



Business Law / Taxes: U.S.

Creating a Top-Notch Business Plan
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Cover Page and Table of Contents

If you have a business logo or slogan, it should go on the cover page along with your business name, address, website and telephone number. The cover page should also show the date the plan was prepared and the period it covers. The table of contents should be clear and no longer than one page.

Executive Summary

This is the first thing your readers will see and perhaps the most important part of your plan. Insider tip: You should write your executive summary last because it will be much easier to summarize all of the information detailed in the rest of your business plan.

Organizational Summary

A detailed description of how your business will work. You should include the product or service you are selling, where you will be located, how many employees you plan to have and what type of legal entity you will be organized as.

Market Analysis

Your market analysis should describe the demographics of your target customers and why your product or service will appeal to them. You should also identify your competitors and the current state of your industry. The marketing analysis should provide a lead-in to your marketing plan where you will explain how you will reach your target customers.

Marketing Plan

This should describe how you will get your message out and how you will appeal to your target audience. You will need to identify why your product or service is unique, how you will price it and why people will buy it.

Members of Your Management Team

Provide the backgrounds and qualifications of the key members of your management team. You will also want to list the qualifications of any outside consultants such as CPAs and attorneys.

List of Start-Up Expenses

Where will the money for your startup expenses come from and how much will they be? The most common startup expenses are legal and professional fees, incorporation and registration fees, security deposits and computers and other equipment. Your business may also have expenses that are specific to your industry.

Projected Profit & Loss Statement (P&L)

Your projected P&L will show your estimated monthly revenues and expenses for future periods. You should project these amounts going one year out. This is often the most difficult part of the

business plan. If you are too conservative, your business may not look enticing to investors. If you are too aggressive, you will appear to have unrealistic expectations that you will not be able to deliver on. In addition to the numbers, you should add explanations where possible. For example, you can explain how certain expenses will be higher in the earlier months than in the later months. Your projected P&L and your cash flow projection are two vital parts of your business plan.

Cash Flow Projection

Your cash flow projection will show your total cash inflows (cash received from your customers, any loans to the business and any equity investments) minus your cash outflows (cash paid to vendors and suppliers, your operating expenses, and loan and credit card payments). Like your P&L, your cash flow projection should be prepared on a monthly basis for the first year of your business. Your net cash inflow or outflow may not be the same as your net profit or loss because your cash flow will show cash expenditures that are not deductible on your P&L, such as loan payments and payroll withholding payments. Lenders are very interested in cash flow projections because they want to know that at the end of the day, you will have enough cash available to pay your debts back.

Breakeven Analysis

Your breakeven analysis will show you the amount of sales you will need to cover your costs.

A breakeven analysis is an important part of your business plan. Your breakeven point is where your revenues equal your expenses and there is neither a profit nor a loss. When you know what your breakeven point is, you will be able to estimate at what point your business will become profitable.

There are estimates you will have to make to create your breakeven analysis and these estimates will change over time. The breakeven analysis you create before you start doing business will not be the same as the one you create once you have been in business for a few months. Estimates needed to create your breakeven analysis:

Variable costs

The costs directly associated with creating your product. These costs will increase as production increases and will decrease as production decreases.

Fixed costs

The costs that you will incur regardless of the level of production your business maintains. Your business will pay these costs (such as rent, office supplies, marketing and utilities) whether you produce zero units or 100,000 units. They may change slightly with increased or decreased production, but will generally stay the same.

Unit sales

The number of units you expect to sell in a given period. If you are in the service industry, your number of units produced will be your number of customers or clients.

Selling price

The price you expect to sell each unit for.

Example:

Joanne is preparing a breakeven analysis for her new business, Joanne's Donut Shop. She estimates that her annual fixed costs are \$49,000 and that her variable costs to produce one donut are \$.10.

Joanne expects to sell her donuts for \$.80 each. From this information, it can be determined that each donut sold will yield a profit of \$.70 (\$.80 selling price - \$.10 variable cost per donut = \$.70 profit per donut). This profit can be used to pay for Joanne's fixed costs.

By dividing Joanne's fixed costs by the estimated profit earned on each donut ($\$49,000 / \$.70 = 70,000$), we can determine that Joanne will need to sell 70,000 donuts per year to break even.

If Joanne sells more than 70,000 donuts, her business will earn a profit. Sales of less than 70,000 donuts will produce a loss.