

Session 2 SM 2 Business Plan Index

I. Executive Summary

The Executive Summary should not be a mere listing of topics contained in the body of your business plan but should emphasize the key issues presented. A critical point that must be communicated in the Executive Summary is your company's distinctive competence—the factors that will make your business successful in a competitive market.

A. The Purpose of the Plan

1. Attract investors
2. Document an operational plan for controlling the business

B. Market Analysis

1. The characteristics of your target market (demographic, geographic, etc.)
2. The size of your target market

C. The Company

1. The needs your company will satisfy
2. The products or services you will offer to satisfy those needs

D. Marketing and Sales Activities

1. Marketing strategy
2. Sales strategy
3. Keys to success in your competitive environment

E. Product or Service Research and Development

1. Major milestones
2. Ongoing efforts

F. Organization and Personnel

1. Key managers and owners
2. Key operations employees

G. Financial Data

1. Funds required and their use
2. Historical financial summary
3. Prospective financial summary (including a brief justification for prospective sales levels)

New Venture Tip

If your company is new, you could be sending your business plan to potential investors who review hundreds of them each year. More often than not, these individuals do not get past the Executive Summary of the plans they receive. Your Executive Summary must therefore give the reader a useful understanding of your business and make the point of most interest to them: "What is in it for the investor?"

Note—In total, your Executive Summary should be less than three pages in length and provide the reader with a succinct overview of your entire business plan.

The Executive Summary should be followed by a brief Table of Contents designed to assist readers in locating specific sections in the plan. Detailed descriptions of the plan's contents should be avoided in the Table of Contents.

II. Market Analysis

The Market Analysis section should reflect your knowledge of your industry and present highlights and analysis of your market research. Detailed market research studies, however, should be presented as appendices to your plan.

A. Industry Description and Outlook

1. Description of your primary industry
2. Size of the industry
 - a. Historically
 - b. Currently
 - c. In five years
 - d. In ten years
3. Industry characteristics and trends (Where is it in its life cycle?)
 - a. Historically
 - b. Currently
 - c. In the future
4. Major customer groups
 - a. Businesses
 - b. Governments
 - c. Consumers

B. Target Markets

1. Distinguishing characteristics of your primary target markets and market segments. Narrow your target markets to a manageable size. Efforts to penetrate target markets that are too broad are often ineffective.
 - a. Critical needs
 - b. Extent to which those needs are currently being met
 - c. Demographics
 - d. Geographic location
 - e. Purchase decisionmakers and influencers
 - f. Seasonal/cyclical trends
2. Primary target market size
 - a. Number of prospective customers
 - b. Annual purchases of products or services meeting the same or similar needs as your products or services
 - c. Geographic area
 - d. Anticipated market growth
3. Market penetration — indicate the extent to which you anticipate penetrating your market and demonstrate why you feel that level of penetration is achievable based on your market research
 - a. Market share
 - b. Number of customers
 - c. Geographic coverage
 - d. Rationale for market penetration estimates
4. Pricing/gross margin targets
 - a. Price levels
 - b. Gross margin levels
 - c. Discount structure (volume, prompt payment, etc.)
5. Methods by which specific members of your target market can be identified
 - a. Directories
 - b. Trade association publications
 - c. Government documents
6. Media through which you can communicate with specific members of your target market
 - a. Publications
 - b. Radio/television broadcasts
 - c. Sources of influence/advice
7. Purchasing cycle of potential customers
 - a. Need identification
 - b. Research for solutions to needs
 - c. Solution evaluation process
 - d. Final solution selection responsibility and authority (executives, purchasing agents, engineers, etc.)
8. Key trends and anticipated changes within your primary target markets
9. Secondary target markets and key attributes
 - a. Needs
 - b. Demographics
 - c. Significant future trends

C. Market Test Results

1. Potential customers contacted
2. Information/demonstrations given to potential customers
3. Reaction of potential customers
4. Importance of satisfaction of targeted needs
5. Test group's willingness to purchase products/services at various price levels

