



# Writing a Business Plan

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# Getting Started

You need:

- **A Business Idea**
- **A Business Plan**
  - Description of the Opportunity
  - Planned Operations
  - Financial Projections
- **Funding** to get started
- **Marketing** that generates **Profitable Sales**

# Things to Think About

## Four Fundamental Considerations to Reduce Risk:

1. Form an Entity
2. Get Insurance
3. Run the Business in a Careful and Prudent Manner
4. Control Your Customer Expectations

Legal, Tax, Other Considerations – Forming an Entity - Limited Liability, Management, Ease of Formation, Formalities/Informalities, Ability to Raise Capital, Etc.

General Entity Types: Sole Proprietor, Partnership, Corporation (C Corp and S Corp), Limited Liability Company (LLC), etc.

# First Steps to Plan Development

1. Consider Your Business Idea – What do you need to do to make it happen? What do you have? What do you need? What can you easily get? What will be hard to get?
2. Handling the Unknowns – Idea but no product??? Not sure if idea is feasible??? How will I make money??? How will I get money to develop a prototype or run a pilot??? What do I need to start my business (source/use statement)??? Etc.???
3. What do I need to know to move forward? Who might be able to assist me in getting started? Will others be part of the team to pursue the plan – what might each contribute (\$, time, talents, etc.)
4. Developing a Vision . . . Consider YOUR VISION

# Business Plan

## Definition:

A short, written document that becomes a working model of your business.

## 4 main purposes:

- Financing Tool
- Feasibility Analysis
- Operating Guide
- Evaluation

# Business Plan Format

- No right or wrong way
- Two common categories
  - Traditional – more detailed
  - Lean startup – summarizing key points – usually one page
- Two parts of a plan
  - Narrative
  - Financial projections (numbers)

# Anatomy of a Business Plan

Executive Summary: Why will business succeed?

Business Description: What type of business?

Marketing: Who are your customers? Competition?

Research and Development: Proprietary considerations

Operations: Location, equipment, production

Organization: Management, human resources, entity form

Critical Risks: Potential problems, plans to address

Financial: Costs, profits, cash flow, break even point, financial projections, assumptions

Milestones: Timetable, action plan

# Executive Summary

- Usually about a paragraph or two
- Often written last
- Summarizes key points of the plan



# Business Description

- Use your company description to provide detailed information about your company. If your company is already in business, please describe your business history.
- Go into detail about the problems your business solves.
- Be specific, and list out the consumers, organizations, or businesses your company plans to serve.

# Market

- Divide the market into workable market segments – age, income, product type, geography, buying patterns, customer needs, or other classifications
- Define the size of each market segment
- Describe the percentage of each market segment you plan to capture
- For help with research, see [Market research and competitive analysis \(sba.gov\)](#)

# Marketing

- How will you attract and retain customers?
- Describe how a sale will happen.

# Organization

- Describe the legal structure of your business.
- State whether you have or intend to incorporate your business as a C or an S corporation, form a general or limited partnership, or if you're a sole proprietor or limited liability company (LLC).
- Also, mention the percentage of ownership each person will have in the business.

# Operations

- Tell your reader how your company will be structured and who will run it.
- Provide a brief biography of yourself and others.
- Show how each person's unique experience will contribute to the success of your venture.
- Consider including resumes and CVs of key members of your team.

# Risks and Mitigation

- What other risks are there?
- How will you address the weaknesses and threats you listed above?

# Location and Facilities

- Where will the business be located?
- Please provide a description of the size and type of the building, if needed
- Why here?

# Technology

- What technology might you use?
- Do you have a point-of-sale system or accounting software?
- Will you be using any electronic bookkeeping software?
- Will you have a webpage?
- Will you have a social media presence?



# Equipment and Tools

- What type of equipment will you need? Please list all relevant equipment.
- Will you acquire the equipment or use outside contractors?
- If you decide to acquire the equipment, will you lease or purchase it?

# Competition

- Current competition/alternatives
  - Who are your competitors?
  - What are your competitors' strengths and weaknesses?
  - How will your company be different from the competition?
  - For help with research, see Market research and competitive analysis (sba.gov)
- Your advantages
  - List reasons why customers will choose your product or service over those of your competitors.
  - What makes your business stand out?

