



What Is a Business Plan?

A business plan is a document that details a plan for the creation of a business. The business plan covers all aspects of the proposed business. A well-prepared business plan will serve as an invaluable tool to a business owner in the funding and operation of his or her business.

Why Prepare a Business Plan?

The preparation of a business plan requires research, time, and thought. It is a blueprint for all the aspects of a business. The time and effort spent preparing a business plan is a worthwhile investment for business ownership. A business plan should be developed for every type of business, including hotels, clothing stores, restaurants, and convenience stores. Whether you are preparing to open a new business, purchase an existing business, or expand an existing business, you need to develop a business plan. Many business owners prepare and update business plans for their established businesses. It is important to recognize that the business plan is a very helpful tool.

Benefits of preparing a business plan include helping you set and clarify your goals for the business and for yourself. It will also help you determine the steps to accomplish those goals. The business plan will shed light on the amount of money necessary to start and operate the business. If you need to borrow money to finance your business, the bank or other lender will want to examine your business plan.

Main Idea

In this unit we will study business plans and explore the reasons for preparing a business plan. We will also review the sections of a business plan and the information that each section contains. In addition, we will learn some ways to give a business plan a polished and professional appearance.

After completing this lesson you will be able to:

- Explain the importance of preparing a business plan
- Describe the main components of an effective business plan and the information contained in each section
- Explain the purpose of financial reports within a business plan
- Identify characteristics of a professional business plan and resources that may assist you in preparing one
- Compute personal net worth and business equity in terms of assets and liabilities
- Forecast revenue, calculate net sales, and determine net profit using industry averages
- Review a business plan, identify potential problems, and make necessary changes

Key Terms

- Business Plan
- Executive Summary
- Target Market
- Short-term Loans
- Long-term Loans

Developing a Business Plan

As you begin developing your business plan, you should keep some guidelines in mind. The most important one is that the business plan should be realistic. Be honest with yourself about your goals and expectations. You can gather information and figures about costs you will incur from your local chamber of commerce, trade associations, and the U.S. Small Business Administration. You should give yourself a reasonable timeline to develop the business plan and business goals. Be sure to state information clearly.

Elements of a Business Plan

Business plans contain a lot of important information. That information is organized into sections that explain the various aspects of the proposed business. Here is an outline of a complete business plan:

- **Executive Summary:** An executive summary is a one-page summary of the proposal for the business. This summary is an introduction to the body of the business plan. It will introduce your proposed business venture and familiarize the reader with your concept.
- **Description of Business, Product, or Service:** This section explains the proposed business and the products and/or services it will provide.
- **Management Team:** This section explains the business's personnel needs, the qualifications for management, and an organizational chart.
- **Customer Profile:** This section provides analysis of and information about the target market. The target market is the group of consumers a business wants as its customers.
- **Competitive Analysis:** This section details information about direct and indirect competitors, their product and service offerings, and their pricing policies.
- **Marketing Plan:** This section supplies information about how the business will be marketed and promoted, pricing policies, and proposed promotional activities.
- **Operations Plan:** This section details how the business will operate, the type of ownership, and the location of the business.
- **Financial Projections:** This section details the amount of money necessary to start and operate the proposed business. It includes the pro forma financial statements that were discussed in the Financial Statements unit. These pro forma statements specify the types of expenditures that will be necessary and project the anticipated income from the business. The pro forma financial statements also include information about the sources of money for the expenditures. The following information should be part of the financial projections portion of the business plan.
 - 1) **Personal financial report**—This is a statement of your personal financial status and includes personal assets and liabilities.

- 2) Pro forma income statements—These statements provide information about sales, expenses, and profit or loss. The pro forma income statements should be monthly for the first year of operation.
- 3) Pro forma cash flow statements—These statements provide information about when cash comes into the business and when it will be spent. The pro forma cash flow statements should be monthly for the first year of operation.
- 4) Pro forma balance sheet—This statement provides a summary of the business's assets, liabilities, and equity. The balance sheet should provide information for the first year of operation.
- 5) Proposed sources of funding—This section should include both personal and outside sources of funding. It must provide information about both short-term and long-term loans. Short-term loans are those that will be repaid in a year or less. Long-term loans are those that will be repaid within one to five years. A loan repayment schedule should also be included in this section.

Creating a Professional Business Plan

Once you have compiled the information for your business plan, you are ready to create the business plan document. As you write the document, use proper grammar and spelling. Incorrect grammar and misspelled words indicate a lack of attention to detail. Use business terminology when applicable. Apply a standard font, such as Times New Roman, that is easy to read. A clean and simple approach is best in creating a business plan with a professional appearance.

Summary

This unit has provided information about business plans. We discussed reasons why it is helpful to prepare a business plan. We learned about the sections of a business plan and about the information that is contained in each section. We also explained the importance of good grammar and accurate mathematical computations and how to give your business plan a professional appearance. Lastly, we reviewed some of the mathematics used in developing business plans.

Key Math Concepts

The math that you will use to develop your business plan consists primarily of the basic math functions. It is important to make sure that your figures and the computations are accurate. Most of these computations are needed for the Financial Projections section of the business plan.

