COMMERCE

Sample Business Plan

Introduction

The following Business Plan Outline is adapted from a sample business plan format prepared by the staff of the Indian Community Development Block Grant (CDBG) Program, U.S. Department of Housing and Urban Development, Region VIII, Denver, Colorado.

This outline is being distributed by the Montana Department of Commerce as an example of a business plan format that could be followed to fulfill the requirement for submission of a business plan for the WP RLF Program applications.

If you have any questions regarding this or any other requirements established for WP RLF Program applications contact Chris Ryan at chris.ryan@mt.gov or 406-841-2594.

COMMERCE

BUSINESS PLAN OUTLINE

1. EXECUTIVE SUMMARY

    a. Business Description
        - Name
        - Location and Plant Description
        - Product or Services
        - Market and Competition
        - Management Expertise

    b. Business Objectives

    c. Summary of Financial Needs

        - Proposed Uses of Funds
        - Land Acquisition
        - Capital Improvements
        - Operational Requirements
        - Proposed Sources of Funds
        - Dollar Amount Requested
        - Terms, Conditions, and Timing
        - Type and Price of Security Pledged

2. MARKET ANALYSIS

    a. Description of Total Market

    b. Industry Trends

    c. Target Market

    d. Competition

3. PRODUCTS OR SERVICE

    a. Description of Product Line

   b. Proprietary Position: Patents, Copyrights, and Legal and Technical Considerations

   c. Comparison to Competitors' Products

4. MANUFACTURING PROCESS

   a. Materials

   b. Source of Supply

   c. Production Methods

5. MARKETING STRATEGY

   a. Product

   b. Price

   c. Place (Distribution)

   d. Promotion

6. MANAGEMENT PLAN

   a. Form of Business Organization

   b. Board of Directors Composition

   c. Officers

   d. Resumes of Key Personnel

   e. Staffing Plan

   f. Facilities Plan

   g. Operating Plan

7. FINANCIAL DATA

   a. Financial Statements

      i. Balance Sheet

ii. Profit and Loss Statement

iii. Cash Flow Statement

b. Two-Year Financial Projections

c. Explanation of Use and Effect of New Funds

The following business plan outline provides the basic information necessary to evaluate the WP RLF funding application. Quality and accuracy do not necessarily mean long narratives. All the data should be complete and concise to convey the required information. Where a section is not applicable to a given proposal, this should be explained.

BUSINESS PLAN

1. Executive Summary

The summary should describe concisely what the business is all about and provide enough detail so that someone can read it and have a general understanding of the business without reading the rest of the plan. The summary should contain the following elements:

2. Business Description:

a. **Name:** Provide the business name of the company or corporation.

b. **Location and Plant Description:** The address of the business should be identified and the location described. Also, a physical description of the plant should be provided such as: sawmill with specific number of saws, buildings, and holding yard acreage.

c. **Product and Services**: Describe the product and/or service to be provided by the business or industry.

d. **Market and Competition:** Describe the market in which the product or service is to be sold. The market should be defined in terms of geography, demographic sectors,

existing consumption levels, and potential. Competitors should be identified in terms of who they are, what their potential is, and how well they are serving the existing market and also potential new competitors. The condition of the market should be described in terms of: Is it saturated? Is there room for expansion? Do gaps or niches exist?

3. Business Objectives:

Describe the long-range objectives for the business and provide a timeframe indicating when the objectives are to be achieved.

4. Summary of Financial Needs:

a. **Proposed Uses of Funds:** Describe what the requested funds will be used for and when they will be expended. General categories such as land acquisition, building construction or renovation, purchase of inventory or equipment, or working capital should be used with estimates for each identified.

b. **Proposed Sources of Funds:** For each source of funds proposed, identify the dollar amount, terms, conditions, and timing. Also, the type and price of security pledge required should be identified, such as, Certificates of Deposit (CD), personal property, personal guarantees, or income from sales.

