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Business Plans: How to Prepare and Effective One

One of the major steps in starting a new business or getting financing is to prepare a business plan. This Financial Guide provides you with the basic information that you will need to put in your business plan.

A well-thought-out business plan is a valuable tool for a new company or one seeking financing. It can also provide milestones to gauge your success. Indeed, the very process of developing a business plan will help you think through some important issues that you may not have considered yet.

Before getting down to the actual preparation of your business plan, take the time up front to explore and evaluate your business (and personal) goals. Then use this information to build a comprehensive and effective business plan that will help you reach these goals.

This Financial Guide provides a basic introduction to preparing a business plan intended to help focus your thinking about your business. It does not attempt to get into the details that should be incorporated into the plan, since those depend on your specific goals and the nature of the specific business. Professional guidance should be sought for the actual preparation of the plan, particularly for the financial components.

If You're Starting a New Business

If the reason for preparing the business plan is that you are starting a new business, you should first examine your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- You want to be your own boss.
- You want financial independence.
- You want creative freedom.
- You want to fully use your skills and knowledge.

Next, you need to determine, what business is "right for you." Ask yourself these questions:

- What do I like to do with my time?
- What technical skills have I learned or developed?
- What do others say I am good at?
- Will I have the support of my family?
- How much time do I have to run a successful business?
- Do I have any hobbies or interests that are marketable?

Then, you should identify the niche your business will fill. Conduct the necessary research to answer these questions:

- What business am I interested in starting?
- What services or products will I sell?
- Is my idea practical, and will it fill a need?
- What is my competition?



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- What is my business's advantage over exiting firms?
- Can I deliver a better quality service?
- Can I create a demand for my business?

You will also need to consider several options for getting your business off the ground:

- Do you want to purchase an existing business or start one from scratch?
- Are there franchises available for this type of business? If so, does a franchise make sense for you?

The final step before developing your plan is the pre-business checklist. You should answer these questions:

- What skills and experience do I bring to the business?
- What will be my legal structure?
- How will my company's business records be maintained?
- What insurance coverage will be needed?
- What equipment or supplies will I need?
- How will I compensate myself?
- What financing will I need?
- Where will my business be located?
- What will I name my business?
- Your answers will help you create a focused, well-researched business plan, and that should serve as a blueprint. It should detail how the business will be operated, managed, and capitalized.

Based upon your initial answers to the questions listed above, you should formulate a business plan. A business plan formalizes the analysis of a prospective business by forcing you to put your ideas and the answers to the above questions in writing. A business plan sets forth the mission or purpose of the business venture, describes the product or services to be provided, which presents an analysis of the market state, the goals that the business has, and how it intends to achieve those goals and last, but not least, has a formal financial plan.

The business plan is necessary to obtain external capital for your business, but it serves a number of other purposes. It forces you to critically evaluate the feasibility of your business and whether it will provide a return which is appropriate to the time and money you will invest in the business. The plan provides a benchmark against which you can evaluate the success of your business in later years.

What the Business Plan Should Include

Whether you are starting a new business, seeking financing for an existing business, attempting to analyze a new market, or wanting to define and evaluate future growth, the following outline of a typical business plan can serve as a guide. However, you should adapt it to your specific business.



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Introduction/Mission

In the introductory section of your business plan, you should:

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and its goals.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competition.

Products/Services and Markets

In this section, you must describe your products and/or services and:

- Identify the customer demand for your product/service.
- Describe how your product/service is unique.
- Identify your market, as well as its size and locations.
- Explain how your product/service will be advertised and marketed.
- Explain the pricing strategy.

Financial Management

In this section, you should:

- Explain the source and amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected (return on investment), or ROI, and a monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a two-year period.
- Discuss your break-even point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address alternative approaches to any problem that may develop.

Operations

In this section it is important to:

- Explain how the business will be managed on a day-to-day basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreements, and issues pertinent to your business.
- Account for the equipment necessary to produce your product or services.
- Account for production and delivery of products and services.



Concluding Statement

In the ending statement, you summarize your business goals, objectives, and express your commitment to the success of your business.

Once you have completed your business plan, review it with a friend or business associate. When you feel comfortable with the content and structure, make an appointment to review and discuss it with your banker. The business plan is a flexible document that should change as your business grows.