



Business Plan for Small Business

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Objectives of the module

1. Understand what is a business plan and what it is created for.
2. Have an experience in creating a business plan.

By the end of this training the trainers should not only understand what is a Business Plan and but also has already a first draft of a business of their own.

What is a business plan?

Definition

A document prepared by a businessman/entrepreneur to summarize its operational and financial objectives for a new business or the near future of an existing one (usually one to three years) and to show how they will be achieved. It serves to guide the firm's policies and strategies, and is continually modified as conditions change and new opportunities and/or threats emerge. And usually also contains a balance sheet, income statement, and cash flow statement, to illustrate how the financing being sought will affect the firm's financial position.

Business Plan Outline¹

As it is a document that serves sometimes to present the project to external persons (bank, lenders, prize givers...), it is important to point out that the document must be presented in a formal way having a cover page, table of content etc.

It will have 4 major chapters:

- Executive summary - Statement of Purpose
- Business related issues
- Financial Data
- Other supporting Documents

Business related issues

A cover sheet goes before the description. It includes the name, address and telephone number of the business and the names of all principals (if any).

¹ Source : <http://www.smallbusinessnotes.com/planning/sbabusplan.html>



Description of Business

In this section, you provide a detailed description of your business.

The 1st question to be asked is: **"What business am I in?"**

In answering this question include

- products
- market
- services
- what makes your business unique

When describing your business, generally you should explain:

1. Legal business form: proprietorship, partnership, corporation. The licenses or permits you will need.
2. Business type: merchandizing, manufacturing or service.
3. What your product or service is.
4. Is it a new independent business, a takeover, an expansion, a franchise?
5. Why your business will be profitable.
 - a. What are the growth opportunities?
 - b. Will franchising impact on growth opportunities?
6. When your business will be open (days, hours)?
7. What you have learned about your kind of business from outside sources (trade suppliers, bankers, other franchise owners, franchisor, publications).

The description of your business should clearly identify goals and objectives and it should clarify why you are, or why you want to be, in business.

Product/Service

Try to describe the benefits of your goods and services from your customers' perspective.

Describe:

1. What you are selling.
2. How your product or service will benefit the customer.
3. Which products/services are in demand; if there will be a steady flow of cash.
4. What is different about the product or service your business is offering.

Marketing Plan

Marketing plays a vital role in successful business ventures. The key element of a successful marketing plan is to know your customers-their likes, dislikes, expectations. By identifying these factors, you can develop a marketing strategy that will allow you to arouse and fulfill their needs.



Identify your customers by their

- age
- sex
- income/educational level
- place of residence.

Your marketing plan should be included in your business plan and contain answers to the questions outlined below.

1. Who are your customers? Define your target market(s).
2. Are your markets growing? Steady? Declining?
3. Is your market share growing? Steady? Declining?

4. If a franchise, how is your market segmented?
5. Are your markets large enough to expand?
6. How will you attract, hold, increase your market share?
 - a. If a franchise, will the franchisor provide assistance in this area? Based on the franchisor's strategy? How will you promote your sales?
7. What pricing strategy have you devised?

Competition

We all know that business is a highly competitive, volatile arena. Because of this volatility and competitiveness, it is important to know your competitors.

Questions like these can help you:

1. Who are your five nearest direct competitors?
2. Who are your indirect competitors?
3. How are their businesses: steady? Increasing? Decreasing?
4. What have you learned from their operations? From their advertising?
5. What are their strengths and weaknesses?
6. How does their product or service differ from yours?

Start a file/table on each of your competitors. Review these files periodically, determining when and how often they advertise, sponsor promotions and offer sales. Study the copy used in the advertising and promotional materials, and their sales strategy. For example, is their copy short? Descriptive? Catchy? Or how much do they reduce prices for sales? Using this technique can help you to understand your competitors better and how they operate their businesses.

In the case of small internet based business like here it is important to keep track of their internet websites, how often they change it, are they mentioned somewhere else (how many hits on google?) etc...



Pricing & Sales

Your pricing strategy is another marketing technique you can use to improve your overall competitiveness.

Some of the pricing strategies are:

1. retail cost and pricing
2. competitive position
3. pricing below competition
4. pricing above competition
5. price lining
6. multiple pricing
7. service costs and pricing (for service businesses only)

Advertising & Public Relations

Having a good product or service without advertising and promoting it, is like not having a business at all.

Advertising and promotions are crucial for a business and should be treated as such.

Develop short, descriptive text that clearly identifies your goods or services, its location and price. Use catchy phrases to arouse the interest of your readers, listeners or viewers.

Management

Your management plan, along with your marketing and financial management plans, sets the foundation for and facilitates the success of your business.

Like plants and equipment, people are resources (and a very important one). It's vital that you know what skills you possess and which you lack in order to hire personnel to supply the lack. Additionally, it is imperative that you know how to manage and treat your employees. Keep them informed of, and get their feedback regarding, changes. Employees often have excellent ideas that can lead to new market areas, innovations to existing products or services or new product lines or services.

Your management plan should answer questions such as:

- How does your background/business experience help you in this business?
- What are your weaknesses and how can you compensate for them?
- Who will be on the management team?
- What are their strengths/weaknesses?
- What are their duties?
- If a franchise, what type of assistance can you expect from the franchisor?
- What are your current personnel needs?
- What are your plans for hiring and training personnel?
- What remuneration (salaries, benefits, vacations, holidays etc.) will you offer?



Financial Management

As a business owner, you will need to identify and implement guidelines that will lead to and ensure that you will meet your financial obligations.

To effectively manage your finances, plan a sound, realistic budget by determining the actual amount of money needed to open your business (**start-up costs**) and the amount needed to run it (**operating costs**).

The first step to building a sound financial plan is to formulate a start-up budget. Your start-up budget will usually include such one-time-only costs as major equipment, utility deposits, and down payments.

Start-up Budget

- personnel (before opening) – salaries
- legal/professional fees
- occupancy (space rent)
- licenses/permits
- equipment
- insurance
- supplies
- advertising/promotions
- accounting
- utilities

An **operating budget** is prepared when you are actually ready to open. Your operating budget also should include money to cover the first three to six months of operation. It should allow for the following expenses.

Operating Budget

- personnel - salaries/wages
- insurance
- rent
- loan payments
- advertising/promotions
- legal/accounting
- supplies
- payroll expenses
- utilities
- dues/subscriptions/fees
- taxes
- repairs/maintenance



The financial section of your business plan should include any loan applications you've filed, a capital equipment and supply list, balance sheet, breakeven analysis, pro-forma income projections (profit and loss statement) and pro-forma cash flow. The accounting system and the inventory control system that you will be using, is also generally addressed in this section of the business plan.

Other questions that you will need to consider are:

- What type of accounting system will you use?
- What will your sales goals and profit goals for the coming year be?
- What financial projections will you need to include in your business plan?
- What kind of inventory control system will you use?

Financial Data

1. Loan applications
2. Capital equipment and supply list
3. Balance sheet and Breakeven analysis
4. Pro-forma income projections (Profit & Loss Statements)
 - Three-year summary
 - Detail by month, first year
 - Detail by quarters, second and third years
 - Assumptions upon which projections were based
5. Pro-forma cash flow
 - Three-year summary
 - Detail by month, first year
 - Detail by quarters, second and third years
 - Assumptions upon which projections were based.

Supporting Documents

- Tax returns of principals for last three years
- Personal financial statement (all banks have these forms)
- Copy of proposed lease or purchase agreement for building space
- Copy of licenses and other legal documents
- Copy of resumes of all principals
- Copies of letters of intent from suppliers