

WRITING A BUSINESS PLAN

INTRODUCTION

Writing a business plan is an important early step in starting or expanding a business. A business plan is important for a number of reasons. It assists the business owner as well as institutional and individual investors by organizing information that describes the business and demonstrates how an investment or loan will further the company's goals.

A business plan provides the information that must be presented to a bank or other investor before a credit decision is made. Since most businesses can only start-up or expand through at least some borrowed dollars, the presentation of reliable and complete information in a business plan is essential.

WHAT A BANK LOOKS FOR IN A BUSINESS PLAN

Since most business plans will be submitted to banks, it's important to realize how a banker analyzes a business plan and what questions a banker asks during this analysis. A banker's job is to assess the degree of risk in each proposed loan and to be satisfied that the loan can be repaid by the borrower while still allowing the business to operate profitably. A banker does this by analyzing a number of things including:

- the nature of the business
- the purpose of the loan
- the amount of the loan
- the ability to repay the loan
- the character and management skills of the business owner
- collateral

To convince a banker (or any other investor) of the merits of a loan request, a borrower must present complete, well organized information which addresses these and other concerns. It is important to remember that the proper packaging of a loan proposal can be an important step in getting it approved.

SUGGESTED BUSINESS PLAN OUTLINE

1. Cover Letter

- Applicant name and address
- Amount and purpose of loan
- Term and source of repayment
- Collateral offered

2. Description of Business

- Type and form of business
- Location and plant description
- Product(s) description
- Timetable for business plan implementation

3. Market Analysis

- Market identification
- Market size
- Market's growth potential
- Industry trends
- Pricing of products or services
How will you remain competitive?

4. Competition

- Identification of nearest competitors
- Assess their strengths and weaknesses
- Describe the advantages your business will have

5. Management Plan

- Personal history of principals (resumes)
- Organizational chart
- Duties and responsibilities
- Staffing plan
Include number of employees, salaries, fringe benefits, training needs, etc.

6. Sources and Uses of Funds

- Identify the items to be purchased
- Include current contractor and supplier estimates, including installation, freight and contingency costs
- Identify proposed sources of funds; including owner's cash injection, proposed bank financing, and funds from any other sources
- Include working capital needs, if applicable
- Closing costs

7. Marketing Strategy

- Identify method of selling products; direct, through distributors, retail chains, etc.
- How will products be serviced?
- What kind of advertising is anticipated?
Identify costs.

8. Financial Data

- Historical Balance Sheets (three years, if available)
- Current Balance Sheet (less than 90 days old)
- Historical Profit and Loss Statements (three years, if available)
- Personal Financial Statements of Principals with more than 20% ownership in the business
- Cash Flow for one year, month-by-month, for first year after receipt of loan. Include assumptions.