D. Lead Times (amount of time between customer order placement and product/service delivery)

1. Initial orders
2. Reorders
3. Volume purchases

E. Competition

1. Identification (by product line or service and market segment)
 - a. Existing
 - b. Market share
 - c. Potential (How long will your "window of opportunity" be open before your initial success breeds new competition? Who will your new competitors likely be?)
 - d. Direct
 - e. Indirect
2. Strengths (competitive advantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Staying power (financial resources)
 - e. Key personnel
3. Weaknesses (competitive disadvantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Staying power (financial resources)
 - e. Key personnel
4. Importance of your target market to your competition
5. Barriers to entry into the market
 - a. Cost (investment)
 - b. Time
 - c. Technology
 - d. Key personnel

- e. Customer inertia (brand loyalty, existing relationships, etc.)
- f. Existing patents and trademarks

F. Regulatory Restrictions

1. Customer or governmental regulatory requirements
 - a. Methods for meeting the requirements
 - b. Timing involved
 - c. Cost
2. Anticipated changes in regulatory requirements

New Venture Tip

Since your market analysis provides the only basis for your prospective sales and pricing estimates, make sure that this section clearly demonstrates that there is a market need for your product or service, that you as owner not only understand this need but can meet it, and that you can sell at a profit. This section should also include an estimate of your market penetration annually for the next five years.

III. Company Description

The Company Description section must provide an overview of how all of the elements of your company fit together without going into detail, since most of the subjects will be covered in depth elsewhere in the plan.

A. Nature of Your Business

1. Marketplace needs to be satisfied
2. Method(s) of need satisfaction (products and services)
3. Individuals/organizations with the needs

B. Your Distinctive Competences (primary factors that will lead to your success)

1. Superior customer need satisfaction
2. Production/service delivery efficiencies
3. Personnel
4. Geographic location

New Venture Tip

Writing this section is the first real test of your ability to communicate the essence of your business. Since the lack of a clear description of the key concepts of your company will indicate to the reader that you have not yet clearly defined it in your own mind, you must be certain that this section concisely and accurately describes the substance of your new business.

IV. Marketing and Sales Activities

Both general and specific information must be included in this part of your plan. Your objective here is to describe the activities that will allow you to meet the sales and margin levels indicated in your prospective financial statements.

A. Overall Marketing Strategy

1. Marketing penetration strategy
2. Growth strategy
 - a. Internal
 - b. Acquisition
 - c. Franchise
 - d. Horizontal (providing similar products to different users)
 - e. Vertical (providing the products at different levels of the distribution chain)
3. Distribution channels (include discount/profitability levels at each stage)
 - a. Original equipment manufacturers
 - b. Internal sales force
 - c. Distributors
 - d. Retailers
4. Communication
 - a. Promotion
 - b. Advertising
 - c. Public relations
 - d. Personal selling
 - e. Printed materials (catalogues, brochures, etc.)

B. Sales Strategies

1. Sales force
 - a. Internal vs. independent representatives (advantages and disadvantages of your strategy)
 - b. Size
 - c. Recruitment and training
 - d. Compensation
2. Sales activities
 - a. Identifying prospects
 - b. Prioritizing prospects
 - c. Number of sales calls made per period
 - d. Average number of sales calls per sale
 - e. Average dollar size per sale
 - f. Average dollar size per reorder

New Venture Tip

Do not underestimate the importance of presenting a well-conceived sales strategy here. Without an efficient approach to beating a path to the doors of potential customers, companies with very good products and services often fail.

V. Products and Services

Special attention should be paid to the users of your business plan as you develop this section. Too much detail will have a negative impact on most external users of the plan. Avoid turning this section of your business plan into a policies and procedures manual for your employees.

A. Detailed Product/Service Description (from the user's perspective)

1. Specific benefits of product/service
2. Ability to meet needs
3. Competitive advantages
4. Present stage (idea, prototype, small production runs, etc.)