# Key Metrics

- Key Metrics – what things can you track?
  - Sales revenue
  - Customer loyalty and retention
  - Cost of customer acquisition
  - Operating productivity
  - Size of gross margin
  - Monthly profit or loss
  - Overhead costs
  - Variable cost percentage
  - Inventory size
  - Inventory turnover
  - Hours worked per process

# Industry Analysis/NAICS

- What are the trends impacting your industry
- What is the recent performance of the industry
- What is the outlook for the industry
- What NAICS Code describes the industry
  - [NAICS & SIC Identification Tools | NAICS Association](#)

# Financial Projections

The goal is

- -to convince the reader that your business is stable and will be financially successful.
- to understand the numbers and be comfortable with the projected numbers.

Projections include:

- balance sheet
- profit & loss statement (P&L)
- cash flow statement

# Gross Revenue

Revenue is often the most difficult thing for people to estimate

- Break sales into smaller quantities
  - How much will you sell in an hour, a day, a week
- What is your capacity or any other limiting constraints
- Consider the amount of staffing required to support the projections
- May want to draft both conservative and aggressive projections

# Revenue Streams

- Product Sales
- Service Sales
- Subscriptions
- Promotions and Advertisements
- Annual Fees
- Memberships
- Other \$\$\$



# Cost of Goods Sold (COGS)

COGS measures the “direct cost” incurred in the production of any goods or services.

- It includes material cost, direct labor cost, and direct factory overheads, and is directly proportional to revenue.
- As revenue increases, more resources are required to produce the goods or service.
- COGS is often the second line item appearing on the income statement, coming right after sales revenue.



# Cost of Goods Sold

For example, for a pen that is priced at \$1.00

- Material = \$0.15
- Direct Labor = \$0.15
- Direct Factory Overheads = \$0.20
  - Thus, COGS (or direct cost) is \$0.50 (or 50%) for each pen produced
- Very important to estimate accurately and to control COGS to ensure that they are in accordance with the projected/budgeted amount.
- The basic purpose of finding COGS is to calculate the “true cost” of merchandise sold in the period. It doesn’t reflect the cost of goods that are purchased in the period and not being sold or just kept in inventory. It helps management and investors monitor the performance of the business.

Source: <https://corporatefinanceinstitute.com/resources/knowledge/accounting/cost-of-goods-sold-cogs/>

# Gross Profit

Gross profit is the financial gain of a company after deduction of the costs necessary to manufacture and distribute its goods and services.

# Operating Expenses

- Marketing/Advertising
- Utilities
- Telephone
- Insurance
- Waste removal
- Real estate taxes
- Maintenance
- Credit card fees
- Office supplies
- Rent
- Travel
- Professional fees
- Dues & subscriptions
- Training
- Interest expense

# Net Profit

Net profit is the measurement of a company's profit once operating costs, taxes, interest, and depreciation have all been subtracted from its total revenues.

# Profit and Loss Statement

What is the basic formula for a Profit and Loss Statement? The basic equation looks like this:

+ Sales

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- Cost of Goods Sold

= Gross Profit

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- Overhead

= Net Profit

# Financial Projections – Can Help Define Your Vision

	Year One	Year Two	Year Three
Revenues	\$100,000	\$150,000	\$225,000
Cost of Goods Assumption@ 50%	\$ 50,000	\$ 75,000	\$112,500
Gross Profit	\$ 50,000	\$ 75,000	\$112,500
Expenses •Salaries/Wages/Payroll Taxes/Benefits •Rent •Phone/internet/Utilities •Auto/Travel •Supplies •Insurance •Marketing •Professional Services •Etc.	\$ 44,000	\$ 66,000	\$100,500
Net Profit (before income taxes)	\$ 6,000	\$ 9,000	\$ 12,000

# Sources and Uses Statement

Source: where is the funds coming from

Uses: how are the funds being spent

# What Lenders Want to See

- How narrative ties together
- Financial feasibility
- Realism
- Consistent with industry benchmarks



## Links to Resources:

- <https://www.sba.gov/>
- <https://www.bplans.com/>

Questions?

# For Consulting

<https://centerex.wisconsinsbdc.org/reg.aspx?mode=counsel&center=52012&subloc=0>

# Events and Programs

<https://www.uwlax.edu/sbdc/calendar-of-events/>

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