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## **HOW TO PREPARE A BUSINESS PLAN**

### **WHY WRITE A BUSINESS PLAN**

A good business plan can be the key to unlocking financial resources to start or expand a business. The lack of a plan is one reason business owners fail to obtain funding for their proposals.

### **WHAT SHOULD BE INCLUDED IN YOUR PLAN**

There are five sections that should be included in your final business plan: Statement of Purpose, Description of Business, Business Financial Status, Personal Financial Status, and Financing Plan.

Some sections will involve narrative, others will involve research and some will call for serious planning. The information should be factual and objective and the plan should have the flexibility to accommodate unforeseen events.

Your plan should convey the current financial condition of the business and should include projected income statements and balance sheets for at least two or three years.

For established businesses, the plan should include a three to five-year history and highlight any major changes in the operation, such as new ownership, partnership additions, or change from proprietorship to corporation. It should also incorporate a process for monitoring changes in business activity and the local economy.

### **SECTION I: STATEMENT OF PURPOSE**

The first section is generally an overview; leave details for the other sections. Be prepared for extensive rewriting, as you will undoubtedly find that completing the sections that follow causes you to make adjustments.

### **SECTION II: DESCRIPTION OF BUSINESS**

A lot of thought and research will go into this very important section of your plan. This section is divided into five subsections that will help potential investors or lenders understand the nature of your business.

#### **A. General Background**

The business description should answer the following questions: what is the nature of the business (retail, manufacturing, service); what types of products and services do you provide and what distinguishes your products and services from the competition?





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## **B. Marketing Strategies**

This is one of the most critical components of the business plan. No matter how great your product or service, if you cannot market it, your business will not succeed. Potential backers will want to know the following:

- Your existing and/or potential target market segments (geographic and/or demographic).
- How you will promote your business.
- Growth expectations. For example, show current and potential levels of sales in unit or dollar amount. Include new or existing sales contracts to support the anticipated growth.
- A breakdown of selling costs by product/service, indicating the percent each service or product line contributes to sales and profits.
- What factors are used to set pricing.

## **C. Competition Analysis**

This section describes the status of your competition. What are their locations and market shares? Are they increasing or decreasing in number and size? Compare quality, pricing, service and advertising of competitors to your own. Determine your competitors' strengths and weaknesses and how you may exploit them.

## **D. Management Analysis**

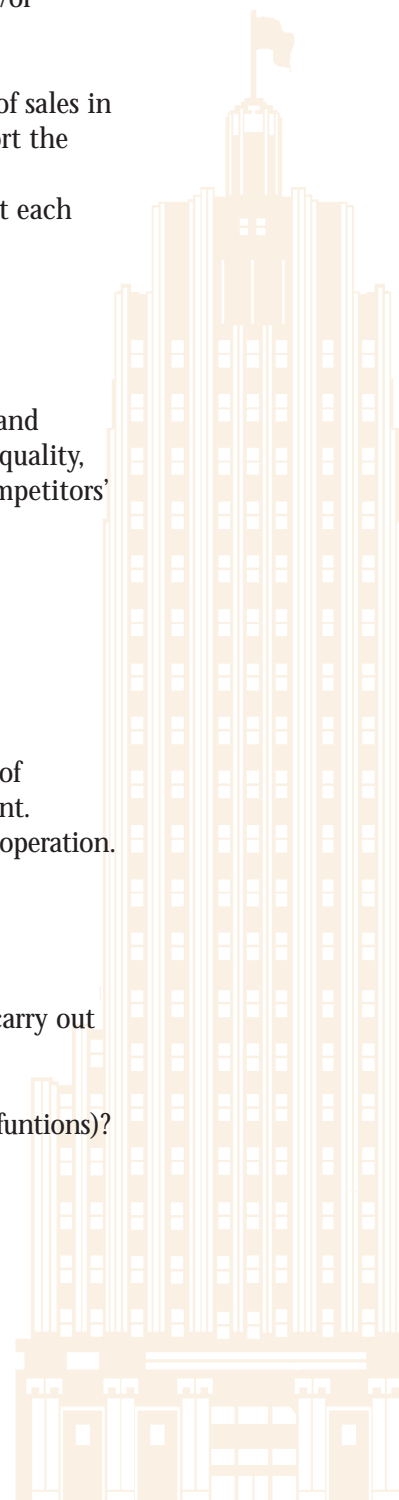
To carry out a strategic marketing plan, you will need to analyze the management resources available to you. When preparing a management analysis, you should:

- Identify the special qualifications, expertise and educational background of your key management personnel. Include resumes of your key management.
- Include an organizational chart with an explanation of each department/operation.
- Identify back-up management.

## **E. Personnel Analysis**

The information in this section will determine whether staffing is adequate to carry out the business plan. Consider the following:

- What are the current staffing needs (number of employees and their job functions)?
- To accomplish this plan, what will the future personnel needs be?
- What will the cost be for these additional personnel?





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### **SECTION III: FINANCIAL STATUS**

This is where you need to describe your business' financial situation. If you have an existing business, use historical information to prepare financial statements that communicate financing needs and evaluate your company's creditworthiness. If it's a new or recently purchased business, and no historical information is available, industry studies are available through your local library, banker or accountant. The following items need to be included:

**Current status:** Balance sheets and profit and loss statements for the past three years or your business tax returns.

**Financial Forecasts:** Projected profit and loss statement for the next two years, including sales, gross profits, operating expenses, net profits, and a list of assumptions for each item. Projected cash flow statement (this helps identify the months when you expect to have a cash deficiency or surplus).

### **SECTION IV: PERSONAL FINANCIAL STATUS**

How people handle their personal finances generally reflects how they will handle their business finances.

Your personal financial statement describes such significant items as your outstanding debts, the money you personally will need to earn from your business to retire your debts or support your family, and your potential collateral.

### **SECTION V: FINANCING PLAN**

The financing plan details the amount of financing needed to carry out the business plan and identifies the source of the funds. It also reflects any issues that may affect the financial position of the business. You need to supply all of the following information:

- Provide a detailed description of purchases, operating expenses, or capital expenditures that any loan proceeds will finance. Clearly define the purpose of the loan.
- Identify the anticipated sources of financing and their amounts.
- Specify what sources of funds (revenue from sales, outside investors, sale of assets, etc.) will be used to repay any loans. Include timing of repayment.
- Provide a detailed description of collateral (both business and personal) to be pledged as security for any loans. Appraisals or other proof of the value of this equipment and/or real estate should be included.
- If the business has other debt, detail the amount, the source of the funding, use of the funds, terms of repayment, and the collateral pledged under these agreements.
- An accounts payable aging schedule that lists all creditors, the amounts owed,



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and the age of the accounts should be included. Likewise, an accounts receivable aging report should be provided, identifying your customers, how much they owe, and the aging of their accounts.

- Identify any items not mentioned above that may also affect financing (such as pending lawsuits, business relocation, ownership change or change in legal status).
- Provide a list of suppliers and customers for reference.

