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The Elements of a Business Plan: First Steps for New Entrepreneurs

Cole Ehmke and Jay Akridge
Department of Agricultural Economics

EXPERT REVIEWED

By organizing your thoughts on a possible business venture into a business plan, you begin the process of creating a successful enterprise. This publication addresses common questions about business plans and then discusses what is included in the major sections of a business plan. At the end, it also describes a number of common errors made when developing a business plan.

Audience: Entrepreneurs planning a new venture

Content: Outlines the basics of a business plan

Outcome: Readers will understand the purpose of and elements required to write a business plan for a new venture

What Is in a Business Plan?

The business plan covers what you intend to do with your business and how it will be done. The process of writing down what is involved in bringing your idea to reality requires dealing with the why, what, who, how, where, when, and how much of your venture. Writing a business plan forces you to take a deep look at your idea and how you will turn it into a business. Doing so helps you recognize areas that need rethinking or support. Your business plan will typically include the following.

Business description—What do you plan to do; why are you starting the venture?

Market analysis—Who will be your customers; what do they want from you?

Competitor assessment—Who will you compete against; what do these competitors offer?

Marketing plan—How will you reach your customers?

Operating plan—How do you plan to implement your idea?

Financial plan—How much money will it cost, and where will you get the necessary funds?

Executive summary—What are the fundamentals of the venture?

This publication discusses each of these elements after answering some common questions about business plans.

Why Should I Write a Business Plan?

An important question that you should ask yourself early in the venture planning process is whether you should write a formal business plan. While many things may be occurring at once when a venture is being formed and you may be challenged for time, there are a number of very good reasons to put together a business plan.

First, a business plan helps provide direction by making you discuss where you want to take the venture and define what you want out of it. Second, a business plan provides structure to your thinking and helps you make sure you've covered all of the important areas. Third, a business plan prompts you to think about the future. For instance, a business plan might help you consider what you would do when, once your venture is developed, it attracts several competitors. A good business plan will include ideas for dealing with new competitors in your market, helping you prepare your business for this situation.

Finally, a business plan will help you communicate your idea, not only to financers, but also to employees, potential employees, suppliers, and customers. As a communication tool, a carefully developed plan will provide something that other people can react to. You can use their insights to help you develop a more successful venture.

Who Should Write the Plan?

The person or persons responsible for implementing the plan should be heavily involved in its development. Some people hire consultants or have employees draft the plan. If you're going to be accountable for the decisions that will be based on the plan, then you need to be involved in its development. You might have input from experts as you develop the background and analysis for the business plan, but the business venture is an extension of your desires, goals, philosophies, skills, and abilities. If you are not directly involved, then it will not be an effective planning document.

How Long Should a Business Plan Be?

Part of the answer to this question depends on the audience for your plan. If you are going to use the plan to search for equity capital from a potential investor, then the plan should be comprehensive and detailed. It should certainly be longer and more detailed than a plan that is developed only for internal use by yourself and a partner.

But more important than length is what the plan says. Some long plans may communicate very little, while some very short plans concisely communicate the essence of the venture. Thoughtfully and thoroughly considering all the areas of the plan is much more important than attempting to reach a certain length.

Elements of a Business Plan

Section 1. Business Description

As an introduction to your business, this section should provide an overview of the business and its objectives. Readers of your business plan will want to know why this business should exist. Having a mission statement will help communicate this.

Mission Statement

As you begin your business venture, the first step is to clarify what is most important to you. Having a clear purpose provides readers with the context for the venture and will give it meaning. Often a statement of purpose—a mission statement—is written to outline intentions and motivations.

To write a mission statement, first consider the things you care about or want to do. A mission statement communicates the purpose and principles of what you're doing and why you're doing it. A good mission statement should accurately explain why your venture exists and what it hopes to achieve in the world. Write a brief paragraph that is free of jargon. At the very least, your mission statement should answer three key questions:

1. What are the opportunities or needs that you exist to address? (the purpose of the venture)
2. What are you doing to address these needs? (the business of the venture)
3. What principles or beliefs guide your work? (the values of the venture)

Your mission is the beacon for your venture. All other actions in your business plan should help you accomplish the mission. Communicating your mission with clarity is important because the goals you set, actions you take, and the way you spend your time will be guided by this statement. See Purdue Extension publication *Developing Vision and Mission Statements* (EC-720) for more information on this topic.