5. Market Analysis

a. **Descriptions of the Total Market:** All of the characteristics of the market that are necessary to define it or have an impact on it should be discussed including, but not limited to, the following as applicable:

- The geographic market area should be described;
- Market characteristics that could affect sales should be defined, and an explanation given to their effect on the business, if applicable;

- The volume of trade should be described in terms of sales and units or services provided;
- Demographic characteristics, which influence the market, such as age groups, income, employment and/or other patterns should be described;
- Interrelationships with other industries or businesses that have an effect on the business, such as suppliers of materials, transportation companies, technology services, etcetera; and
- Other characteristics that define the market including a definition (or map) of the market area.

6. Industry Trends:

a. Description of the industry should be provided, including such elements as:

- Growth and contraction of the industry and causes of such changes;
  The effects of changing technology;
- The effects of political policy and regulatory controls;
- Historical and cyclical trends in the industry that may continue into the future, and;
- Projected trends.

Whenever possible, the description should be supported by data and analysis taken from verifiable and dependable sources such as trade journals, government reports or independent surveys.

7. Target Market:

a. The target market should be identified in such a way that it is clear who or what specific segment of the market will be targeted for the subject product or service and why. Suggested aspects of the market to consider are:
b. Does a niche exist in the market where a segment of the market is not being adequately served or is not being served at all?

c. Is there a geographic area that is not being served?
d. Does the business have a superior product for a particular segment of the market?
e. Is the nature of the industry such that it is possible to capture a fair share of the market simply by providing a standard product or service at a competitive price?

8. Competition:

Describe the nature of the competition in the market, such as, who they are, which firms will be competing directly, how long they have been in business, whether they have a competitive product or service or how are they apt to react to the entry of a new business or product. Whenever possible, this analysis should be supported by data regarding the industry.

9. Product or Service

a. Description of Product Line: Describe the product or service to be provided by the business in terms of quality, innovation, special characteristics, and how available. If the product has multiple elements, such as manufacturing and retail, these should be defined and explained.

b. **Proprietary Position:** Are there patents, copyrights, and legal and technical considerations, which must be cleared or addressed before the business can begin or continue to operate? These considerations should be detailed in terms of necessary actions, timeframes and potential results. If these considerations provide an advantage (or disadvantage) for the business, they should be thoroughly explained.

c. **Comparison to Competitors' Products:** In addition to knowing the competition's strengths and weaknesses, it is important to know about their product or service. The following should be addressed:
   - How long has it been on the market?
   - Is it current with the latest technology?
   - What are its strengths and weaknesses in quality, design, function, etcetera?

- How is it marketed, i.e., advertisement, promotion, direct mail, catalog, etcetera?
- Where is it in its product life cycle?
- Are there unique features about the product?
- Are there proprietary rights that give the product an advantage?

d. These and other factors should be evaluated for their significance and compared to the product or service of the subject business. Then the following should be addressed:
   - Can the product compete?
   - What must be changed (if anything) to compete more effectively?
   - What advantages exist for competing in the market?
   - How is the subject product or service better or worse?

10. Manufacturing Process (If Applicable)

a. **Materials:** What materials are necessary to produce the product? Discuss these materials in terms of quality, special features, and alternatives.

b. **Source of Supply:** The source of materials should be discussed in terms of availability, cost, location, amounts, how accessible, supplies, number of materials, interrelations of materials, transportation of materials, and storage, spoilage or deterioration rates.

c. **Production Methods**: Describe how the product will be made in terms of facilities and equipment, labor, processing, scheduling, timing, production levels, capacity, movement, inventories, and quality control. In addition, discuss problems and time constraints involved in getting the production fully operational, if it is not already. Also, discuss the economics of scale that will be necessary for most efficient operation and maximum productivity.

11. Marketing Strategy

There are several steps involved in the formation of a marketing strategy. First, an initial decision must be made to sell in a particular market sector, which is based on the objectives of the business. Market research involves the gathering of information about the market. Even though there may be an enormous amount of information about the market, there may be significant gaps in information pertaining to activities which are important to the business. Market research helps develop a plan of action to achieve the marketing objectives. The nature of the plan will depend on the firm's type of business and the extent of its potential involvement in the market. Finally, a decision must be made about how to penetrate the market. This may involve a simple, direct introduction of the product on the market, or it could consist of a series of tests on the market or segments of the market. Whichever method is used, it should be based on reasonable assumptions and knowledge of the market. The market analysis from section II should provide most of the information necessary for developing the overall strategy.

