



## Business Plan Overview

### Organization and Content

A business plan is a description of your business, including your product your market, your people and your financing needs. You should consider that a well prepared business plan plays two important roles: firstly, it is a useful management tool that can help you to plot a course for your company and secondly, it is a vital sales tool, that will impress venture capitalists with your planning ability and general competence as a manager. Other things being equal, a well-prepared business plan will increase your chances obtaining the venture capitalist's financial commitment.

### Summary

Many venture capitalists like to review a short summary of a business plan so they can quickly decide if it is worth their time to review the whole plan. Therefore, your objective in the summary is to convince venture capitalists to study your plan further.

### Company and Industry

The purpose of this section is to provide venture capitalists with background information on your company and to describe the nature and current condition of your industry.

It should include the following information:

#### Company

- Date and state of incorporation
- Principals and what roles each of the principals played in bringing the business where it is today
- Business purpose and highlights of progress to date, including major developments such as the introduction of a new product.

#### Industry

- Present your view of the current status and prospects for the industry
- Describe the principal participants and how they are performing, including growth in sales, profits, and current market share.
- Describe the effect of major economic, social, technological, or regulatory trends.

### Product

Your objective in this section is to completely, yet concisely, describe your product, along with any proprietary features and future development plans.

It should include the following information:

**Description** -Describe the company's product in detail indicating its nature and application. Include material such as engineering studies, photographs, and selling brochures.

**Research and Development** -Describe the nature and extent of research and development work that must be completed before your product is placed on the market. The costs and time required to achieve a marketable product should be indicated.

**Proprietary Features** - Describe any patents, trade secrets, and other proprietary features. Discuss any other factors that have allowed, or could allow you to obtain an advantageous position in your industry.

**Feature Development** - Discuss plans for extension of your present product, and development of new or related products.

## **Market**

Your objective in this section is to convince venture capitalists that you understand your market and can achieve your sales target.

It should include the following information:

**Market Definition** - Define the target market by describing the potential customers, their locations, their interest in the product, and the season ability of their purchases. If the company has a track record, discuss how its product has been received in the marketplace. It is important to discuss any negative reactions to your product along with your present or planned actions to overcome the negative reactions.

**Market Size** - Describe the market's current size. The market should be determined based on a review of statistical data and from discussions with potential distributors, sales representatives, and customer.

**Market Trends** - Describe the market's growth potential. Market projections should be made for at least three years and should clearly state the assumptions used, including major factors such as industry trends, new technical developments, and new or changing customer needs.

**Competition** - Name and discuss all major competitors. You should compare your product with your competitors on the basis of price, performance, service, warranties, and other important features. Then review the strengths and weaknesses of your competitors. If they are doing well, explain why you expect to succeed. If there are no competitors, discuss the possible development of competition and from whom it is likely to come.

## **Marketing**

Your objectives in this section are to provide projections of sales and market share, and to convince the venture capitalist that your marketing plan will achieve the projections.

It should include the following:

### **Estimated Sales and Market Share**

- Provide an estimate of sales and market share (units and dollars).
- Base this estimate on your assessment of your customers and their acceptance of your product, your market size and trends, and the competition.
- Identify any major customers who have made or are willing to make purchase commitments.

### **Strategy**

- Targeted customers (initial and later)
- Methods of identifying and contracting potential customers
- Product features that will be emphasized

**Pricing** - Discuss the prices to be charged for your product and compare your pricing policy with those of your major competitors.

Explain how the price you set will enable you to:

- Gain acceptance of your product



813-900-4827  
823-483-6883



info@rjcapital.us  
www.rjcapital.us



2700 Westhall Lane, Suite 124  
Maitland, Florida, 32751

- Maintain and increase your market share
- Product profits.

You should justify pricing that is above or below your major competition.

**Sales and Distribution** - Describe how you plan to sell and distribute your product, including the following:

- If distributors or sales representatives will be used, describe how they will be attracted, compensated, and what geographic areas will be covered.
- If a direct sales force will be used, describe how it will be organized and controlled. This should include the number and location of sales personnel and the commission and/or salary they will receive.

**Service and Warranty Policies** - Discuss the importance of these to your customers and your policies and methods for handling service problems.

**Advertising, Public Relations and Promotions** - Discuss your plans to bring your product to the attention of prospective customers.

Include your plans for the following:

- Trade show participation
- Trade magazine advertisements o
- Promotional literature

**Operations** Your objective in this section is to describe how the product will be manufactured, including location, plant and equipment, manufacturing processes, and labor.

**Location** - Describe the location of the business including the advantages and disadvantages of the site considering the following:

- Wage rate
- Labor unions o Labor availability
- Proximity to customers
- Access to transportation
- State and location
- State and local laws (including zoning)
- Utilities (including rates)

**Plant and Equipment** - Describe the facilities in use or to be acquired. For facilities to be acquired, state whether the facilities will be leased or purchased, and state the costs and timing of the acquisitions. Comment on the future plant and equipment needs, based on sales projections, including the cost of additional capacity and its timing.

**Manufacturing Processes** - Describe the manufacturing processes necessary to produce your product, including:

- Method of manufacture
- Quality control, production control, and inventory control procedures
- Raw materials or components (including source, cost, and related contracts)
- Organization and control of purchasing function
- Breakdown of fixed manufacturing costs
- Operations
- Breakdown of variable unit costs by product

**Labor** - Describe, exclusive of management, to what extent the local labor force is sufficient in terms of quality and quantity to manufacture your product. If applicable, address the type of training needed and the costs to your company.

## **Management**

The experience, talent, and integrity of your management team are of primary concern to venture capitalists. Before agreeing to finance your company, venture capitalists will conduct a thorough reference check of each member of your team.

