

# Chapter 4: The Business Plan

## Tab 1: Introduction

This chapter introduces the **business plan**. The business plan is a road map for getting your business started. It provides specific information about what is needed to get your business up and running. It builds on information you gathered in Chapter 3: Business Feasibility.

A major reason businesses fail is lack of planning. The business plan helps you think about strategies and make decisions before you open your business. The business plan allows new business owners to make mistakes on paper before real money and customers are on the line.

Your business plan is a document that can be reviewed by different business experts so they can give you advice. It also contains information you'll need to share with funding sources, like banks, before they'll give you a loan.

### Parts of the Business Plan

#### Structure

Most business plans include five sections:

- Executive summary
- Business description
- Marketing plan
- Operations plan
- Financial plan

#### Executive Summary

An **executive summary** is a one-page summary of your business plan that explains your business idea and ability to run a successful business. People who might invest in your business will read this first and decide if they want to read your entire business plan.

You can think of an executive summary like a movie trailer, or the blurb on the back of a book. If it is not interesting and easy to understand, no one will want to read your whole business plan or support your business.

#### Business Description

A **business description** includes:

- A short description of your business
- How you came up with your business idea, and why your business is needed
- The form of business ownership
- Industry trends
- Your background experience

#### Marketing Plan

A **marketing plan** includes:

- The main features of your business
- Target customers

- Existing competition
- Marketing, advertising and promotion strategies

The marketing plan is covered in Chapter 5.

### Operations Plan

An **operations plan** includes a description of the things you need to start your business such as:

- Buildings
- Legal requirements, including licensing, taxpayer registration, and insurance requirements
- Inputs and operating costs
- Production methods
- Management and workers

The operations plan is covered in Chapter 6.

### Financial Plan

A **financial plan** describes the parts of your business that involve money, including:

- The need for, and sources of, cash
- Break-even analysis and pricing
- Sales forecast
- Cash flow statement
- Income statement
- Balance sheet

The financial plan is covered in Chapter 7.

### Business Plan Outline

Every business plan is different, but most follow a similar format. To follow the format we use in this guide, download the [Business Plan Outline](http://vrselfemployment.org/sites/default/files/PDFs/Business-Plan-Outline.doc) (<http://vrselfemployment.org/sites/default/files/PDFs/Business-Plan-Outline.doc>).

For a different easy-to-follow business plan outline, check out the [Business Plan Outline—23 Point Checklist for Success](http://www.forbes.com/sites/davelavinsky/2013/12/03/business-plan-outline-23-point-checklist-for-success) ([www.forbes.com/sites/davelavinsky/2013/12/03/business-plan-outline-23-point-checklist-for-success](http://www.forbes.com/sites/davelavinsky/2013/12/03/business-plan-outline-23-point-checklist-for-success)) an article in Forbes Magazine by David Lavinsky.

## Tab 2: Executive Summary

You will use the **executive summary** to convince your counselor, VR agency, and lenders that your business is worthwhile. Often, lenders use the executive summary as a screening tool to decide if they will review the full business plan. This is the first thing people will read about your business, so the executive summary needs to be clear, concise, and convincing.

### The Executive Summary

Although the **executive summary** is listed first, it is the last section you write because it summarizes the other sections of the business plan. Information in the executive summary includes:

- A brief explanation of what the business will do

- A description of how you, the business owner, are qualified to succeed in the existing market
- Financial information, such as:
  - Expected expenses, revenues, and profits for the first two years
  - Level of funding needed to start your business
  - Specific uses of borrowed funds

### Clear and Brief

When writing the executive summary, avoid jargon or words in your industry that some people may not know. You want everyone to be able to understand your proposed business idea without needing additional information.

- Have a family member or friend who doesn't know about your business read through your executive summary. Ask them for feedback.
  - Do they understand what your business is about?
  - If they are confused, can they or someone else help you clarify your summary?

The executive summary should be short. A good length is 1 or 2 pages, covering the main highlights of your business plan.

## Tab 3: Business Description

The **business description** describes your business and how it fits within the larger industry. It is broken into different parts:

- Company description
- Business history
- Form of ownership
- Industry trends
- Background information about the owner

### Company Description

The **company description** is a 1 to 3 sentence statement about your business. It should include:

- The business name
- A short description of the product(s) or service(s) the business will provide
- A short description of the customers

Here are some examples.

#### Retail Clothing Store

*Dress Me Up* will sell casual business attire for new professionals.

#### Restaurant

*First Light Café* will feature home-style breakfasts and lunches in a cozy atmosphere. Hearty and affordable meals will appeal to a wide range of customers including students, laborers, and downtown business people.

