

# Creating an Effective Business Plan

People considering the purchase and start-up of a business or franchise should know that preparation of a business plan is vital. The business plan is the blueprint to every aspect of the enterprise. It is typical for landlords and bankers to require a business plan in order to make a judgment on the involvement of a business venture.



Unfortunately, most small business owners invest a great deal of time creating their business plan only to place it on a shelf or file it away. Successful entrepreneurs know this is a huge mistake, as a business plan needs to be reviewed and updated on an ongoing basis. Because strategies change and competitors come and go, business plans need to be updated on a quarterly basis at the very least. Liken a business plan to football coach's game plan. As conditions and competition changes, so must the game plan.

The following guidelines detail the different components necessary to write a business plan. Styles for business plans vary. While some investors prefer to weigh heavily on numbers and sales figures, others simply use it as a format for listing timelines and goals over a specific period.

**Cover Page** – The cover page will have the company name, date, principals and logo of company.

## **Table of Contents**

**Introduction** – The introduction is an executive summary of the business. Typically no longer than one page, it describes different aspects of the business.

**Location** – The location page highlights possible locations for placement of the business. If possible highlight three different locations with the pro's and con's of each. This is especially important when negotiating with landlords as the business plan will show to them that other locations are being considered.

**Advertising & Promotion** – This section lists all the promotional and advertising programs planned for grand opening as well as the first years planned advertising allocations. This will be a detailed listing of media types, costs, areas of concentration, store donations, fundraisers, etc. broken down by monthly, quarterly and annual expenditures. This should be a lengthy section and will spell out in detail the plan of marketing for the coming year. It is vital to have this section, in particular, updated on a quarterly basis.

**Personnel** – The personnel section lists the amount of employees needed to run the operation. It will include scheduling as well as payroll costs for the differing levels of employees. This section also designates the manager selected (be it an outside source or the owner) and will list the credentials and experience of the management or management team.

**Start up Costs** – Start up costs include budgeted costs for every aspect of the business. Some possible costs are:

- FFE (furniture, fixtures and equipment)
- Leasehold improvements
- Real estate deposits
- Utility deposits
- Inventory
- Supplies
- Office equipment
- Point of Sale equipment
- Franchise Fee (if applicable)
- Grand opening advertising funds
- Accounting and legal costs
- Working capital

When possible, model numbers and descriptions for furniture, fixtures and equipment should be listed.

**Sources & Applications of Funds** – This lists the sources of where funds will come from in order to get the business started (equity investors, partners, bank loans, cash on hand, etc.) The application of funds will be the items listed in the “start up costs” section of the business plan. The sources and application subtotals will be the same number, listing like a balance sheet of assets and liabilities.

**Break Even Analysis** – The point of break even is where the first year's total sales cover all business expenses. Write the Break Even Analysis in the form of an Income Statement. This will deliver a clear idea of the volume of business needed in order to make a profit. It also forces consideration of ALL costs that will be involved with opening and running the business.

The breakeven analysis, although spanning the year's expenses, can be analyzed on a monthly and even daily basis in order to set sales goals.

**Three Year Pro Forma Cash Flow** – The Three Year Pro Forma Cash Flow uses the same format as the Break Even Analysis, uses estimates for first year sales goals, but carries the profit or loss forward to the second and third years. Estimates for sales growth are determined in this section and applied to the second and third year totals. This is an invaluable tool to use for setting sales and growth goals once the business is up and running.

**First Year Monthly Pro Forma** – The first year monthly pro forma contains the same numbers in year one of the 3 Year Pro Forma Cash Flow but lists it in a month-to-month format. This assists with budgeting as well as taking into consideration any seasonal fluctuations a business may experience.

**Resume of Principals** – This last section of the business plan is comprised of the resumes of any Principals involved in the business. The Resume shows the experience and success of the principals who run and control the direction of the company. This is especially important for loan officers when considering the business for a loan application.

When delivering the Business Plan to a banker or landlord, presentation counts. Organizing the plan in a professionally presented format such as a binder or notebook can make a difference in the mind of the reader. Again, it cannot be stressed enough: updating the Business Plan on a quarterly basis keeps the investor from becoming complacent and puts them a step above their competitors. Having and maintaining a Business Plan will help present the big picture of any new business venture as well as assure specific goals are kept in focus.