Accordingly, this section of the business plan should describe the following:

### **Organization**

- What the key management roles will be
- Who will fill each position
- How the individuals' talents compliment each other

### **Key Management**

- The duties and responsibilities of each individual
- Career highlights of each individual (a resume should be attached)
- The weaknesses of the management team
- Each individual's compensation and ownership

### **Board of Directors**

- Identify board members
- Explain how the members can benefit the company
- Disclose the members' investment in the company, if any

**Professional Services** - Properly selected professional advisors can help you to establish the credibility of your business venture. Therefore, it is important to state the legal, accounting, public relations, advertising, banking, and other service organizations you have selected for your company.

## **Overall Schedule**

A well-prepared and realistic schedule is critical to the company's success as it indicates the ability of management to plan the company's development; therefore, a schedule should be prepared that shows completion dates for major aspects of the business plan.

## **Critical Risks and Problems**

The development of a business has risks and problems, and it is best to identify these negative factors and discuss them in a forthright manner. To determine the risks and problems that require discussion, you should determine which business plan assumptions or potential problems are most critical to the success of the venture. Then, describe your plans for minimizing the impact of unfavorable developments in each risk area.

## **Financial Information**

The amount of financial information needed in your business plan will depend largely on the stage of your financing and the amount of money you are seeking. Your plan should describe, in general terms, the type and amount of finding you are requesting. In addition, you will need current information on the company's present financial status and financial projections. If your company has begun operations, you must include current financial statements.

**The Funding Request** - The funding request section of your business plan should cover the following information:

- **Desired financing** - You should state how much money you need and what you will do with it. Also explain any plans for obtaining financing in addition to the venture capital investment.
- **Capitalization** - You should explain the capital structure of the company and what effect funding will have on that structure. As part of this explanation you should identify who the stockholders are, what their positions in the company are, how much stock they own, and how much they paid for it.
- **Use of funds** - Your explanation of how you plan to use the funds should be consistent with your financial projections. If you want seed capital, you might simply state that the money will be used to develop the product and set up a marketing organization. In a subsequent round of financing, you can refer the reader to your financial projections for details, but explain briefly how much of the money will be used for R&D, manufacturing, capital equipment, etc.
- **Future financing** - You should also explain, clearly and concisely, anticipated future funding. Do you want capital investment in stages, or all at once? If you seek staged venture capital financing, when will you require the future funding and what are the milestones for reaching that point? Will you use debt financing? If so, when, how much, and on what expected terms ?

**Current Financial Statements** - If your company has a track record, provide financial statements for the last three years or from inception. Additionally, you should provide:

- Detailed breakdown of income statement categories
- Operating statistics and explanations of unusual fluctuations

**Financial Projections** - You should provide three-year profit and loss, cash flow and balance sheet projections. If your company has a track record, the projections should be on a quarterly basis for the first year and annually thereafter.

#### Profit and Loss Forecast

- **Sales:** Forecasted sales are the most important component of your financial projections since sales volume will dictate the necessary level of production or operations. You should begin your financial projections with the sales forecast. Many first time entrepreneurs make the mistake of starting at the manufacturing cost level and assuming that the marketing department can sell everything they make for a profit. Starting with the sales forecast will help you define how much cash you will have coming from operations and when it will come in. This is essential to forecasting cash flow and determining how much equity and debt capital you will require until the company generates a positive cash flow. Your financial projection and your funding request must be keyed to your market expectations. The sales forecast should be consistent with your 8 assessment of the market size and competition and your marketing strategy. You may project sales using unit or total dollar volume. Assumptions concerning unit sales price, percentage unit or dollar volume increases in future years, and product mix should be clearly defined. o
- **Cost of Sales:** Material, direct labor and overhead requirements must be developed and translated into cost data for each product line. All component costs of your product should be considered. Cost estimates should be obtained for materials and direct labor. Overhead includes rent and utility allocations, fringe benefits, and indirect labor. Fixed components of overhead that do not fluctuate with

production volume should be identified. Assumptions as to costs of major components and chances in these costs should be explained.

- **Operating Expenses:** Sales expense should include marketing and distribution costs, sales salaries and commissions, storage costs and promotion and advertising. Sales expenses would be expectedly high during the product introduction stage. General and administrative expenses should include management and office salaries, office rent, legal expenses and accounting costs.
- **Research and Development:** Research and development costs will largely depend on the life cycle of your product and the need to bring additional products to market. Assumptions concerning the timing of a new product development should be explained as well as the nature of these products.
- **Income Taxes:** Income taxes should be estimated using an annual effective tax rate applied to monthly or quarterly net income before taxes. The annual effective tax rate is an estimate of the income tax (both Federal and State) for the entire forecasted year considering available tax credits and net operation loss carry forwards.

### Projected Cash Flow Statements

- Projected Cash Flow Forecasts will assist you in determining the need and timing for additional financing. Excess cash generated in any given quarter or year should be regarded as, and put towards, short-term investments. Decreasing short-term investments or borrowings in any quarter or year, on the other hand, can reduce cash deficiencies.
- Balance Sheet Forecast -Refer to Exhibit III at back of guide.

Assumptions for the balance sheet items should be explained as follows:

**Cash:** Minimum for operations

**Accounts receivable and accounts payable:** Number of days to collect sales and pay payables.

**Inventory:** Turnover assumptions

**Debt:** Payment terms and collateral calculations if applicable

The assumptions may be further supported by industry or historical statistics which should be reconciled to the business plan assumptions.

### Summary

In summary your plan should describe:

- Your company and industry
- The product
- The market and marketing approach
- How the product will be made
- Who is involved in the company, and
- How much money the company needs and what it will do with it.

By following these guidelines, you should be able to provide venture capitalists with a plan that is well prepared and persuasive in conveying the potential of your company.