#### Organic Herb Farm

*Farm Fresh Organics* is a greenhouse operation that will provide fresh organic herbs year-round to local restaurants and grocers.

## Business History

The **business history** section includes how you developed your business idea, why the business is needed, and all of your business accomplishments to date. Answer the following questions to outline your business history section. These answers can be used to fill in the **Business Plan Outline**.

### Business Demand

Why is your business needed?

- What led to your business idea?
- How is your business different from other business offering the same or similar products or services?
- What gap does your business fill?

### Accomplishments to Date

What have you accomplished for your business?

- What key milestones have you achieved so far?
- How has your product or service been tested or reviewed?
- What skills and resources do you have to make this business successful? This includes things like:
  - Your previous experience and expertise
  - Strong advisors
  - A good business location

## Tab 4: Ownership

The **ownership section** is where you explain which type of business ownership you will use for your business. It also includes a list of all owners, shareholders or partners. Business ownership options include:

- Sole Proprietorship
- Partnership
- Limited Liability Company
- Corporation

Each form of ownership has advantages and disadvantages, depending on your specific business and financial situation. Identifying the business structure that's best for you can be confusing.

We recommend working with an expert, such as a [Small Business Development Center](http://www.sba.gov/tools/local-assistance/sbdc) (www.sba.gov/tools/local-assistance/sbdc) advisor. If you receive SSI or SSDI payments, you should also work with a certified benefits planner so you know how your benefits may be impacted.

## Ownership Types

Different ownership types include:

- Sole proprietorship
- Partnership
- Limited liability company (LLC)
- Corporation

The information was adapted from the Small Business Administration website. Visit [Choose Your Business Structure](http://www.sba.gov/business-guide/launch/choose-business-structure-types-chart) (www.sba.gov/business-guide/launch/choose-business-structure-types-chart) to learn more.

### **Sole Proprietorship**

Features of a **sole proprietorship** include:

- A simple and common business type for single owner businesses
- There is no legal separation between the business and the individual
- The individual is responsible for all assets and liabilities

Sole proprietorship is a good choice for people receiving Supplemental Security Income (SSI).

- It allows you to keep separate business and personal accounts, so business profits do not count towards asset accumulation.
- In any other form of ownership, business assets would count towards asset accumulation, and could threaten your eligibility to receive SSI.

### **Sole Proprietorship: Pros and Cons**

Pros:

- Easy and inexpensive to form
- Complete owner control
- Easy tax preparation
- Good for people receiving SSI because business profits do not count towards asset accumulation

Cons:

- Personal liability for business debts or any legal issues that might arise
- Hard to secure loans or investors

### **Partnerships**

Features of a **partnership** include:

- Owned by two or more people
- Owners share business decision-making responsibilities

### **Partnership Pros and Cons**

Pros:

- Easy and inexpensive to form
- Shared financial commitment between partners
- Ability to offer employees a partnership interest

Cons:

- Joint and individual liability
- Risk of disagreements among partners
- Shared profits, even when there is an unequal contribution of time, effort, and resources (unless specifically outlined in the partnership agreement)

### **Limited Liability Company (LLC)**

Features of a **LLC** include:

- A pass-through business structure that separates business and personal assets and liability
- Has members instead of owners

- Can be formed by one or more people

### **LLC Pros and Cons**

#### Pros:

- Limited personal liability if the business gets sued
- Less record-keeping and lower start-up costs than other corporate structures
- Easy to share business profits

#### Cons:

- More difficult to form than a Sole Proprietorship or Partnership
- Entire business net income subject to self-employment taxes

### **Corporation**

#### Features of a **corporation** include:

- Legal entity is owned by shareholders
- Complicated business structure
- Business (not individual shareholders) is taxed and responsible for all assets and liability

### **Corporation Pros and Cons**

#### Pros:

- Limited liability
- Ability to generate capital through sales of stock
- Corporate tax benefits for profits beyond salaries, bonuses and dividends

#### Cons:

- Expensive to set up and operate
- Double taxation in the form of business profits and dividends paid to shareholders
- Additional paperwork

### **Considerations**

Some VR agencies might not support certain types of business structures. Many VR agencies only support single owner businesses. Sole proprietorships or limited liability companies (LLCs) are good choices for most people because they are suited for single owners.

If you receive SSI or SSDI, however, you need to know how different business structures will count towards your assets. Talk to a benefits counselor to learn more about how your benefits could be impacted. Then, talk with your VR counselor about which ownership type is best for you.