The basics of marketing are product, price, place (or distribution), and promotion -- the so-called four P's. All are integral parts of the marketing strategy. The beginning point is the product. The product must be chosen and a decision made about whether it will be standardized or adapted to various markets. Second, there is the pricing of the product, which includes several factors. One is the cost of the product, which sets a minimum price that can be charged. Among other factors, competition and demand must be considered in the price. Place (or distribution) involves decisions concerning distribution outlets -- wholesaling, retailing, and so forth. Promotion provides communication with various consumer markets. These are discussed in more detail below.

a. **Product:** One of the most important problems in the marketing of the product is standardization vs. adaptation to local markets. Some products are more sensitive to market differences than others. For instance, a firm that produces hammers need only worry about how functional the hammer is, but newspaper publishers would be very concerned about who their readers are, their interests, and then design

appropriately.

b. **Price:** There are many ways of establishing price, but the most common is "average-cost pricing." This method consists of a summation of a firm's average fixed and variable costs for various levels of output. Interest payments are an example of fixed costs. Variable costs are those which change when the output changes. The average cost per unit is the total fixed cost, plus the total variable cost, divided by the total units of output. Price is then determined by dividing total profits by the total units of output and adding it to average cost.

c. **Place (or Distribution):** Place involves making products available in the right quantities and in the right locations when customers want them. Many activities are needed to provide place, the most important of which is distribution. There is physical distribution, which involves the transportation and storage of goods. This provides time and the utility of having the product available when the customer wants it. Place is provided, too, by the wholesale and retail outlets through which the product passes on to the customer. Intermediaries also provide a place activity by bringing buyers and sellers together. Customer service is another activity of place and, of course, the activities must be managed and coordinated. The cost of transportation and storage can vary with the product. For instance, these costs would be relatively low for small electronic devices, but high for timber and large industrial items.

d. **Promotion:** In some ways, promotion is probably the most important of the four P's, in that it is used to influence attitudes and behaviors. There are two principal methods of promotion: advertising and personal selling. The choice of the methods used depends on several factors. The nature of the product is one. Consumer goods that are sold in mass markets are likely to be promoted through advertising. Industrial goods, on the other hand, are much more specialized and more likely to be promoted through the company's sales force. There are advantages and disadvantages to each; advertising reaches a larger number of consumers in a short time, but personal sales contact is

more flexible and can more directly influence opinion. Also, personal sales contacts have the advantage of immediate feedback.

12. Management Plan

a. **Form of Business Organization:** The business organization can take several forms, such as a sole proprietorship, a corporation, or a general or limited partnership. Choosing a form will depend on a number of considerations. The organizational structure should be designed to facilitate the purpose and operation of the business. Businesses with several functions may require several sub-directors or line directors, while others may require only one. It is important that organizational design considers the flow of information and decision-making requirements. Too much or too little can have very negative effects on the operation and function of the business.

b. **Board of Directors:** The board of directors could consist of members of the general business community such as bankers, developers, professionals in the community and others knowledgeable about business practices.

c. **Officers:** An organization chart should be developed which clearly shows lines of authority. In addition, the responsibilities for each position should be provided in narrative form. This should be supported by position descriptions in the personnel files.

d. **Resumes of Key Personnel:** Each of the key personnel must provide a personal resume. Resumes should be checked and verified before a position becomes permanent. Resumes, which do not indicate a strong background consistent with the position, should be evaluated very carefully.

e. **Staffing Plan:** A complete staffing plan should be developed which describes the number of employees different skills, and the skill levels required. Also, any on-the-job training programs or formal training programs (existing or proposed) should be

described with timetables and expected results.

f. **Facilities Plan:** Describe the physical plant improvements (buildings and equipment) required for the operations of the business (existing and proposed). Each facility should be described in terms of activities to be performed and where it fits in the process. Where facilities are to be modified or rehabilitated, an implementation schedule should be developed graphically with narrative describing all actions and how they are to be accomplished (describe resources and how they are to be used). Also, if major equipment purchases are to be made, describe the equipment and its use, and how the business will pay for and install it.

g. **Operating Plan:** Describe the projected workload for the next one or two years. Any existing contracts should be described with a project time schedule for performance. Anticipated workloads also should be described as well as any seasonal or cyclical workloads, which are typical for the industry. These workloads should be projected with labor force levels to assure maximum productivity.

