

A

Developing a Business Plan

The Business Plan as an Exercise in the Processes of Management¹

Writing a business plan may never be a more important exercise than in the context of today's rapidly changing environment. Even if you are not an entrepreneur and do not wish to develop a new original idea and bring it to market, developing a business plan is still a valuable exercise in practising the management processes. It provides a crucial foundation for managing an organization. In this section of the text, we will treat developing a business plan as an exercise in the management processes of planning, organizing, leading, and controlling. By doing the exercises at the end of each chapter, you will have the foundation to put together a plan that will help you develop as a manager. The experience you will gain is valid for profit and not-for-profit organizations as well as new and existing ventures. Writing a business plan gives you practice in thinking about managing activities such as:

- Developing an idea to solve a problem
- Tapping into opportunities and countering threats in competitive conditions
- Organizing resources to achieve goals
- Targeting potential customers with promotional opportunities
- Designing an effective organizational structure
- Securing sources of finance
- Controlling for risk

What Is a Business Plan?

A business plan is a recognized management tool used to document the organization's objectives and to set out how these objectives will be achieved within a specific timeframe. It is a written document that describes who you are, what you intend to accomplish, how you will organize resources to attain your goals, and how you will overcome the risks involved to provide the anticipated returns. In general, a business plan comprises several elements, each giving the reader a piece of the overall picture of the project you are undertaking, and provides convincing reasons why you will be successful in this undertaking.

Managers and entrepreneurs use a business plan to seek support and financing to expand an existing business or to finance a new venture.

Putting It All Together

Throughout this course, you may have been asked to complete the end-of-chapter exercises on developing a business plan. Now is the time to start to put all the pieces together to create your comprehensive plan. Draw on the work that you have already done to write the major components of the business plan. See Table A.1.

At this point, you should familiarize yourself with a business planning software. There are several on the market. Your professor will instruct you as to which is appropriate for your course.² The software will help you compile the main elements in your plan and calculate the financial statements.

1. Nondisclosure Statement

A nondisclosure agreement is optional in a business plan. When used, it usually states that the information in the plan is proprietary and not to be shared, copied, or disclosed. The agreement should have a unique “copy number” that is the same as a number on the title page of the plan and a place for the recipient’s signature. The agreement should be either a loose-leaf page or a page that can be torn out of the plan and retained by you. See the following example³:

Copy Number _____ 123 _____

FFP Consulting Inc.’s business plan is confidential, containing information proprietary to FFP Consulting Inc. None of the information contained in this plan may be reproduced or disclosed to any person under any circumstances without express written permission of FFP Consulting Inc. I have accepted and will protect the confidentiality of this business plan.

Recipient’s signature

2. Executive Summary

The executive summary is the first thing, besides the Table of Contents and Title page, that the reader will view, but it is generally the last thing the writer creates. The executive summary is a maximum one-page précis of your business plan. It is probably the most important part of your plan because readers will use it to make a judgment as to whether or not they want to continue

TABLE A.1 Major Business Plan Components

	Check off and date when completed and add any notes of interest
1. Nondisclosure Statement	<input type="checkbox"/>
2. Executive Summary	<input type="checkbox"/>
3. Profile of the Organization	<input type="checkbox"/>
4. Profile of the Industry or Sector	<input type="checkbox"/>
5. Profile of the Product or Service	<input type="checkbox"/>
6. Marketing Plan	<input type="checkbox"/>
7. Organizational Plan	<input type="checkbox"/>
8. Operating and Control Systems Plan	<input type="checkbox"/>
9. Financial Plan	<input type="checkbox"/>
10. Appendices	<input type="checkbox"/>

to examine your plan. The executive summary tells the reader the following information:

- Who you are and what your company/organization does
- The products and/or services that you provide or intend to provide
- Your target markets; that is, who are or will be your customers
- How you will promote your product/service to your customers
- What your financial projections are for a given period
- How you will achieve your goals; that is, your strategy for gaining a competitive advantage
- The strengths of your management team and why the reader should believe you can do what you are proposing
- Identify the major risks you expect and your solutions to minimize these threats

The executive summary should be no longer than one page.

3. Profile of the Organization

This section of the business plan tells the reader your vision, mission, and goals for the organization. Consider the following questions when preparing this section.

- What is the name of your company/organization?
- What is the legal structure and form of ownership?

- What are your reasons for going into business?
- What problem does your product or service solve, or what needs gap does it fill?
- What experience do you have that would enable you to pursue this venture successfully?
- Who makes up your management team, and what roles and responsibilities will they have?