## **Resources**

### **Business Structures**

For more information about business structures, visit [The Complete Guide to Choosing Your Business Structure](https://articles.bplans.com/the-complete-guide-to-choosing-your-business-structure) (<https://articles.bplans.com/the-complete-guide-to-choosing-your-business-structure>).

### **Business Structures and Public Benefits**

For an overview of different business structures and how they can affect public benefits like SSI and Medicaid, visit [Self-Employment Q&A: Selecting a Business Structure](http://www.worksupport.com/research/viewContent.cfm/789) ([www.worksupport.com/research/viewContent.cfm/789](http://www.worksupport.com/research/viewContent.cfm/789))

## Tab 5: Industry Trends

The **industry trends** section of the business description is where you describe your business's industry. This includes a description of your competition and possible barriers to entry. To do this, you will need to do some research about your industry.

### Industry Research

The following section was adapted from an article in *Entrepreneur* magazine. The article outlines questions you should answer in the industry trends section of the business description.

Click here to see the article: [First Steps: Writing the Industry Section of Your Business Plan](http://www.entrepreneur.com/article/241074) (www.entrepreneur.com/article/241074)

#### Industry Sales

- What is the total industry-wide sales volume?
  - In dollars?
  - In units?
- What are the sales volume trends?
- Is the industry affected by seasonal or economic cycles?
  - Does the amount of sales over the year?

#### Products

- What are the various products or services offered within the industry?

#### Competitors

- Who are the major players and key competitors?
  - What are they like?
- What does it take to compete in this industry?
  - What are the barriers to entry?

#### Marketing

- How does your competition market their services or products?

#### Regulation

- How does government regulation affect the industry?

#### Trends

- Do any technological trends affect the industry?
- How are changing customer tastes affecting the industry?
- How are demographic changes affecting the industry, such as a growing retiree population?

#### Financials

- What are key financial measures in the industry? These are things like:
  - Average profit margins
  - Sales commissions

- Business revenue

## Information Sources

### Small Business Development Center

You can find free market research reports through the Small Business Development Center (SBDC) network. These reports include industry trends, market statistics, customer demographics, recent business articles, and links to industry trade associations.

- Follow this link to the [Small Business Market Research Reports](http://www.sbdnet.org/category/small-business-research-reports) ([www.sbdnet.org/category/small-business-research-reports](http://www.sbdnet.org/category/small-business-research-reports)) to begin your research.
- If you are working with an SBDC advisor, they can help you pull industry reports for free.

### Census Business Builder: Small Business Edition

The *Census Business Builder: Small Business Edition* lets you look up information about your potential customers and similar businesses online. You can research demographic and consumer spending data, economic data, and trade data. This information can help you figure out if your proposed location is a good place for your business.

- Follow this link to begin your search: [Census Business Builder: Small Business Edition](https://cbb.census.gov/sbe/#) (<https://cbb.census.gov/sbe/#>)
- For help using the tool, tutorial videos, and FAQs, see the [Census Business Builder Home Page](http://www.census.gov/data/data-tools/cbb.html) ([www.census.gov/data/data-tools/cbb.html](http://www.census.gov/data/data-tools/cbb.html))

### Internet

Search the Internet using keywords like “business trends” and an industry name to conduct an internet search.

- For example, you could Google “business trends beauty salons” or “business trends food trucks”

### People

Talk to other people, such as:

- Potential customers
  - Ask where they shop for products or services like yours, and why they use the businesses they do.
- Business owners from a similar industry in another community
  - Ask how they operate their business, and how they attract customers.

## Tab 6: Owner Capacity

The **owner capacity** section provides information about you, the business owner. It includes details about:

- Your training
- Your experience in the business industry
- Your management experience
- Your marketing experience
- Other expertise or resources you will use, like business advisors

Use information from the About You worksheet you completed in Chapter 3 to help complete this section.

## Tab 7: Chapter Review

This chapter began with an overview of the business plan sections. Business plans usually include an executive summary, business description, marketing plan, operations plan, and financial plan.

The different parts of the **business description** section include:

- Company description
- Business history
- Form of ownership and ownership interest
- Industry trends
- The business owner's background

### Prepare

Use the information in this chapter to draft the **business description** section in the [Business Plan Outline](http://vrselfemployment.org/sites/default/files/PDFs/Business-Plan-Outline.doc) (<http://vrselfemployment.org/sites/default/files/PDFs/Business-Plan-Outline.doc>). Save the document so you can continue to fill it out as you develop your business plan.

