THE MAIN USES of a business plan are to attract investment capital, to plan a future vision for the business, and to plan how the business will manage its growth. Essentially, a business plan is a commercial you get to create for your business idea. The tricky part about this particular commercial is that it must meet the needs of many audiences: you, your family, the investors, the bank, future employees, future landlords, detail-oriented people, and “big picture” people.

Objectives:

1. Identify the main uses of a business plan.
2. Identify the components of a business plan.
3. Explain “profit and loss statement,” “break-even analysis,” and “projected cash flow.”

Key Terms:

- break-even analysis
- cash flow projection
- company description
- executive summary
- financial plan
- investment capital
- management summary
- market analysis
- products and services
- pro forma
- profit and loss statement (P&L)
- strategy and implementation
Business Plans

Colin Powell said, “There are no secrets to success. It is the result of preparation, hard work, and learning from failure.” Nothing great happens without a plan to make it happen. That is the purpose of a business plan.

BUSINESS PLAN USES

The main uses of a business plan are to attract investment capital, to plan a future vision for the business, and to plan how the business will manage its growth.

Attract Investment Capital

The business plan is used to forecast profitability to attract investors. Investment capital is money invested into a business to fund the development and profitable growth of the business (with an expected return on investment for investors). A business plan must demonstrate how and when it would use investment capital to make a profit for the investors.

Plan a Future Vision

The business plan is used to depict a vision of “what the company will be when it grows up.” It provides a blueprint of business growth in the short-, medium-, and long-term. The plan can include a 1-, 5-, and 10-year picture of the business as it evolves.

Plan Growth Management

The business plan is used to explain “how” the company will use personnel to achieve its vision. The plan is a detailed explanation of how the company will get from where it is today to where the writer believes it will be in 10 years. It typically incorporates information about management and facilities.

Components of a Business Plan

Certain information is deemed important and essential to all business plans. As a result, the components of business plans remain consistent across the board in the “business world.”
While there may be slight variations, the main components are generally an executive summary, company description, products and services, market analysis, strategy and implementation, management summary, and financial plan.

**EXECUTIVE SUMMARY**

The **executive summary** is a section of the business plan that provides a high level overview of the business objectives, mission, and keys to success. To capture attention, it contains highlights of the more compelling information about the business. It is brief and easily communicated.

**COMPANY DESCRIPTION**

The **company description** is a section of the business plan that provides information such as legal establishment, ownership, history, and start-up plans.

**PRODUCTS AND SERVICES**

The **products and services** is a section of the business plan that describes what will be sold, including sales literature, sourcing information, relevant technology, related service and support, and customer benefits.

**MARKET ANALYSIS**

The **market analysis** is a section of the business plan that describes the target market segmentation and the industry analysis (industry participants and competitors).

**STRATEGY AND IMPLEMENTATION**

The **strategy and implementation** is a section of the business plan that describes the value proposition, competitive advantages, marketing and sales strategy, and key business processes.

**MANAGEMENT SUMMARY**

The **management summary** is a section of the business plan that describes the organizational structure, management team, management team gaps, and personnel plan.
FINANCIAL PLAN

The **financial plan** is a section of the business plan that describes important financial assumptions, key financial indicators, a break-even analysis, a profit and loss projection, a cash flow projection, a projected balance sheet, and relevant financial ratios. The following chart summarizes the key components and the corresponding value for each portion contained within a business plan.

<table>
<thead>
<tr>
<th>Section Name</th>
<th>Contents</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>• Objectives</td>
<td>It provides a high level overview of the complete picture for investors to quickly understand the point of the business; it is also meant to compel investors.</td>
</tr>
<tr>
<td></td>
<td>• Mission</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Keys to success</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Highlights</td>
<td></td>
</tr>
<tr>
<td>Company description</td>
<td>• Legal status</td>
<td>It provides a picture of who is involved, what has already happened, and how the business is being started.</td>
</tr>
<tr>
<td></td>
<td>• Ownership</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• History</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Start-up plans</td>
<td></td>
</tr>
<tr>
<td>Products/services</td>
<td>• Descriptions</td>
<td>It explains what is being sold or provided and how the business is meeting customer wants/needs.</td>
</tr>
<tr>
<td></td>
<td>• Benefits to customer</td>
<td></td>
</tr>
<tr>
<td>Market analysis</td>
<td>• Market segmentation</td>
<td>It explains the logic behind which customers are buying the products or services, why and when customers are buying, and what other businesses are providing similar products or services to customers.</td>
</tr>
<tr>
<td></td>
<td>• Marketing strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Buying patterns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Competition</td>
<td></td>
</tr>
<tr>
<td>Strategy and implementation</td>
<td>• Competitive advantage</td>
<td>It explains how the business will succeed in its sales and operations. It also explains what makes the business different.</td>
</tr>
<tr>
<td></td>
<td>• Sales strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Key business processes</td>
<td></td>
</tr>
<tr>
<td>Management summary</td>
<td>• Management talent</td>
<td>It explains how the business will use appropriate, qualified people to manage business operations, sales, etc.</td>
</tr>
<tr>
<td></td>
<td>• Gaps in management</td>
<td></td>
</tr>
<tr>
<td>Financial analysis</td>
<td>• Break-even analysis</td>
<td>It explains when the company will become profitable and if there will be adequate cash flow to support the operations.</td>
</tr>
<tr>
<td></td>
<td>• Projected profit and loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Projected cash flow</td>
<td></td>
</tr>
</tbody>
</table>
LAB CONNECTION: Identifying Business Plan Components

Before you can create a business plan of your own, it is important to be able to recognize the required section titles and their individual formats. Practice these skills by reading the sections below and by defining the business plan section title. Once you “speak the language” of the business plan, you can create one of your own!