Figure 1 contains an example of a thoughtful, fully developed mission statement, that of Ben & Jerry's, the quirky, innovative, highly successful ice cream manufacturer.

Ben and Jerry's mission statement is specific and action oriented. It describes exactly what the business of the venture is and mentions the quality ideals it sets for its products. It directly states that the company will focus on increasing profitability to enhance value for shareholders, yet it commits the company to taking an interest in broader social issues. Thus, the firm's values are clear.

Figure 1. Ben & Jerry's Mission Statement

Ben & Jerry's is founded on and dedicated to a sustainable corporate concept of linked prosperity. Our mission consists of three interrelated parts:

Product
To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.

Economic
To operate the company on a sustainable financial basis of profitable growth, increasing value for our stakeholders and expanding opportunities for development and career growth for our employees.

Social
To operate the company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally and internationally.

Central to the mission of Ben & Jerry's is the belief that all three parts must thrive equally in a manner that commands deep respect for individuals in and outside the company and supports the communities of which they are a part.

Business Overview

Also included in the Business Description portion of a business plan is a summary of the current state of the venture. If you already have selected a legal structure (sole proprietorship, partnership, Subchapter S, or C corporation), then describe it and who the principal owners are. Also provide a definition of the business—is it a manufacturer, retailer, wholesaler, service provider, or some combination? Will it be started from scratch, as an expansion, or as an acquisition? Further information may include the history of the business and its primary strengths.

Products and Services

Readers of your plan will need a description of what your product or service is to provide context for what you will later say about it and your market. A general description is all that is needed in this section; you can provide more depth in the marketing plan section.

Section 2. Market Analysis

This section is the place for you to discuss the market and your approach to it. In it you describe the market's characteristics, your target customer's profile, the competition, and how you plan to gain an advantage over them to create a successful venture.

Market Characteristics

Your business will be a part of an industry. Describe the industry so readers can understand the market place. Include information on its size, location, history, competitiveness, and profitability as well as its general health. In particular, discuss the current trends in opportunities and threats. This foundation will help you prove that a market exists for your product. Your research will be the foundation of your forecasted sales levels and will directly influence how large your operation should be, your marketing plan, and the financing required.

Your efforts to reach your potential market and create a profit will be limited by other businesses involved in the industry. For instance, if the only way to effectively distribute your product is through a large national chain, then that chain will likely use its bargaining power to force you to sell for a lower price, or there may be a slotting fee involved. You will want to discuss forces like this and how you will respond to them. These forces include the following:

- Supplier power (suppliers' bargaining power and leverage),
- New competitors (the threat of entry of new rivals),
- Substitute products (ease with which buyers can switch to alternative products and/or attempts of outsiders to win buyers over to their alternative products),
- Buyer power (buyers' bargaining power and leverage),
- Industry rivalry (intensity of rivals' jockeying for a better market position and a competitive advantage), and
- Government regulations (government influence through regulations and policy).

See Purdue Extension publication *Industry Analysis: The Five Forces* (EC-722) for more information on this topic.

Target Customer Profile

In writing your market analysis, you will narrow the range of potential customers to those specific ones who are willing and able to buy your product. Although your product or service may meet the needs of a large constituency of potential customers, the goal is to define your target customer as specifically as possible both quantitatively and qualitatively. As you gather your information, you will build a profile of your target customer.

Your research should provide demographic information about ***who*** you'll focus on and the psychographic information to understand ***why*** customers buy products. This will allow you to focus your efforts efficiently. Thorough and detailed research sets a good business plan apart from an average one.

If you are selling to consumers, then consider the following.

- Are your customers local, regional, national, and/or international?
- Are your customers young, old, male, female, high income, low income, etc.?
- Are there behavioral characteristics that differentiate your customers? (for instance price shoppers versus convenience shoppers)
- Are there cultural considerations, social connections, or other personal factors that might shape your customer's needs, wants, and buying behaviors?