Vision Statement

The vision for your company/organization is set out in a written statement telling the reader what direction or dream you wish your company to pursue for the next three to five years. Write this statement in the future tense. As stated in Chapter 5, Bill Gates's vision for Microsoft when it first began was to have "a computer on every desk, in every home, and in every office." The vision of the TD Bank is, simply, "to be the better bank."⁴ The vision of the Australian company The Body Shop is "to be operating and recognised as the benchmark Company for the integration of Economic Success, Stakeholder Fulfillment, and Social and Environmental Change."⁵ Cara Operations Ltd., founded by the Phelan family in 1883, is a privately owned Canadian company and the largest operator of full-service restaurants and the leading caterer to the travel industry in Canada. Cara's vision is "to be Canada's leading integrated restaurant company."⁶ The vision of Renée's, a Canadian gourmet food products company, is "to be the market leader in developing and delivering superior-quality, innovative fresh food products."⁷

For additional examples, refer to Chapter 5: Managing Planning and Strategy.

Refer to the exercise you did for Chapter 5: Managing Planning and Strategy. Write the vision statement for your venture. Keep it short and sweet.

Mission Statement

The mission statement tells the reader what the purpose of your company/organization is. Refer to the mission statement of Canadian Tire outlined below (see Table A.2).⁸ Ask yourself what the essence of your business is. What will the business really be doing? Why

TABLE A.2

Mission Statement of Canadian Tire (in part)

"Canadian Tire is a growing network of interrelated businesses... Canadian Tire continuously strives to meet the needs of its customers for total value by offering a unique package of location, price, service and assortment."

does it exist? What values is it premised on? Every noun, adjective, and verb in the statement is important and should explain the problem that will be solved or the need that will be fulfilled if your plan is implemented. Your mission statement should reflect your basic beliefs, values, and principles.

- Refer to the value statement and code of ethics you created for the exercise you did for Chapter 3: Managing Ethics, Social Responsibility, and Diversity. Incorporate these values and principles into your mission statement.
- Refer to the mission statement you wrote for the exercise you did for Chapter 5: Managing Planning and Strategy.

Write the mission statement for your venture. Keep it to 150 words or less.

Organizational Goals

Organizational goals must be made for the business as a whole and for each functional area. Organizationwide goals are longer term and are strategic in nature, while functional-level goals are shorter term and are more operational in nature. For example, corporate and divisional-level goals are generally made in the areas of market share, profitability, and return on investment. Functional-level goals include how departments will add value for the customer and reduce costs in the production of a good or service. Goals and objectives are statements of the level of performance desired within a certain timeframe. Goals must be formulated so that they are S.M.A.R.T plus C:

- **S**pecific
- **M**easurable
- **A**ttainable
- **R**ealistic, within a
- **T**imeframe

plus **C**ommunicated to the relevant stakeholders.

An example of a SMART goal relating to market share might look like the following:

"By the end of the first year of operation, ABC company will have a 20-percent market share for its product XYZ."

Mountain Equipment Co-op might formulate the goal of . . .

"giving 5 percent of gross profits to the major charitable organizations in the environmental movement by the year 2020."

This goal is consistent with the company's mission and strategic vision as stated above. Once goals are developed, plans must be formulated to achieve the objectives. These plans are generally referred to as strategies. The formulation of strategies depends upon the opportunities and threats facing your company from the forces in the organizational environment. You will formulate your strategy after doing an analysis of the current situation. The competitive analysis and strategy is analyzed in the context of the industry as a whole and detailed in the Marketing Plan component of the business plan.

Formulate the major goal for the venture as a whole, using a one-year timeframe.

Form of Ownership

If you are writing a business plan for an existing organization, the legal entity has no doubt been established already; however, it may make sense to consider a separate legal entity for the new product/service. If you are an entrepreneur or a group of entrepreneurs, you must decide what form of legal entity (form of ownership) will best suit the nature of the business, the competitive strategy, and the organizational structure of the business. Will you need a partner? Should you incorporate or simply operate as a sole proprietor? What advantages, if any, would there be in forming a cooperative structure? Refresh your memory about the advantages and disadvantages of each legal structure by reviewing an introductory business textbook. Now that you have developed your ideas and business plan up to this point, describe the legal form of your organization.

Which legal structure do you think is most appropriate, and why?

The Management Team

At the beginning of a new venture, the principal person who writes the business plan generally has overriding authority over the other members of the management team, if a team exists at all. In the case that several people are involved in the management team, the positions they will hold and roles they will play should be described and justified on the basis of their experience and expertise.