As part of the operating plan, an operating financial plan should be established which identifies timely capital needs and expenditures.

13. Financial Data

a. **Financial Statements:** Where businesses already exist, financial statements for the past two years should be provided, including the following:

b. **Balance Sheet:** A balance sheet represents a period of time where an account is taken of the total assets and liabilities of the company. The balance sheet is divided into two sides; on the left are shown assets and on the right are shown liabilities and stockholders' equity. Both sides are always in balance. In the assetsì column, all of the businesses plus the stockholder's equity are listed.

The following example is listed:

Assets	Liabilities_____
Current Assets	| Current Liabilities
Cash	| Notes Payable - Bank
Marketable Securities	| Notes Payable - Other
Accounts Receivable	| Accounts Payable
Inventories	| Accrued Expenses
	| Federal Income Tax Payable
Prepaid Expenses	| Current Portion Long Term Debt
Fixed Assets	| Long Term Liabilities
Land	| Long Term Debt
Buildings	| Officer's Loans
Machinery	
Office Equipment	| Stockholders' Equity
Less Accumulated Depreciation	| Preferred Stock
Intangibles (Goodwill, Patents, Etc)	| Common Stock
	| Accumulated Retained Earnings

Total Assets = Total Liabilities Plus Net Worth

c. **Profit and Loss Statement:** This document provides a report over a period of time (usually a year) of how well (or poorly) the business performed and provides a statement of profits (or losses) for the period;

SAMPLE PROFIT AND LOSS STATEMENT

	Sales	Sales
Less:	Cost of Goods Sold	- COGS
Equals:	Gross Profit	= GP
Less:	Selling, General & Admin.	- SGA
Equals:	Operating Profit	= Opr. P
Less:	Officer Salaries	- Off. Sal
Less:	Depreciation Expenses	- Depr
Less:	Interest Expense	- i
Less:	Occupancy Costs	- Occ
Less:	Discretionary	- Discrete
Equals:	Earnings before Tax	= EBT
Less:	Taxes	- TX
Equals:	Profit After Tax	= PAT

(Net profit, Net Income, Etc.)

d. **Cash Flow Statement:**

Cash Flow is defined (in words, then symbols) as:

	Net Profit	PAT
Plus	Depreciation expense	+ Depr
Plus	Other Non-Cash Charges	+ NCC
Equals	Gross Funds Flow	= G.F.
Less	Operating Needs	
Plus	Operating Sources	
Equals	Cash Flow From Operations	= Opr C.F.
Less	Non-Operating Uses	- NOPR
Equals	Cash Flow Available For Debt Service	= CFA
Less	Debt Service	- D/S
Equals	Net Cash Flow	= NCF

Note: The above formats will be used to generate estimates of cash flow. These are simple formats only; your pro forma should include a specific breakdown of general categories such as "other income," "operating expenses," projections of earnings, profits, etcetera, which are relevant to demonstrating the feasibility of your project.

e. **Two-Year Financial Projections:** All businesses expect profits, or at least to match expenses with revenues (except for nonprofit organizations where motives other than profit exist). Based on its knowledge of the industry and market, financial statements, financial projections (pro forma) should be made to determine how well the business can be expected to perform.

Capital expenditures estimates should be identified and coordinated with the facilities plan and cash flow projections. These estimates will affect both the assets and liabilities of the balance sheet and debt service in the cash flow. It is important that these be scheduled in such a way as they do not conflict with other cash flow needs for operations.

The number of years that the projections are based upon will depend on the business and the needs of the analyst.

All projections should be supported by documentation and a narrative rationale. This should be consistent with the marketing research and business strategy.

f. **Explanation of Use and Effect of New Funds:** If new funds are being added to an existing business, explain how they will be used, and why they are necessary. Also, explain what effect they will have on the expansion of the business, increased efficiency, allow the business to take advantage of new opportunities, etcetera.

A Sources and Uses form has been provided to list where the new funds will come from and how they will be used. The form can be used to describe the sources that will be participating financially in the project.