Keep in mind that the business plan sections are as follows:

• Executive summary
• Company description
• Products and services
• Market analysis
• Strategy and implementation
• Management
• Financial plan

Samples

1. The following sample best fits into which business plan section?
   Company Z was incorporated as an “S” corporation under the state laws on June 10, 20—. Nine hundred and eighty thousand common shares in the company have been issued. President and CEO Bob Smith owns 362,000 common shares, and Regis Conroy owns 251,000 common shares. Other shareholders are Henry Hinckly (133,000 common shares), Roy Dotes (51,000 common shares), Greg Spain (50,000 common shares), George Spain (50,000 common shares), Susan Hendriks (46,000 common shares), Shelly Owens (25,000 common shares), Fred Smoates (10,000 common shares), and Kate Chrysler (2,000 common shares). The company retains 20,000 common shares for future distribution.

2. The following sample best fits into which business plan section?
   Company Z provides K–12 teachers with a Web-based software application for sharing lesson plans with other teachers. The software—Easy Lesson Sharing—is a proprietary product of Company Z, which packages individual licenses for each customer to use the software in one year increments. The benefits for customers (K–12 teachers) are easy collaboration with peers, easy access to simple lesson plans, and 24-hour access to the software.

3. The following sample best fits into which business plan section?
   Currently, there are 15,000 public school districts and 1,000,000 K–12 teachers in the United States. Even though 50 percent of school districts offer some type of Web-based software to more than 550,000 K–12 teachers, it is not clear how many of those teachers actually use the software provided by the school district. There are three dominant companies: companies A, B, and C.

4. The following sample best fits into which business plan section?
What distinguishes company Z sales processes from companies A, B, and C, is that company A uses a strictly viral marketing strategy comprised of independent contractors who are active K–12 teachers. These sales and marketing contractors implement their own methods and incur their own costs for marketing and selling company Z’s software service.

5. The following sample best fits into which business plan section?

Company Z has invested $250,000 into developing proprietary technology and software. Assuming that revenue predictions of 100 new subscriptions per month are met over the first two years, the break-even point will occur in December 20—.

6. The following sample best fits into which business plan section?

Company Z was started in 2010 by K–12 teachers who were interested in providing technology to other teachers. The company plans on expanding in all 50 states within the next five years. The company also plans to branch into providing professional development for K–12 teachers within the next seven years. Company Z’s mission is to become a leading provider of teaching technology and professional development in the United States.

7. The following sample best fits into which business plan section?

Company Z’s executive board of directors and officers are comprised of current and former K–12 teachers. The company has three employees working from home-based businesses. There is currently a gap in the technology director position, and Company Z is looking to outsource future technology work to Digital Works, Inc.

---

“Profit and Loss Statement,” “Break-Even Analysis,” and “Projected Cash Flow”

In accounting, *pro forma* are hypothetical financial estimations. Business plans must include financial estimations that demonstrate the financial viability of the proposed business. Pro forma typically include at least the following elements: a profit and loss statement, a break-even analysis, and cash flow projections.

**PROFIT AND LOSS STATEMENT (P&L)**

The *profit and loss statement (P&L)* is a document used to project revenues and to subtract projected expenses to predict that the company’s bottom line will be profitable.

**BREAK-EVEN ANALYSIS**

A new business will need to spend more than it earns in the early stages. The *break-even analysis* is a document that predicts the time when total revenues will increase enough that
they become even with the required start-up costs. Presumably, after the break-even point, revenues will continue climbing and will exceed costs so the company will be profitable.

CASH FLOW PROJECTION

A cash flow projection is a document that predicts when money will enter and exit the business. For a new business seeking investors, it is essential to ensure that the business will not collapse due to cash shortages. Cash flow projections are used by businesses to plan for shortages and surpluses.

Summary:

The main uses of a business plan are to attract investment capital, to plan a future vision for the business, and to plan how the business will manage its growth. Certain information is deemed important and essential to any business plan. As a result, the components of business plans remain consistent across the board in the “business world.” While there may be slight variations, the main components are generally an executive summary, company description, products and services, market analysis, strategy and implementation, management summary, and financial plan.

In accounting, pro forma are hypothetical financial estimations. Business plans must include financial estimations that demonstrate the financial viability of the proposed business. Pro forma typically include at least the following elements: a profit and loss statement, a break-even analysis, and cash flow projections.

Checking Your Knowledge:

1. A business plan pro forma contains information pertaining to what?
2. What are two financial documents typically included in a pro forma?
3. What document is used to project revenues and subtract projected expenses to predict that the company’s bottom line will be profitable?
4. What section of the business plan provides a high level overview of the business objectives, mission, and keys to success?
5. Define “investment capital.”
Expanding Your Knowledge:

Pretend you have been given the opportunity to pitch a business idea to a potential investor. Select a business idea. Then create a list of the top five things you think the investor should know about your business idea. List all five items on one postcard. You get three minutes to pitch your idea.

Web Links:

Cash Flow Projections
http://www.smallbusinessnotes.com/operating/finmgmt/financialstmts/cashprojection.html

Five Crucial Components of a Business Plan
http://ezinearticles.com/?Five-Crucial-Components-of-a-Business-Plan&id=12178

Profit and Loss Statement
http://www.investopedia.com/terms/p/plstatement.asp

What Is a Business Plan?
http://www.learnthat.com/Business/learn/1427/What-is-a-Business-Plan-Used-For/