Provide a brief biography⁹ of each member of the management team, and describe their roles and responsibilities in the venture.

4. Profile of the Industry or Sector

Industries are classified and coded according to specific criteria that are common across North America. The

North American Industrial Classification System (NAICS)¹⁰ (pronounced “Nakes”) is used to codify industries and sectors. It is useful to know which NAICS code, and hence which industrial group, applies to your venture to research the changing trends from the forces acting in its organizational environment (Chapter 2). For example, if your business plan is to start a family restaurant, you would find that this type of venture is part of the Accommodation and Food Services Industry, NAICS 72211. From there, you can research the active forces within the industry that are providing opportunities for growth or proving to be a threat to your venture. Use *Porter's Five Forces Model* to analyze the threats to profitability within the industry (Chapter 5). Information on changing industrial trends can be found from Statistics Canada¹¹ and industry associations. For our family restaurant example, we could go to the Canadian Restaurant and Food Services Association website to learn about industry trends.¹² From this site, we learn that “the average Canadian household spent \$2017 on food and alcoholic beverages served from restaurants and licensed establishments in 2007, a \$99—or 5.2 percent—increase over 2006. Household spending on food purchased from restaurants rose by \$81 to \$1715.” This indicates that consumers are increasing the amount of their income spent on food and alcohol from establishments similar to what you are proposing. However, additional research indicates that Food Service sales were projected to drop by 1.4 percent in the recession of 2009. Statistics on post-recession spending on food and alcoholic beverages either support your business plan or tell the reader the type and severity of the risks involved in investing in this industry. If the trend in the industry is toward contraction, rather than expansion, you have to tell the reader how you intend to deal with the risks.

Describe the trends in the industry and whether or not they pose an opportunity for growth or a threat to the profitability of your venture.

State how you will minimize the potential risks.

5. Profile of the Product/Service

This part of the business plan provides the reader with a complete overview of all the products and services you will offer.

Product or Service Description

It is important to stress to the reader the uniqueness of your offering. What will you provide or do that is

different from your competitors? Why would consumers purchase your product or service over someone else's?

Describe in as much detail as possible the uniqueness of the product or service you will be offering.

Regulations, Licences, and Permits

All businesses in Canada are subject to regulations at various levels of government. Consult BizPal,¹³ a website designed to help businesspeople figure out all the regulations they must comply with and the permits and licences that are necessary to operate the venture. If you have developed a prototype of an original product or a modification of an existing product, you should apply for a patent and/or protection of your intellectual property. This can be done online at http://strategis.ic.gc.ca/sc_mrksv/cipo/welcome/welcom-e.html.

Describe the permits and licences that are required for your venture. Factor the costs into your financial plan projections.

Future Product Development/Innovation

In this section, tell the reader how you expect your product or service offering to change in the future. Do you have plans for expansion? Will you bring new products and services on board, and when? How will you sustain your growth once the business reaches maturity? Give the reader a sense of how you will end the venture. Do you intend to sell the venture, franchise, or dissolve the company?

Describe your future product development and exit strategies.

6. Marketing Plan

This part of the business plan includes an analysis of your venture's strengths and weaknesses relative to your competition (SWOT) as well as an analysis of the four Ps in the marketing mix: product, place (distribution channels), price, and promotion. Detailed research must be gathered on who will buy the product or service; what the potential size of the market is and whether there is potential for growth; the prices that should be charged; the distribution channel and the most effective promotion strategy to reach the target market.

SWOT Analysis

Referring to the SWOT analysis you did in Chapter 5, identify your strengths and weaknesses relative to one major competitor. Direct competitors can be found by searching the Yellow Pages and the websites of

associations, trade magazines, chambers of commerce, and Statistics Canada. Things to compare might include:

Strengths	Weaknesses
<ul style="list-style-type: none"> Resources (assets/people) Experience Diversity Location Sustainability strategy Quality of product/service 	<ul style="list-style-type: none"> Gaps in capabilities Reputation Poor customer responsiveness Resources (assets/people) Inexperience Lack of quality
Opportunities	Threats
<ul style="list-style-type: none"> Market demand/changing trends Competitors' vulnerabilities Partnerships Innovation Competitive advantages 	<ul style="list-style-type: none"> Legal /political Demographic trends Competitive advantages Barriers to entry Suppliers

Strategies for a Competitive Advantage

After completing the SWOT analysis relative to your competition and remembering the analysis of the industry you did in section 4, you are now ready to articulate the kind of strategy that will gain you a competitive advantage. Refer to Chapter 5. Will you adopt a cost-leadership or a differentiation strategy? How will you focus that strategy?

