



Guide to
Writing a
Business
Plan

by Greg Babcock

Guide to Writing a Business Plan

Companion to the Business Plan Software [BIZPLAN](#)

I.) Introduction

Whether starting, buying or expanding a business, always have a Business Plan ready to present to perspective lenders. Lenders can include Banks, Venture Capitalists & Lending Brokers. On occasion, Insurance Companies will require a Business Plan before providing insurance coverage. Further, though you may have secured a relationship with a lender, it isn't uncommon for the same lender to occasionally require an updated Business Plan from time to time.

An additional benefit of writing a Business Plan (in particular for Startups), is that the Plan can act as guide for what you need to be accomplished in order to start a new business.

The Business Plan should have a professional appearance that is neat and clean to put forward the best possible image. When writing narratives, keep them short (1/2 page per topic maximum) and to the point.

II.) Contents of a Business Plan

The following is a list of topics that are generally required in a Business Plan. Information requirements for a Business Plan may vary from reader to reader.

Name of Company & Legal Form

Corporation, Partnership, Sole Proprietorship, etc.

State of Company

Start up business, purchase of business or franchise, expansion of existing business...

Vision & Mission

Narrative on Goals & Philosophies.

Company History

(If buying business or updating a Business Plan on an existing business)

Discuss past accomplishments, jobs and responsibilities.

Company Physical Description

Include information on plant(s), location(s), equipment and etc.

Information on Owners and/ or Key Personnel (Resumes)

Discuss work experience, education, military service, special training, unique skills and major accomplishments.

Company Qualifications

Operating Licenses, special certifications and etc.

Vendor and Professional Services

Key Vendors and their products and/ or services.

Professional Representation: Accounting Firm, Insurance Broker, Law firm, Marketing and Sales Firm.

Product and/ or Services

Include product brochures and line Sheets.

Discuss product and/ or service attributes, benefits and uniqueness.

Discuss competitor's product(s) and/ or services.

Discuss Research and Development to improve and develop the product further.

Marketing and Market Analysis

Discuss Market Definition... Who buys the product and/ or services and why?

Discuss known information on the competition's market strategy.

Discuss sales strategy in Advertising and Promotion.

Planned dealerships and/ or distribution channels to get the product to market.

II.) Contents of a Business Plan (*continued*)

Financial History

(3 years if buying business or updating a Business Plan on an existing business)

Balance Sheets, Profit/Loss Statements, Tax Returns.

Owner's/Officers Personal Tax Returns & Personal Balance Sheets.

Financial Plan

Planned management of Inventory.

Planned credit policies or methods of obtaining cash from customers.

Cash and Debt Service requirements, both startup and ongoing.

Security or items to act as collateral against borrowed money.

Planned sources of Capital... Banks, Venture Capitalists, Owners...

Exit and debt pay back plan should the business not succeed.

Financial Projections Statements

(see explanation of statements in Section "III.) Financial Statements")

Statement of Cash Flow

Profit & Loss Statement

Balance Sheet

Fixed Asset Report

Ratios & Break Even Calculations

Supporting Documentation

III.) Financial Statements

Statement of Cash Flow

This Statement displays Cash activity. It breaks the activity down into 2 simple categories. Cash Sources and Cash Requirements. Sufficient Cash Flow is vital to a company's survival, but Cash Flow is different than Profit & Loss. See "Cash Flow /Profit & Loss Compared".

Profit & Loss Statement

This statement breaks down financial activity into the form of Income and Expenses. Profit and Loss does not record Cash Flow. See "Cash Flow / Profit & Loss Compared".

Balance Sheet

This statement displays the company's financial condition. It is called a Balance Sheet because the Total Assets of a Company must equal the total of Liabilities plus the Equity or Net Worth of the Company.

The Balance Sheet is displayed in the following way:

Current Assets: These accounts are either Cash or will become Cash in one year or less. They are arranged from top to bottom, starting with the most liquid accounts. Accounts include: Cash, Accounts Receivable and Inventory.

Fixed Assets: Fixed Assets include Equipment and/ or land. They are called Fixed because they are not easily converted into cash and owning them is generally a long term commitment. In addition, Fixed Assets are not expensed all at once at the time of their purchase. They are "Depreciated". They are expensed over a predetermined amount of time.

Current Liabilities: Included are accounts in which money is owed in one year or less, such as Accounts Payable and Credit Lines.

Long Term Liabilities: Included are term loans, acquired for the purchase of equipment. The pay back on these loans usually covers several years.

Equity: Equity is sometimes called Net Worth. It generally combines the Capital Contributions of the owners and other share holders, with the acquired net profits or Retained Earnings accumulated over the years. Equity equals the net of the Total Assets minus Total Liabilities.

Fixed Asset Report

Fixed Asset report displays the value of the company's equipment or Fixed Asset and debt owed on this equipment.

Ratios & Break Even Calculations

This statement is used to analyze the company's financial health. It is often studied by lenders to determine the company's ability to service debt. Break Even allows management and other interested parties to determine the minimum sales that a company must acquire to "survive". It is a key management tool for decision making.

Supporting Documentation

Projected Financial Statements require accompanying notes and documentation to support the numbers produced.

IV.) Cash Flow / Profit & Loss Compared

One of the most difficult concepts for new business owners to grasp is that there is a distinction between Cash Flow and Profit & Loss. The following describes how each statement handles each scenario differently.

