

# A Guide to Creating Your Own Business Plan

Over the years many business owners and students have asked me how to create a business plan. Because the need for a business plan is as great today as ever, this brief guide should give you a foundation and direction on how to create your own plan.

## **Purpose**

The purpose of a business plan varies with each business and owner. But for our discussion here today this guideline will help you to develop a business plan that will enable you to go to a bank or other financial source to obtain money. This plan will be designed to attract a loan for the business as start up or as an expansion

The business plan is your marketing presentation for your business concept to the potential lender. It is critical that you understand what the lender is looking for in a business plan and that you have all of the right information together. This business plan will not only represent your business but also represents you as the business owner.



The purpose of this business plan is to give your lender all the reasons why he or she should approve or support your loan request. It should build confidence in your business concept and you as the owner of the business. The information in the business plan should provide sufficient evidence that you understand your business, the financial markets in which you are trying to get the loan, and that you are the person who can make the business venture work successfully.

## **Basic Information**

In order to put together a plan that shows competence in business you need to make sure all your bases are covered. There will be some difference between a truly startup business and a business that wants to expand. The startup needs to have stronger information on the market needs, trends and ability for the owner to make good on their promise to repay the loan. The expansion business plan will emphasize more of the current businesses success and numbers. This will provide the proof that the business can handle an expansion.

## **Financial Statements**

The actual financial statements will be placed in the support material section. But you will need to explain all your numbers as they relate to you request in the main body areas. In general you will need financial statements of past performance of the business and/or pro-forma statements predicting the future performance of the business. The pro-forma statements must come with an explanation of assumptions made, and most of your numbers will be based on assumptions. For start-ups or businesses less than two

years old the owner/borrower will need to provide personal financial information as well.

The text must quickly share the profitability of the business, and how you expect the new loans to improve the income to more then cover for the additional cost of the loan. The text will also enable you to explain irregularities or unusual financial figures on your statements. You need to make sure you have balance sheets and income statements for a minimum of two years back or three to five years' pro-forma statements. Again your ability to explain assumptions with as much support material as possible is best.

## **The Marketing Plan**

You will need to demonstrate that you fully understand your business and have a plan for its growth and development. Generally this falls into the marketing plan. Strategic plans are different and have a different purpose. That is the subject of a different paper at a different time.

The marketing plan will encompass the external environment such as factors that are having a positive and/or negative impact on your business. The economy, oil prices, interest rates, transportation plans, available workforce, etc., are all within this category. There are many factors that will affect your business. One major factor is the existence or limitation of competitors. What is to prevent a competitor to rise up right across the street? What are the barriers to the competition? You may have some advantages that offset these barriers. Do you know your competitors to the degree that you understand what distinguishes you from them?

Industry and market information is going to be extremely important. You need to be able to get as much information about your target market and your industry as possible. It shows that you understand what you are doing and are not someone who has this wonderful "idea" but there is no market for it. In certain cases you may have to collect your own marketing research for the plan. This section can be quite lengthy and beyond the scope of this paper. What information you need and how you get that information will be very different for each business. But in general the lender will want to know if you have a product or service that others will buy.

You will gain great confidence from your lender if you can demonstrate that you understanding your target markets. Who are your best clients or prospects? As much information as you can provide about them will be helpful and shows your competence. There could be multiple target markets but generally stay away from more than two. Sometimes geography defines your target market. Your target market could discuss age, gender, socio-economic factors, plus many other potential categories. If it is a business-to-business (B2B) enterprise you could distinguish your business by the size and type of business, or maybe the

industry that it is in. Any description that clarifies who your customers are will be helpful.



You need to discuss your sales and advertising strategy. Who will be the individual that actually talks to the customer? Will it be you, will it be someone else, how do you pay that person, etc.? What will you do for advertising? How much is your budget and what type of spacing are you planning so that you don't spend

all your money upfront? These are the types of questions that you need to answer for the lender. The lender will still want to know that you have an overall marketing strategy.

The marketing strategy will tell the lender how all of these small components fit together in one overall plan. From the selection of products to sell and the pricing of goods and services to who you are targeting with sales and advertising your plan needs to be consistent and work in harmony with each component working together. When you can demonstrate that unity of purpose, you have gone a long way to impressing your lender.

### **Operations**

This section describes the internal working of your business organization. You will need to explain how you are planning on delivering your goods and services. It tells the lender, how big you are, where you do your business, how many employees, etc. If you use your home you could add a picture of your workspace, equipment or storage facility. You need to allow the potential lender to understand what the core processes of your business looks like so they can identify with what you do and how you do it.

### **The Audience**

Before writing your business plan consider the person or people reading it. What are they really looking for in a business plan? Why are they looking for it? What would make this as simple for them as possible while giving them as much assurance as possible?

You need to remember that most lenders have looked at a lot of business plans and many of them are very poorly written. One banker friend of mine said that he actually had a man request a loan with his "business plan" on a paper napkin. No, he didn't give him the loan. Your plan does not have to be the best, most professional, but it should be your "best", as professional as possible, and presented well.

Remember the officer to whom you make your presentation, may not be the real decision maker. Ask them who will be making the final decision. And after he has looked your plan over ask them if it would be better for you to make a presentation to the "decision makers". There is some risk in this approach and each business owner must decide if they feel the relationship with the real decision makers can be developed using this approach.