Describe the business-level strategy you intend to use to gain a competitive advantage.

Target Market Profile(s)

Which segment of the market will buy your product or service? Demographic characteristics such as age, income, geographic location, and buyer behaviour need to be researched and documented. This is usually done through conducting focus groups, giving surveys, interviewing potential market segments, and through observing and recording pre- and postpurchase behavioural habits of customers. Association websites and Statistics Canada¹⁴ are good sources of data, including the 2011 census.

For each market segment, create a customer profile by researching the following:

- Demographic questions
- Customer attitudes on price and quality
- Where customers currently buy the product/service
- Where customers wish to buy the product/service
- The influence of advertising

- How much of the product/service the customer buys and how often
- Why the customer buys this product/service

Characteristics of the Customer	Customer Profile for Your Venture's Product/Service/Offering	Potential for Growth/Trends	Source
Demographic information			
Frequency of purchase			
No. of units purchased yearly			
Price sensitivity			
Lifestyle/personality			
Advertising influences			
Motivation			
Buying decisions based on:			
Other			

Describe your target market(s).

Pricing

Before setting the price of your product or service, you must evaluate your costs per unit, what the markup should be, and what the competition charges for a similar product/service. Cost of goods should include material and labour overhead (utilities, rent, insurance, salaries), and costs from suppliers. You must add up the costs based on an estimate of the volume of sales. Markups or margins in your industry can be found by reading a trade journal or by asking the suppliers. The markup usually includes a degree of profit that represents the industry standard. Industry standards can be found from Statistic Canada, association websites, and organizations such as Dun & Bradstreet.¹⁵

If you plan to increase market penetration by using pricing specials or volume discounts, you should describe them. Before deciding to discount in order to undercut the competition and gain market share, you should consider that the competition could also lower its prices and therefore reduce the profit margins for everyone.

If you adopt a differentiation business-level strategy for your product/service, you may be able to justify charging more than the competition. To do this, you will offer customers a product or service that is unique and/or of better quality such that people will pay the higher price relative to the competition.

Describe your pricing strategy and how that compares with the competition.

Distribution (Place)

How will you make it convenient for your customers to access your product/service? The market conditions, attributes of the product/service, cost benefits, and characteristics of the venture should all be considered when deciding on a channel of distribution. It may be appropriate to sell directly to the customer or to a retailer if the target market is concentrated in a particular geographic area. If not, it may be appropriate to use a distributor or wholesaler. If the product is large, bulky, perishable, hazardous, or expensive, the rule of thumb is to channel the product through direct sales. If the cost of indirect sales (using a middle person such as a retailer or wholesaler) is minimal and the benefit is great in terms of reaching a dispersed market, it may be more appropriate to channel indirectly. And finally, if the venture has great financial strength, multiple channels may be considered.

If you intend to use dealers or distributors, discounts or commissions will be required and should be described.

Describe your distribution strategy.

When deciding on a *location* for your facilities, you must consider how much space you will need for the operation and whether or not the facility will be accessible to the consumer (direct sales). If you are considering purchasing or renting a building, further criteria may become relevant: Is it zoned for commercial use? Is it in need of renovation? Is there potential for expansion? Is there ample parking? What is the cost per square foot? How many competitors are in the area? Other criteria may be relevant to your location decision. Compare two or three sites against your criteria to come up with the best location for your venture.

Criteria	Site X	Site Y	Site Z
Cost per square foot			
Parking			
Accessibility			
History of the building			
Number of competitors in the area			
Zoning laws			
Potential for expansion			
Features of the area (specify)			
Other (specify)			

Describe the location of your venture.

Promotion

The success of your venture will largely depend on your promotional plan. Advertising, public relations, and

Internet marketing are common ways of promoting your organization to your target market. Consider that each market segment may require different promotional activities. Also consider the degree to which your target market is influenced by advertising. Would a slogan be appropriate to capture the vision of your organization or capitalize on the uniqueness of your product/service?

Develop a slogan and/or logo that promotes the image you want to project about your organization/product/service.

Decide whether you will “pull” or “push” your promotions. Things to consider include:

- The pull strategy requires direct contact with the customer. This requires a major commitment to advertising. The objective is to attract the customers to every channel outlet for your product/service. If enough customers demand your product, the channels will want to carry it. The price and quality of your product is important here.
- The push strategy requires less investment in advertising. The push strategy maximizes the use of all available channels of distribution to “push” the offering into the marketplace, usually by giving large discounts or commissions as incentives to the channels to promote the offering. Research must be done into the channel discount requirements and the relationship that the competition has with the channel.