Fixed Asset or Equipment Purchases

Cash Flow Statement: The purchase of equipment results in a Cash Requirement.

Profit & Loss Statement: The equipment is depreciated or expensed over a period of several years depending on the type of equipment and assumed useful life. The remaining unexpended portion of the equipment is considered to have value and is reported as a Fixed Asset on the Balance Sheet.

Borrowing

Even though equipment retains significant value at the time of purchase, it still creates a cash crunch and may require financing.

Cash Flow Statement: Borrowed money is a Cash Source.

Profit & Loss Statement: Borrowed money does not appear on the Profit & Loss Statement because borrowed money is not Income. Instead it is recorded on the Balance Sheet as a Long Term Liability to be paid back over time.

Paying Debt

Cash Flow Statement: Debt Service equals the Interest and the Principal combined and in total is considered a Cash Requirement.

Profit & Loss Statement: Only the Interest is an Expense and is reported as such on the Profit & Loss Statement.

Sales

Cash Flow: When cash from a sale is received, it is recorded as a Cash Source.

Profit & Loss: When the sale is made, and the customer is billed, is still Income on the Profit & Loss Statement and as an Account Receivable on the Balance Sheet.

Expenses

Cash Flow: Paying bills is a Cash Requirement.

Profit & Loss: When the company receives a bill, but is not required to pay it for 30 days, it is still an expense on the Profit & Loss Statement and as an Account Payable on the Balance Sheet.

Inventory

Cash Flow: Acquiring Inventory is a Cash Requirement.

Profit & Loss: Inventory isn't considered an expense until it is sold as part of a finished product. Then it is a "Cost of Goods Sold". In the meantime it is considered a Current Asset with value and is reported as such on the Balance Sheet.

IV.) Notes on BIZPLAN

Corporation, Sole Proprietor or Partnership

BIZPLAN can be used for Corporations, Sole Proprietorships or Partnerships. If you are a non Corporation, the Officers receive draws not wages. The amount of the draws may be indicated in the "Financing" data entry screen under Capital. If your company is a Corporation, Officers receive salaries. These are entered in the "Expenses" data entry screen under Officer Salaries

Product or Service

BIZPLAN uses a generic form of Financial Statement. There is no need to express whether your company produces a Product or a Service. You are given entry areas for up to 10 products in the "Sales" Data Entry Screen. It is there that you may define the product(s) or services(s). Instructions for more than 10 products is provided at the Sales Data Entry Screen.

Cash vs. Accrual Accounting Methods

BIZPLAN can be used for either Cash or Accrual Accounting Methods, but it is best used for Accrual. Further, the Accrual Method it is one that more accurately reflects business activity and is the method most commonly required by lending institutions. Accrual measures business activity, not just Cash Flow. The Cash Method measures Cash activity only. Accounts Payable and Accrued Payroll are terms indigenous to the Accrual Method of Accounting. These reflect expenses incurred, but not yet due or paid for. In the Cash Method, an Expense is not incurred until it is paid. Conversely, Accounts Receivable reflects Sales billed, but not yet paid for, where as with the Cash Method, a sale doesn't occur until Cash is received.

Accounts

An account is a category of income, expense, or value. For example, an account can be Rent Expense, Cost of Materials, Interest Earned, Sales, Accounts Payable, Equipment, Cash, Inventory and etc. In BIZPLAN, the accounts are already set up so that you don't have to do it. You need only to assign amounts to the ones which apply to your business a leave the rest a zero. The accounts in BIZPLAN are the most commonly used.

Accounting Period

You will see the phrase "Accounting Period" mentioned from time to time in the help screens. It simply means, the period of time in which accounting is recorded and totaled. In the case of BIZPLAN, it is one month and one year.

Numbers

Numbers in BIZPLAN are formatted to the nearest dollar. Numbers in brackets, i.e. (1,200) are negative numbers. The dollar sign ("\$\$") was left off to allow for more columns, smaller in size, to be in view of the screen and to reduce clutter.

IV.) Notes on BIZPLAN (*continued*)

Adding a little Flare to your Business Plan

Many Business Plan Packages on the Market, sell their product with boosts about the large number of pages or the color graphs and charts it produces. However, I have found that large, thick reports with fancy color charts and graphs rarely impress the potential lender or investor. In some cases these are distractions to their evaluation. Many parts of the plan are simply ignored. Where graphs and charts seem most effective, is in showing how a business has already performed, such as shown in Annual Reports for Shareholders.

Every business plan taken to an investor is expected to show a profit. The potential lender doesn't want to see how many ways you can show your projected profit, as with graphs. And I have seen potential lenders concerned that too much effort went into creating style instead of substance. Too much time went into writing the plan instead of the actual planning of the business itself. What the potential lender wants to know, simply and succinctly, is how did you arrive at your profit figures. What kind of homework did you do on your competition and ultimately, can you service the debt adequately.

This is not to downplay the importance of image and professionalism that your plan should have. There are graphics, illustrations and photographs that will add a little flare to you plan and impress the potential lender . Brochures from companies selling major equipment that you plan to buy are useful. Architectural renderings of your building demonstrate that you have done substantial planning before you have asked for the lender's money. These not pie charts will capture the lenders attention and give your business plan an attractive professional appearance that it needs.

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