If your customers are primarily businesses, then consider the following.

- Do business customers' needs differ by industry?
- Do business customers in different regions have different needs?
- Who in the business is involved in the purchasing decision? What is their job function? Who influences their decisions? What is their background and knowledge with respect to your product/service?
- What are company buying policies and procedures, financial constraints, and timing of purchases?

Potential information sources are often publicly available, and you should augment them with interviews with people currently in the industry as well as your own experience. You should also include a statement of the potential opportunities for growth.

Section 3. Competitor Assessment

In your market analysis, include a review of your specific competitors. All businesses have competitors in some form. Some competitors sell similar products, while others sell a product that serves the same function. Established businesses will likely not take your entry into the market lightly.

First, define who your competitors are, and then profile them. You should assess competitors with a critical eye on their strengths and weaknesses compared to your own. It is important to have an understanding of the operations of your competition so you know how you stand in relative terms. Keep in mind the customer profile you created earlier. In it you discussed the customers' needs. In this section, address how your competitors fill those needs and what you, in turn, will offer. If a competitor has a strong competitive advantage in an important area, you need to discuss how you will address it. When reviewing competitors, consider what they have as far as:

- Market share,
- Relationship with customers,
- Advertising plan,
- Price,
- Distribution,
- Product/service features,
- Financial strength/cost position, and
- Length of time in business.

Section 4. Marketing Plan

Marketing plans usually address four areas: product offered, price charged, distribution system, and promotional efforts.

Products and Services

In your business description, you described your product or service in general terms. In this section, describe your product and how it will be used. This is your chance to explain your products/services, identify their features and benefits, and discuss what needs or problems they address in the market.

If you will offer a product, describe what it is, what it does, and its features and benefits. Include pictures, drawings, or technical images if they would help readers get a better understanding of your product. Discuss its size, shape, color, cost, design, quality, capabilities, technological life-span, and patent protection. You may also wish to explain how it is produced, the materials required, and the type of labor needed.

If you will offer a service, explain what the service is and what need it addresses for your target market. Describe how you will perform the service (whether it is on site or via the Internet, telephone, or some other method), what makes it different, and what materials or equipment are needed.

The products you offer will include aspects beyond the product itself, like packaging, product support, warranties, returns, training, and service. Discuss how these supporting features, services, and information will make your business competitive and profitable.

Pricing

Pricing strategies are based on the perceived value of your products and services, your cost of doing business, your marketing goals, and expected competitive actions. A wide range of pricing strategies are available, from simple rules of thumb to sophisticated approaches that involve carefully measuring the value delivered by your firm to your target market.

As you make your pricing decisions, it will be helpful to think about your cost to produce your product or service. This will provide a "floor" on your price. You should also think about what other products similar to your products sell for in the market. Finally, give some thought to why the price of your product or service should be above or below the "market price." Above all, demonstrate that your price will allow you to create a profit. See Purdue Extension publication *Estimating Breakeven Sales for Your Small Business* (EC-725) for more information on this topic.

Distribution

In the distribution portion of your marketing plan, describe how your product/service will be distributed and over what geographical area. Distribution decisions concentrate on the methods and channels of delivery that will optimize your sales and profits. Logistics management plays an important role in these decisions as firms determine how products will physically move from manufacturer to customer. Issues of cost and efficiency, timeliness, freshness, customer service, customer access, and control all affect your choice of distribution channel.

Describe how your product will be sold, whether through retailers, direct sales, and/or other methods. Discuss any relationships you have developed with distributors or any licensing agreements you have. Describe how your product will reach customers, including specific distribution channels and geographic areas.

Promotion

Promotional activities are designed to communicate the value of your products and services to your customers, ultimately leading them to purchase your product or service. The range of promotional tools available to you is very broad and may be a combination of advertising, personal selling efforts, and general public relations activities.

An effective promotional plan must focus on your target segment—what is the most effective and efficient way to get your message in front of this group? The second big issue is budget—how much money do you have to invest in promotional activities? Finally, a promotional plan must include a timeline for activities—when should you pursue the individual activities in the plan? Creativity is very important here—a low-cost, creative promotion may be far more effective than an expensive (paid) advertising campaign.