Create a list of public relations, Internet activities, and types of advertising that you can undertake to generate

Promotional Activity	Date and Contact Person	Cost and Length of Run	Expected Returns
Send a press kit with your company's profile, pictures, and press releases to newspapers and trade journals			
Host an open house			
Go to a trade show			
Write letters to the editors of various papers			
Develop a company website			
Blog			
Register with search engines			
Banner ads			
Billboard ads			
Radio/TV ads			
Other			

awareness of your venture in your target market(s). Expected returns include the audience reached and how this exposure will benefit you. Include the costs of the promotion plan in the financial plan section of the business plan.

Write your promotional strategy for each market segment.

7. Organizational Plan

This section provides a description of the organizational structure, culture, and human resources plan for your venture.

Organizational Structure

When designing the *organizational structure*, some things to consider are:

- How should similar jobs be grouped together into units or departments?
- Who should be accountable to whom to ensure the coordination of activities?
- How many levels of authority are needed?

The relationships that jobs have with one another are depicted in an organizational chart. The organizational chart shows the positions of all members. Refer to the business planning exercise you did for Chapter 6.

Draw an organizational chart for year one of your venture.

Organizational Culture

The organizational structure creates the foundation for the coordination of work that needs to be done. But finding the right mix of people to assume the responsibilities outlined in the structure is just as critical to the success of the organization as having a marketable product.

When building *organizational culture*, the founder and management team will foster the values and principles embodied in your vision and mission statements. The desired culture must be consistently role-modelled for employees. It must be deliberately embodied in the symbols and practices of the organization if it is to be successful. Revisit the value statement you wrote in Chapter 3.

Describe the values, principles, and norms that underlie your organizational culture.

Human Resources Management Plan

The objective of human resources planning is to match the right people to the right job at the right time. This section of the business plan provides the reader with a job analysis of the key positions and how the management

will recruit, select, train, appraise, and compensate employees. Things to consider are:

- What kinds of labour (specifications) are needed to fulfill the duties of the positions (descriptions)?
- How will they be recruited?
- What selection techniques will be used to determine the best candidates?
- What kind of training and development will be offered?
- How will you know if they have learned the jobs?
- What levels of pay and pay structures will you offer that are consistent with the strategy of the venture?

Job Analysis

In conducting a job analysis for the venture, consult Chapter 11 as well as industry and association websites to determine what you need to include for each position. Consider the degree of enrichment you build into each job as a motivating factor.

For each position in the organizational chart, research and write a job description and a set of job specifications.

Recruitment

Where will you find the employees you need for your venture? Is there a need for highly specialized/qualified human resources? If so, determine if there will be a shortage in supply for those positions in the first year of operation.

Make a list of the external sources of potential applicants for each position.

Selection

What methods will you use to pick the most qualified and best-suited applicant for a position? The techniques you use, such as interviews, ability testing, background checks and so on must be valid and reliable.

Describe the selection techniques you will use to hire new employees and why they are valid and reliable.

Training and Development

Once you have offered a candidate a job, you must orient and train them in the roles and responsibilities of the position. Referring to Chapter 11, determine what types of training and development programs are suitable for each position.

Describe the types of training you will provide for each position.

Performance Appraisals

In order to determine if the employee has learned how to do the job, their performance levels must be appraised by management. The Human Resources Plan section of the business plan should describe how performance appraisals will be conducted and in what timeframe.

How will employee performance appraisals be conducted and feedback given?

Pay and Compensation

Research the pay levels and structures for the types of occupations you need for your venture. Industry standards can be found from Statistics Canada.¹⁶ The amount of pay you offer should be consistent with the *strategy* you have adopted. For example, if our family restaurant intends to differentiate itself from the competition by focusing on high-income households as a target market, it makes sense that it can pay its waitstaff higher wages than if it adopted a cost-leadership strategy focusing on low-income households. Generally, if the competitive advantage is derived from superior quality, customer service, and innovation, higher than industry wages can be paid. If, on the other hand, the competitive advantage is derived from efficiency, lower than standard industry wages generally will be paid.

Will you offer wages at, above, or below the industry standards? Justify your answer in terms of the strategy of the venture.