B. Product Life Cycle

1. Description of the product/service's current position within its life cycle
2. Factors that might change the anticipated life cycle
 - a. Lengthen it
 - b. Shorten it

C. Copyrights, Patents, and Trade Secrets

1. Existing or pending copyrights or patents
2. Anticipated copyright and patent filings
3. Key aspects of your products or services that cannot be patented or copyrighted
4. Key aspects of your products or services that qualify as trade secrets
5. Existing legal agreements with owners and employees
 - a. Nondisclosure agreements
 - b. Noncompete agreements

D. Research and Development Activities

1. Activities in process
2. Future activities (include milestones)
3. Anticipated results of future research and development activities
 - a. New products or services
 - b. New generations of existing products or services
 - c. Complementary products or services
 - d. Replacement products or services
4. Research and development activities of others in your industry
 - a. Direct competitors
 - b. Indirect competitors
 - c. Suppliers
 - d. Customers

New Venture Tip

The emphasis in this section should be on your company's unique ability to satisfy the needs of the marketplace. Avoid criticizing your competition's products too severely in this section because the natural tendency of a reader who is not part of your organization will be to empathize with the unrepresented party—your competition. Concentrate on the positive aspects of your product's ability to meet existing market needs and allow your readers to come to their own conclusions about your competition based on the objective information presented here and in the Market Analysis section.

VI. Operations

Here again, too much detail can detract from the rest of your plan. Be certain that the level of detail included fits the specific needs of the plan's users.

A. Production and Service Delivery Procedures

1. Internal
2. External (subcontractors)

B. Production and Service Delivery Capability

1. Internal
2. External (subcontractors)
3. Anticipated increases in capacity
 - a. Investment
 - b. New cost factors (direct and indirect)
 - c. Timing

C. Operating Competitive Advantages

1. Techniques
2. Experience
3. Economies of scale
4. Lower direct costs

D. Suppliers

1. Identification of the suppliers of critical elements of production
 - a. Primary
 - b. Secondary
2. Lead time requirements

3. Evaluation of the risks of critical element shortages
4. Description of the existing and anticipated contractual relationships with suppliers

New Venture Tip

Since many of the aspects of your new business are still theoretical at this point, special care must be taken to be sure the specifics of your operations do not conflict with the information included in your prospective financial statements. Any inconsistencies between those two areas will result in some unpleasant surprises as your company begins operations.

VII. Management and Ownership

Your management team's talents and skills are some of the few truly unique aspects of your company. If you are going to use your plan to attract investors, this section must emphasize your management's talents and skills, and indicate why they are a part of your company's distinctive competence that cannot easily be replicated by your competition. Remember that individuals invest in people, not ideas.

Do not use this section of the plan to negotiate future ownership of the company with potential investors. Simply explain the current ownership.

A. Management Staff Structure

1. Management staff organization chart
2. Narrative description of the chart

B. Key Managers (complete resumes should be presented in an appendix to the business plan)

1. Name
2. Position
3. Brief position description, including primary duties
4. Primary responsibilities and authority with previous employers

5. Unique skills and experiences that add to your company's distinctive competences
6. Compensation basis and levels (be sure they are reasonable — not too high and not too low)

C. Planned Additions to the Current Management Team

1. Position
2. Primary responsibilities and authority
3. Requisite skills and experience
4. Recruitment process
5. Timing of employment
6. Anticipated contribution to the company's success
7. Compensation basis and levels (be sure they are in line with the market)

D. Legal Structure of the Business

1. Corporation
 - a. C corporation
 - b. S corporation
2. Partnership
 - a. General
 - b. Limited
3. Proprietorship

E. Owners

1. Names
2. Percentage ownership
3. Extent of involvement with the company
4. Form of ownership
 - a. Common stock
 - b. Preferred stock
 - c. General partner
 - d. Limited partner
5. Outstanding equity equivalents
 - a. Options
 - b. Warrants
 - c. Convertible debt
6. Common stock
 - a. Authorized
 - b. Issued

F. Board of Directors

1. Names
2. Position on the board
3. Extent of involvement with the company

4. Background
5. Contribution to the company's success
 - a. Historically
 - b. In the future

New Venture Tip

Since your management team is unique, make sure that you stress their backgrounds and skills and how they will contribute to the success of your product/service and business. This is especially important to emphasize when you are looking for financing.