See Purdue Extension publication *Marketing's Four P's: First Steps for New Entrepreneurs* (EC-730) for more information on this topic.

Section 5. Operating Plan

The operating portion of the plan deals specifically with the internal organizational structure, operations, and equipment you will need to operate your venture. You should discuss how the business will be owned and managed, your personnel and physical resource needs, and the legal issues you will have.

Ownership and Management

In this section, describe the ownership of your venture, and explain how the business will be managed on a day-to-day basis. For instance, if your venture will operate as a partnership, then explain who the partners are and how management decisions will be made and disagreements will be resolved. For a business organized as a corporation, describe the composition and function of your board of directors, who the principal owners will be, and how each will be involved in making decisions.

Managers of a venture are responsible for turning an idea into a successful business. In this section, describe what qualifies you and any other managers or advisors to manage and operate the business. You should select managers with an eye to balancing technical, managerial, and financial skills. Provide a short profile of the relevant training, experience, licensing, or other indicators of ability that you want your key managers to have.

Consultants can help you define and implement your plans. Outline the outside advisors you will be using to help run your business, and provide a few sentences that describe each individual's affiliation and qualifications. See Purdue Extension publication *Selecting and Managing Consultants* (EC-719) for more information on this topic.

After describing who the key people are, you will want to describe how you will organize each person's responsibilities and authorities for the efficient operation of your business. A useful management tool to use is a job description for each position in the venture. A job description defines in advance what the roles of each individual will be and helps in communicating job expectations. See Purdue Extension publication *Developing Effective Job Descriptions for Small Businesses and Farms* (EC-728) for more information on this topic. An organizational chart of the positions required and job descriptions for the key employees will help readers understand how the business will operate. See Purdue Extension publication *Principles for Structuring Small Businesses and Farms* (EC-729) for more information on this topic.

Resources and Production

Other Staffing

If you will need to hire employees apart from yourself and other owner/operators, then describe what your personnel needs will be. Have job descriptions (including job responsibilities and authorities, compensation, and qualifications) for relevant positions, and describe how you will find and manage the right people.

Production Methods

Outline the methods you will use to produce your product (or conduct your service), especially for a manufacturing venture. Pay particular attention to which actions will be done within your business and how you will you source the inputs you require. Part of this should be estimates of your production costs.

The technical feasibility of producing and distributing the product will be an important aspect of many ventures. Address the availability of inputs and skilled labor, the viability of production technology, the logistics of product production, and the environmental effects of production in your plan.

Facilities and Equipment
Estimate what facilities and equipment you will use and where they will be located in relation to your suppliers and customers. Describe the size and usefulness of the facilities and any modifications needed to start operations and as your business grows.

Operations
Describe how your business will be operated in terms of both schedule and procedures. Your schedule may be part-time or full-time, may only operate in certain seasons, may observe certain holidays, or may have extended hours at times of the year.

Operationally, describe how you will manage your business. A manufacturer will want to describe how raw materials will be obtained and transformed into a finished product. A service provider will want to describe where, when, and how the service will be performed. Your operational description should also include your polices and procedures for billing and collections, contract management, inventory control, record keeping, and how you will maintain quality.

Legal Issues

Intellectual Property Protection
Protecting your business and its products from imitators should be a concern early in your venture, particularly if you have innovative products. Trademarks and service marks will protect your company's marketing symbols for products and services. Patents will help protect the products you create. See Purdue Extension publication *Intellectual Property: Obtaining Patents, Trademarks, and Copyrights* (EC-723) for more information on this topic.

Compliance
Every business is subject to local, state, and federal regulation. Outline your plan for complying with relevant regulations. See Purdue Extension publication *Licensing, Regulatory and Tax Requirements for Indiana Businesses: A Checklist Guide for New Businesses* (EC-733) for more information on this topic.

If you have applied for and received a Tax Identification Number from the federal government, then include it here.