COMPUTE NET WORTH

To compute net worth for your personal financial report, use this formula:

$$\text{Net Worth} = \text{Assets} - \text{Liabilities}$$

FORECAST REVENUE

To forecast revenue for a proposed business, you will normally use a percentage increase or decrease of revenue from industry averages for your area. To forecast revenue as a percentage increase or decrease, use this formula:

$$\text{Forecasted Revenue} = \text{Percentage Increase or Decrease} \times \text{Industry Average of Revenue}$$

COMPUTE REVENUE

To compute revenue, use this formula:

$$\text{Revenue} = \text{Unit Sales} \times \text{Price per Unit}$$

COMPUTE NET SALES

Net sales are a part of the income section of an income statement. Use this formula to compute net sales:

$$\text{Net Sales} = \text{Total Sales} - \text{Returns and Discounts}$$

COMPUTE NET PROFIT

To compute net profit, use this formula:

$$\text{Net Profit} = \text{Total Revenue} - \text{Total Expenses}$$

COMPUTE EQUITY

To compute equity on a balance sheet, use this formula:

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

Key Terms

Business Plan

A document that details a plan for the creation of a business.

Executive Summary

A one-page summary of the proposal for a business.

Target Market

The group of consumers a business wants as its customers.

Short-term Loans

Loans that will be repaid in a year or less.

Long-term Loans

Loans that will be repaid within one to five years.

Business Plan Analysis

1. The income statement of your business plan projects total sales for your first month in business to be \$22,585. You project returns of \$478 and discounts of \$55. What is the net sales amount?

2. What is your net profit for one month if your total revenue is \$25,487 and your total expenses are \$24,342?

3. What are the total assets of your business if you have liabilities of \$175,800 and equity of \$65,500?

4. Forecast revenue for the month of June based on a 10% increase over the national average sales.

National Average Sales

Week 1	\$15,350
Week 2	\$17,745
Week 3	\$16,280
Week 4	\$19,830

Business Plan Analysis

1. Identify who will be most interested in examining your business plan when you propose a new business. Then describe what section of the business plan they will want to read first and list the other major sections supporting your proposed business venture that they will want to analyze.

2. You have an idea for opening a new business but do not know how to get started. Discuss key information you will look for and some resources you can turn to for guidance.

3. In the midst of developing your business plan you need a resource to assist in making it look more professional. List a resource and note the major guidance you require.

4. You have just finished writing your business plan and are in the process of proofing it before you go to your local bank to seek financing. Make a checklist to help you proof the document and make sure you have covered the key information.

Business Plan Analysis

GOAL: Your goal is to review an entrepreneur's business plan and determine if there are flaws in the plan.

YOUR SITUATION: In this lesson, you control all aspects of your store.

1. Run all sections of the Tutorial under the **Basics, Reports, and Actions headings.**
2. Open the **Business Plan Analysis** lesson.
3. Read the abbreviated business plan that is included in this assignment. Browse around the city and review the competition. You may do market research as needed to identify customer groups and needs.

QUESTION 1: What problems do you see with the plan?

2. Reopen the lesson. Run the simulation for 8 weeks.

QUESTION 2: Did the business experience the problems you predicted? Were there other problems you didn't foresee?

QUESTION 3: How would you change the plan to avoid the problems encountered?

4. Reopen the lesson. Based on your answer in step 3, make changes to the business. Run the simulation for 8 weeks.

QUESTION 4: Were you able to eliminate the problems? How?

Business Plan for Jan's Convenience Store

DESCRIPTION OF THE BUSINESS

Jan's will be a convenience store primarily serving the student population around a university. The pricing will be fairly low to keep in line with student budgets. The store will stock goods that are popular among students.

COMPETITIVE ANALYSIS

There are two other convenience stores in town. Only one, Jack's, is relatively near the targeted location of Jan's. Jack's does a lot of radio advertising but their radio buys are spread over many stations. Observation of Jan's customers shows that they are mainly businesspeople, who are not our primary target customers.

CUSTOMER PROFILE

The target customer of Jan's store is a student attending the nearby university. We believe that these customers will demand a lot of Primo Soda, TrimQuick, Cold & Flu, Aspirin, Generic Soda, and Nachos.

OPERATIONS PLAN

The store will maintain sufficient inventory (500 units of each product) to ensure that it is never out of products that customers want. The store will not stock any sunscreen during the winter months. The store will be staffed in a lean manner to keep costs down. The store will be open at all times of day to maximize revenue. Prices will be set to yield a margin of 20%. This will keep goods in an affordable range to students.

MARKETING PLAN

The primary means of advertising will be radio. In order to counter the push of the competitor, Jack's, advertising will be bought on a wide range of stations and times. Only "late night time slots" will be skipped to save money. Storefront signs will also be used to promote a special on Primo Soda.

FINANCIAL PROJECTIONS

The business will be capitalized with \$25,000 from the owner's savings. The store will not seek a bank loan and will pay suppliers promptly to ensure continued supply and establish goodwill. The business expects to generate \$55,000 per week of revenue which will yield \$11,000 per week in gross margin. Rent for the location is \$1,140 per week. Weekly payroll will be \$2,380 and radio ads will cost \$6,384 per week. Total expenses will be \$9,044 per week resulting in a profit of \$1,096 per week.