8. Operating and Control Systems Plan

This section of the business plan describes the flow of goods and services from the input stage, through the conversion stage, and in the postproduction stage. Standards must be set for the use of resources at every stage and control measures implemented to ensure that the standards are being met. This involves an analysis of the whole supply chain. In particular, a supplier analysis, an inventory control analysis, and an assessment of how the goods will flow to the customer must be considered, whether the venture is a retail operation, a service provider, or a manufacturer.

Retail Operation or Service Provider

If your venture is a retail operation or a service provider, you should consider the following questions:

1. From whom will merchandise be purchased?
 - Consider the supplier's reputation, past record, prices versus other suppliers, delivery methods, whether or not it supplies your competitors, and how important your business is to it.

2. How will the inventory and quality control system operate?
 - Consider how you will inspect the goods received and what you will do if materials are defective.
 - What are your storage and processing space needs?
 - What is your ordering materials process?
3. How will the goods flow to the customer?
 - What steps are involved in a business transaction?
 - What technology (debit machines, scanners) will you need to serve customers effectively?

Create standards for each phase of the operation, and describe what methods of control you will use to ensure they are met.

	Standard/ Goal	Control Measures
Supplier analysis		
Inventory and quality control		
Flow of goods to customers		
Customer satisfaction		

Manufacturing Operation

If you are proposing a manufacturing operation, you should describe the complete operations management process. Some of the issues will be the same as above, but some will be different. In the *supplier analysis* area, you would include how much, if any, of the manufacturing process is subcontracted out to another firm. Who will perform such work, and how will you decide what to outsource and what operations to keep in-house? What specialized machinery and equipment is needed, and who will supply this? What are the capital equipment needs and expenditures? Include the costs in your financial plan and a full list of equipment in the appendices. In analyzing the *flow of goods*, illustrate the layout and all the steps in the production process.

Both service providers and manufacturers should have standards set for being responsive to customers. For example, a goal for customer service might be, “100-percent satisfaction or your money back guaranteed!” Enterprises must build in feedback control measures that allow customers to complain and praise the service and/or products, such as questionnaires and surveys.

Describe the risks that could arise in managing the operations of the venture and how you can minimize them.

9. Financial Plan

The financial plan tells the reader what level of potential investment commitment is needed and whether or not the business plan is feasible. It details the needed capital requirements for starting the venture, or new strategy, the forecast sales, and the expenses incurred in selling the product/service over a number of months and years.

Anyone reading your financial projections will want to know what assumptions went into the creation of the projections. This includes assumptions about, for example, the size of the market and your ability to penetrate it, staffing plans, management salaries, inventory turnover, receivables and payables periods, and expectations for investment or loans.

Refer to the exercise you did for Chapter 13: Managing Control and Operations and an accounting textbook to help you calculate the financial statements for your venture for a period of two years. Or simply follow the instructions in a business planning software program. This will create the spreadsheets for your plan.

Pro Forma Income Statement

The income statement subtracts all the costs incurred to operate your enterprise from the amounts received from selling goods and services. The result is a net income or a net loss for the year. You will be asked to enter revenue and expenses for each month of the first year, for each quarter of the second year.

Cash Flow Projections

The cash flow statement will show the amount of cash you have available at any given time during your business plan. If a negative cash balance occurs, you will have to examine your revenue and expense projections. To address the negative cash balance, you will have to increase revenues, decrease expenses, or arrange to get cash through a loan or capital investment. Cash flow is projected for each month of the first year and for each quarter of the second year.

Pro Forma Balance Sheet

The balance sheet is divided into two sections: assets and liabilities plus shareholders’ equity. The two sections must always be in balance. A dollar amount or a “balance” represents each asset, liability, and component of shareholders’ equity reported in the balance sheet. The balance sheet is projected for each month of the first year and for each quarter of the second year.

Break-Even Analysis

The projection of when the revenue will surpass the expenses of the venture is called the break-even point and is generally depicted graphically.

Alternative Scenarios

When presenting your business plan to an investor or to your management, it is of value to show projections for revenues and expenses that represent the best possible case and the worst possible case. It is recommended you provide some explanation for the circumstances that might precipitate either the best or worst case in the financial assumptions section.

Create a pro forma income statement, a cash flow statement, a balance sheet, and a break-even analysis for your business plan.

10. Appendices

The appendix of the business plan generally contains all the documents that are referenced in the plan itself and any backup material that is not necessary in the text of the document. You might consider including the following:

- Product/service samples
- Market research data
- Legal forms and documents
- Leases or contracts
- Price lists from suppliers, if applicable
- Promotional material examples
- Résumés of the management team
- Other backup material