Section 6. Financial Plan

The financial plan is a necessary part of evaluating a new investment opportunity. With it you develop an estimate of your profit potential. It can even become an operating plan for the financial management of the venture. In this section, describe the current financial status and present forecasts of future financial statements. If you are using the business plan to seek financing, cover the type and amount of financing planned (and its repayment terms) as well as the potential return on investment. The financial portion of your business plan will be examined closely by those interested in joining you, investing in the venture, or lending you money, so it must be thorough. They will want to know how you will use invested funds to create a successful venture.

Forecasts of product demand, revenues, and expenses for new ventures will draw on the market research you conducted. Your projections are only as good as your assumptions, so make sure they are valid and realistic. Document as much as you possibly can, including how you developed your assumptions. Purdue Extension publication *Fatal Business Planning Assumptions* (EC-734) discusses financial and general planning assumptions.

Provide projections for two to four years in the future, including:

1. Forecasted income (monthly for first two years, then by quarter or year thereafter),
2. Forecasted cash flows by month (monthly for first two years, then by quarter or year thereafter),
3. Forecasted balance sheet for all years (year-end), and
4. Breakeven analysis.

Many small businesses will have very limited revenue for the first two years of operation. Most small businesses will not make a real profit for at least two to three years. Without significant financial reserves, your venture is likely to fail. You can use a convincing business plan to gain capital needed to get beyond the initial difficult years. If the purpose of your plan is to seek funding, request those funds, and describe how they will be used.

As with any venture, there will be risks. Identify and describe the most threatening risks to your success. Outline the activities you will pursue to manage the risks.

Section 7. Executive Summary

The executive summary is your chance to highlight the important aspects of your venture. As a summary of your plan it should be short. Try to fit it on one page. It should give highlights of the following features:

- Your mission and goals,
- The product,
- The market and its potential,
- The marketing plan,
- The management team,
- Key elements of your operations,
- Funding requirements, and profit and cash forecasts,
- Return to the investor.

Final Comment

The components of a business plan cover an array of topics typical to all ventures. However, what you write in your business plan will depend heavily on how you intend to use the plan. One use is as a feasibility study—a way to help explore an idea to find out if it makes sense. Another is as an operating guide—a plan that details how a new venture will progress and operate. Another way a business plan can be used is as a financial proposal—a plan that communicates how an investor's financial support will be rewarded.

Each use will emphasize different areas. For instance, if you are intending to take your business plan to an investor, then it should focus much more attention on how money will be used and repaid than a feasibility study would. If you are writing a feasibility study, then you may have much more market analysis and technical information than an operating plan would.

Planning is a continuous process. Once you have written your business plan, you should not consider it finished. It is a document that will guide the formation and growth of your business you should continually revisit it, especially if the market or your initial assumptions should change. If the changes are significant, then you should be prepared to revise or even scrap your plans.

Business Planner

INVenture <http://www.agecon.purdue.edu/planner> is a tool to use to start writing your own business plan online. This Web site helps users build a business plan by asking key questions. Users' responses are collected and can be exported to MS Word in the form of a business plan.

Purdue Extension Resources

You can purchase the Purdue Extension publications below and others about starting a new venture at <https://secure.agriculture.purdue.edu/store/>. You can download all except EC-733 at <www.ces.purdue.edu/extmedia/agecon.htm#1>.

- *Capital Investment Analysis and Projection Assessment,* EC-731
- *Defining Your Business Through Goals and Objectives: First Steps for New Entrepreneurs,* EC-727
- *Developing Effective Job Descriptions for Small Businesses and Farms,* EC-728
- *Developing Vision and Mission Statements,* EC-720
- *Estimating Breakeven Sales for Your Small Business,* EC-725
- *Fatal Business Planning Assumptions,* EC-734
- *General Licensing, Regulatory and Tax Requirements for Indiana Businesses: A Checklist Guide for New Businesses,* EC-733
- *How to Use Goals to Achieve Business Success: First Steps for New Entrepreneurs,* EC-726
- *Industry Analysis: The Five Forces,* EC-722
- *Intellectual Property: Obtaining Patents, Trademarks, and Copyrights,* EC-723
- *Marketing's Four P's: First Steps for New Entrepreneurs,* EC-730
- *Principles for Structuring Small Businesses and Farms,* EC-729
- *Selecting and Managing Consultants,* EC-719

Common Business Plan Errors

Not Creating a Plan

Entrepreneurs have many reasons for not completing a business plan—not enough time, don't believe it will be useful, not sure where to start, and so on. Not creating a business plan is a fundamental error for an entrepreneur. In fact, when reviewing an unsuccessful venture, many find their biggest mistake was not taking the time to think through what it would take to make their venture successful. While a complete, well-developed plan is the goal, an incomplete business plan is better than no plan at all. Even an incomplete plan will move you in the right direction and provide something to which others can respond. Readers of your plan will be able to see what is missing and can point out flaws in your logic if they have something to critique.

