be sold or in the case of services businesses where your service will be delivered/conducted
- Identify intermediaries in your distribution network, such as wholesalers, distributors, etc.

## 7. Operations

- Production or procurement
  - Describe the process by which your product is made or sourced or in the case of a service business, how the service will be performed
  - Production size, capacity and manufacturing time (or service delivery time)
  - Materials and facilities, including size and type of space needed (i.e. manufacturing, warehouse, administrative) and necessary equipment
  - Location of suppliers, delivery times and method of shipment
  - Product improvement, research and development and quality control issues
- Inventory management
  - Average inventory levels
  - Location of suppliers, delivery times and method of shipment
  - Inventory turnover
- Personnel
  - Number of staff required including subcontractors, qualifications, labour availability, wages, and benefits, training, personnel policies and workers compensation issues
- Other
  - Hours of operation
  - Licences and permits required
  - Regulatory issues including potential environmental impacts
  - Business insurance required
  - One-year action plan detailing steps to achieving this year's goals

## 8. Financial Plan

- Historic financial statements
  - Existing businesses should provide balance sheet and income statements for the last three years of operation as well as for the most recent interim period
- Financial projections
  - Monthly cash flow projections for a minimum of 12-months based on your unit sales forecast and realistic estimated costs of goods and operational expenses.
  - Projected income statements for the first and second full fiscal years of the business
  - Starting balance sheet
- Financing requirements and capital purchases
  - Summary of type and amount of financing required, use of funds, proposed repayment terms
  - List of equipment required with associated costs, based on quotes/estimates from reliable sources
- Breakeven analysis
  - The number of units and/or revenues you need to cover all of your costs in a given period
  - Most often calculated for the first year of operations
  - Breakeven formula:  $X = A + BX$ , where X = breakeven sales in units, A = Total fixed costs, A = Variable cost per unit

- Multiply your breakeven number of units by your sales price per unit, and this gives you the amount of revenue you need to cover all of your costs over a certain period of time
- e. Accounts Payable and Receivable
  - Existing business should include a current schedule of aged Accounts Payable and Accounts Receivable
  - New businesses should include a discussion of policies surrounding payables and receivables

## **9. Risk analysis and contingency planning**

- a. Competitive reaction
  - Anticipated reaction by competitors to your product/service
- b. External risks
  - Identify key external risk factors for your industry and market (i.e. economy, weather, new competitors, supplier problems, technology, politics, demand shifts, etc.)
- c. Internal risks
  - Identify the main internal factors that would impact your business (i.e. sales projections not realized, cost overruns, key personnel turnover, legal issues, etc.)
- d. Risk management and contingency plans
  - Discuss how each of the major risks faced will be managed and what contingency plans will be put in place

## **10. Supporting materials**

- a. Supporting Materials that should accompany your business plan or be including as an appendix to your plan may include:
  - Photographs or samples of your product
  - Resume(s) of owners and/or key members of the management team
  - Letters of intent or letters of support
  - Copies of required licences/permits
  - Appraisals for property and equipment
  - Copy of partnership agreement or shareholders' agreement
  - Corporate brochures
  - News articles about your company
  - A sample of any surveys or questionnaires conducted