VIII. Funds Required and Their Uses

Any new or additional funding reflected in your prospective financial statements should be discussed here. Alternative funding scenarios can be presented if appropriate, and corresponding prospective financial statements are presented in subsequent sections of your plan.

A. Current Funding Requirements

1. Amount
2. Timing
3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
4. Terms

B. Funding Requirements over the Next Five Years

1. Amount
2. Timing
3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
4. Terms

C. Use of Funds

1. Capital expenditures
2. Working capital
3. Debt retirement
4. Acquisitions

D. Long-Range Financial Strategies (liquidating investors' positions)

1. Going public
2. Leveraged buyout
3. Acquisition by another company
4. Debt service levels and timing
5. Liquidation of the venture

New Venture Tip

Remember that since the rate of return is their most important consideration—and that the initial public offering market is sometimes not available—investors will be looking for alternative exit strategies. Therefore, be flexible and creative in developing these opportunities, taking into consideration such recent trends as a merger/acquisition and strategic partnering. Although details can be worked out later, investors need to know that you understand their primary objectives as you develop your overall business strategy.

Note—Ernst & Young's Guide to Financing for Growth contains a detailed discussion of various alternatives for raising capital and may provide you with some of the ideas and information you may need to write this portion of your business plan. The book, written by E&Y partners and published by John Wiley & Sons, may be purchased at many bookstores or may be ordered by returning the reply card included at the end of this booklet.

IX. Financial Data

The Financial Data section contains the financial representation of all the information presented in the other sections. Various prospective scenarios can be included, if appropriate.

A. Historical Financial Data (past three to five years, if applicable)

1. Annual statements
 - a. Income
 - b. Balance sheet
 - c. Cash flows
2. Level of CPA involvement (and name of firm)
 - a. Audit
 - b. Review
 - c. Compilation

B. Prospective Financial Data (next five years)

1. Next year (by month or quarter)
 - a. Income
 - b. Balance sheet
 - c. Cash flows
 - d. Capital expenditure budget
2. Final four years (by quarter and/or year)
 - a. Income
 - b. Balance sheet
 - c. Cash flows
 - d. Capital expenditure budget
3. Summary of significant assumptions
4. Type of prospective financial data
 - a. Forecast (management's best estimate)
 - b. Projection ("what-if" scenarios)
5. Level of CPA involvement
 - a. Assembly
 - b. Agreed-upon procedures
 - c. Review
 - d. Examination

C. Analysis

1. Historical financial statements
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation
2. Prospective financial statements
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation.

New Venture Tip

The Financial Data section of your business plan is another area where specialized knowledge can be invaluable. If you do not have someone with sufficient financial expertise on your management team, you will probably need to utilize an outside advisor.

Note—EY/FastPlan™ is an Excel model designed to assist you in preparing your prospective financial statements. EY/FastPlan is a time-saving tool that can give you the professional financial information the users of your business plan will need. See the business reply card at the end of this booklet for information about ordering EY/FastPlan.

X. Appendices or Exhibits

Any additional detailed or confidential information that could be useful to the readers of the business plan but was not appropriate for distribution to everyone receiving the body of the plan can be presented here. Accordingly, appendices and exhibits should be bound separately from the other sections of the plan and provided on an as-needed basis to readers.

A. Resumes of Key Managers

B. Pictures of Products

C. Professional References

D. Market Studies

E. Pertinent Published Information

1. Magazine articles
2. References to books

F. Patents

G. Significant Contracts

1. Leases
2. Sales contracts
3. Purchases contracts
4. Partnership/ownership agreements
5. Stock option agreements
6. Employment/compensation agreements
7. Noncompete agreements
8. Insurance
 - a. Product liability
 - b. Officers' and directors' liability
 - c. General liability

New Venture Tip

In some instances, the thicker the business plan, the less likely a potential investor is to read it thoroughly. However, you do want to be able to demonstrate to potential funding sources that you have done a complete job in preparing your plan and that the comments made within it are well documented. By properly utilizing appendices and exhibits, you can keep the size of your business plan palatable to its users and still have the additional information they may require readily available.