Incomplete Market Research

Many times information about the market for your product or service is the most difficult to gather. Trying to gauge who wants your product, how much they want, what they will pay, and how competitors will respond is not an easy task. While challenging, the time and energy invested in truly understanding your market will pay off. Your business should be market-driven rather than product-driven. Your business plan should not be built around a product searching for a problem to solve. Competitors exist for virtually every business—you simply must do your homework on who they are and what they bring to the market. In the end, you cannot skimp on market research. Your plan must demonstrate knowledge of customer needs and wants, and prove that you have a reachable, and significant, market.

Not Being Objective

In new venture planning, it is easy to be caught up in the enthusiasm of the venture or be overly eager to get to the marketplace. Being critical about the idea, the market, or yourself is difficult. However, not recognizing up front what you need be successful will catch up with you at some point. For example, if you are starting an agritourism venture, you need to be very objective about your people skills. Are you good with people? Will you be an effective host for your guests? You need an honest answer to these questions. Maybe you have these skills and hence possess an important capability for success. If people skills are not your strength, then your business plan must address this gap. Be objective in your analysis, or it could potentially cost you a lot of money later.

Making Unrecognized Assumptions

Putting together a business plan requires estimates about many things that are not known with certainty—sales volumes, construction costs, competitor response, etc. Such assumptions are a necessary part of the process. The problem occurs when your assumptions about something you don't know for sure become fact in the business plan. For example, it is easy for the assumption you have made about sales volume or market share to become a fact in the business plan. If you treat this information as a fact, you don't plan for the situation where actual sales volume or market share turn out radically different than the assumptions. You need to recognize what you are assuming and separate your assumptions from the things you can state with certainty because they are backed up by facts. In essence, you need to know what you don't know. Forecasts developed with no substance will get you nowhere. Assumptions that become facts are trouble. Your assumptions must be stated clearly for your business plan to be an accurate road map for your decisions.

Providing Useless Information

When you start the business planning process, you will likely find more data than you ever imagined possible. And, depending on your personality, you can become enamored with the business plan itself, treating it as the end point. The business plan is a ***tool,*** it is a step in the process of launching a new venture. It is a road map, and clarity is important. Long, detailed text and "data dumps" are unlikely to provide the guidance you are looking for. Your business plan should state clearly how your business will make money. Don't focus on long descriptions of the product over descriptions of your path to profitability. Your

Common Business Plan Errors continued

business plan should show that you are aware of buying cycles and adoption rates, have a growth plan, and are not too dependent on others. It should be a selling document that is concise, clear, and logical; it should contain quantitative rather than qualitative information.

Skipping Steps

As the plan comes together, there is a tendency to spend time on the sections of interest or where the data is "best." This leads to an unbalanced plan where the marketing plan is spelled out in tremendous detail, but the financial plan gets little attention simply because the entrepreneur is not a "numbers person." The value of the business plan is that it provides a place to think comprehensively about the future of the venture. That value is severely undermined when you do not discuss all of the important parts of the venture.

Missing Linkages

Another common mistake in business planning is the inconsistent plan. This is a plan where the different stages described above are not interrelated, where the assumptions made in one section are different from assumptions made in another. Your marketing budget should be supported in your marketing plan. The marketing budget should contain the same number used in the financial projections. The pricing policy chosen should be consistent with your market position. Your market research should guide the marketing plan and the financial projections. An experienced lender, venture capitalist, or other reader of your plan will quickly disregard a plan that does not flow. The elements of your business plan should be tied together logically and accurately tell the story of how you will turn your idea into a business.

Notes

Notes

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