If your loan officer is not the final decision maker and he or she has a lot of questions that are not answered in your plan that means you have a problem. For your request to go through they will be expected to do a lot more "selling" for your plan, and they do not like to be in that position. They do not want to become an advocate for you. Even if they tell you that they will, and are trying to encourage you. They know that if your loan gets into trouble that they were a factor in getting that loan approved, and it doesn't look good for them and their judgment. Provide all the information that they will need so that they are presenting your plan and not having to "sell" it.

### **Layout of your business plan**

This is the presentation itself, and your first impression in print. You need to decide that you are going to at least look professional in your business plan and your request for financing. Depending on how much information that you have put together you can decide if a three-ring binder will work best for you or not. A proper-sized three ring binder with the clear plastic pocket cover that you can slip a sheet of paper into works best. The outside cover can be the same as the inside cover.

### **Cover page**

This just says that this is a business plan for (your company) and the date. You could add, "Presented to... (Lender, and officer if you have it)"

### **Executive Summary**

This is the FIRST page in your business plan, but it is the LAST page that you write. This is no more than one page for small businesses. It is a very brief summary of all that is in the pages to follow. It basically states what is the purpose of the business plan, and the most important points to keep in mind. Remember, no more than one page and just a basic summary. It is your one-minute sales presentation, but keep it factual.

### **Table of Contents**

Many make this the second to last that they create. If you are good at using your word processor and can use its tools to create a table of contents, good for you! But most people wait and do a simple after the fact page listing the sections and the page that it is on. You can do that by using small roman numerals for the Executive Summary and the Table of contents. Make sure you put all the reference material in the back of the plan and separate them into their categories. Financial statements are in one area, your bio and background material in another area, etc. You can add extra photos if you wish but make sure they are pictures that illustrate important information that will help sell your case for needing the funds.

### **Introduction**

This explains in more detail why you are requesting a loan, how much you need and what you plan to do with the money. Unlike the Executive summary, which is very factual and brief, the introduction allows you to be more personal and to put yourself into the plan. You can use the

words, we believe, our analysis will show, etc. Remember this is only introducing the plan. It's like looking at the map before your trip to give you some idea of what is to come.

### **The main body**

At this point each business will make adjustments as needed and based on the owner's personal style for how they want to present the body of information on their business. But the most basic business plan as stated earlier will have a minimum of financial information, marketing, and operations.

You can add sections on background history, or personal information, or other areas that you want to make distinct. Within each of the categories you will have sub-categories, such as advertising under the marketing category. You will need to determine the breakdown. However, it is generally better to have smaller sections instead of larger. Another words, you may have three sub-sections on one page, which would be better than two pages of all text for one sub-section. In your writing you need to remember that you can obviously spin the information to your advantage but you CANNOT lie, or attempt to mislead the lender. If you are given a loan and a problem arises your business plan can be used against you and you could be involved in fraud. That may be considered a felony crime and cost you prison time. So be careful to state opinions as such and only give accurate data. Give your sources of information when possible.

Your body of the business plan should answer 90% or more of the questions that would generally come up in a discussion between an owner and a lender. Make sure your statements of fact are backed up with some reference. Your reference material behind the text should correspond 100%. If a lender finds anything that appears to be a discrepancy, they will start to dig deeper and go over each line with a fine toothcomb. This could result in a delay of approval or outright rejection.

### **Conclusion**

You can do a conclusion if you want. Some do and some don't. This is where you summarize everything that you feel is important to make your case for the loan. Again just like the introduction you can be more personal, you have more flexibility.

### **Support material**

As previously mentioned all the support material goes into this area after the body of text. You will want to break it down into categories that flow with the body of your plan. You can even add information that may not even be addressed directly or even indirectly in your plan. You could add customer testimonials. Or you could add information from your competitors if it enables you to highlight your strengths. Possibly a small government report or some other lengthy support material could be placed here. Outside of the

financial statements remember the lender may not even look at the rest of it. It all depends on the lender.

It is very important that you get your financial information correct and presented in a standard accounting style. If you have an accounting software package, learn to use the reporting features. If there is any place in this whole project that you may need some technical outside help, it is right here. I do not believe that you have to have an accountant do this work. But you need to find someone who has worked with financial statements enough to know how to make them look reasonably professional.

### **Final thoughts**

Once you think you are completely done. You have looked it over a hundred times looking for errors and inconsistencies. Try to find a very trusted friend who is not too close to the business. You need them to be as objective as possible. Hopefully it will be a person with some business background. Allow them to ask questions after they read the plan. Give them permission to point out inconsistencies, outright errors, or other suggestions. Make only those changes that you feel need to be made.

I hope this information is helpful to you. Depending on your experience, education level and use of computer technology you will have different needs and assistance in creating your own business plan. There are plenty of books available that will help you to understand a little more depth of what your business plan should contain. However, as stated previously, each business plan is different depending on what you are trying to accomplish and the makeup of the business itself and its owner.

There are numerous issues and ideas around the whole idea of raising money for a business. In the future we plan to write on some ideas for raising money without going to banks. Remember a good business plan is a good start for a good strategic plan, but they are not the same. Also creating a cash machine can keep you moving forward even when you are buried knee deep (or higher) in the mud of debt. A business enterprise is so rich with possibilities and yet the perils and dangers lurk around every corner. Navigating your life in the world of business is an adventure. We would love to be a part of it.

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Note: This guide is a very basic description of the contents of a business plan. It is intended for those who have never attempted a project like this before. For more information on planning check out our website listed at the end or see your local library or bookstore.