- Start by writing your company description and business history.
- Talk to business experts about ownership types and what might be the best fit for you.
- Conduct research on industry trends and write up what you find.
- Make a note of questions you have or help you may need. Share these and your Business Plan Outline with your VR counselor.

Writing your business plan will take time, months or even years. But, if you put in the time and research now, you will improve your chances of success in the future.

### Counselor Review

#### Business Development Resources

Writing a complete business plan can be an involved process. Many people benefit from having a mentor or other business development advisor during the process. You can help the client by linking them with local and national resources:

- Small Business Development Centers (SBDCs) offer free business consulting and low-cost training for help with business plan development.
- SCORE Association members are trained business advisors who offer free business advice via email, face-to-face appointments, online workshops, and e-newsletters.
- Women's Business Centers provide training and counseling for economically disadvantaged women.
- Veteran's Business Outreach Centers provide business development assistance to veterans.

More information about these resources can be found in Chapter 8.

#### Non-traditional Resources

Can you suggest other resources that might be available in your community?

- If the client lives near a college with a business school, they could reach out to see if a student could help develop their business plan. Sometimes business students are required to do class projects and may be looking for local entrepreneurs to help.
- They could approach a local business owner in a similar business to see what resources they used to start their business.

**Ownership Types**

Which ownership types does your VR agency support?

- Does the client's business idea fit within one of these business types?
- How will this business type potentially affect the client's benefits (SSI, SSDI, or healthcare)?
  - Have you and the client talked with a benefits counselor?

**Industry Trends**

- For the client's proposed business, are there barriers to entry that will make it unlikely the business will succeed?
- Are there complementary products or services that should also be considered for business planning?
- Are businesses in this industry appropriate for single owners?

**Owner Capacity**

- Does the client have the capacity to run their own business?
- What gaps need to be addressed?
- What training or support is available?

## Check Your Understanding

This section helps you check your understanding of the material covered in this chapter. Go through the questions and write down your answers on a separate piece of paper. Check your answers in the Review Your Answers section

### Check Your Understanding

**Business Plan Benefits**

What are three benefits of writing a business plan?

**Executive Summary**

What is the purpose of the **executive summary**?

**Executive Summary Timing**

When should you write the **executive summary**?

**Company Description**

What is included in a **company description**? Provide a 1-3 sentence example.

**Business Structure**

What is a good business type for people who receive SSI or SSDI payments?

**Sole Proprietorship Disadvantages**

What are some disadvantages of a **sole proprietorship**?

**Industry Trends**

What are three things to include in the **industry trends** section of the business description?

## Review your Answers

### Business Plan Benefits

Question: What are three benefits of writing a business plan?

Answer: Writing a business plan:

- Helps you think about business strategies and make decisions before you open your business.
- Helps you understand your business industry.
- Helps you think about the entire business process, including marketing, operations, and financials.
- Gives you a document that can be shared with others so they can give you feedback and advice.
- Provides the information you'll need to share with funding sources, such as investors, banks, and creditors.

### Executive Summary

Question: What is the purpose of the **executive summary**?

Answer: You will use the executive summary to convince your counselor, VR agency, and lenders that your business is worthwhile. Often, lenders use the executive summary as a screening tool to decide if they will review the full business plan.

### Executive Summary Timing

Question: When should you write the **executive summary**?

Answer: You should write the executive summary last, because it summarizes information covered in your business plan. However, it is the first section of the business plan.

### Company Description

Question: What is included in a **company description**? Provide a 1-3 sentence example.

Answer: The company description is a short 1 to 3 sentence statement that describes the business. It includes:

- The business name
- A short description of the products or services the business provides
- The target customers

Example:

*Lawn Man Maintenance* provides mowing, edging, pruning and landscaping services to homeowners.

### Business Structure

Question: What is a good business type for people who receive SSI or SSDI payments?

Answer: Sole proprietorship. In general, however, people receiving public benefits should consult with a certified benefits planner to get the most accurate and up-to-date advice on business structure.

### Sole Proprietorship Disadvantages

Question: What are some disadvantages of a **sole proprietorship**?

Answer: In a sole proprietorship, the business owner is personally liable for all business debts or legal issues. It can also be hard to get loans or investors.

### **Industry Trends**

Question: What are three things to include in the **industry trends** section of the business description?

Answer:

- The total industry-wide sales volume
- How sales and volume may respond to changes in seasons or economic conditions
- Types of services and products offered within the industry
- Major competitors and how they operate and market their businesses
- Barriers to entry
  - These could be governmental regulations, market saturation, or changing consumer preferences
- How trends in demographics, technology, and consumer preferences might impact industry growth and sales