

Business Planning Made Simple

The definitive guide to writing a business plan




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Introduction

Congratulations! You've discovered a detailed, step-by-step guide to writing a business plan. Business planning can seem complicated—this guide will make it simple.

When I started to write my first business plan, I was intimidated. I don't know what to write or what my readers expected to see.

Since then, I've spent over 20 years becoming an expert on business planning. I've written countless plans and been a judge at prestigious business plan competitions.

Now, my wife (Sabrina) and I run a company that makes the most popular business planning software in the world. We've helped millions of people start and run better businesses.

Let's make business planning easy

I believe that business planning should be a simple, straightforward process. A good business plan will greatly increase your chances of success, so why shouldn't everyone have easy access to the knowledge that will help you create a winning plan? In this book, I'll help you:

- Learn what to write
- Organize your plan in the format lenders and investors expect
- Give you the tools you need to turn your plan into a reality

I'm confident that you can write a successful business plan and this guide will make it easier. Here's to your success!

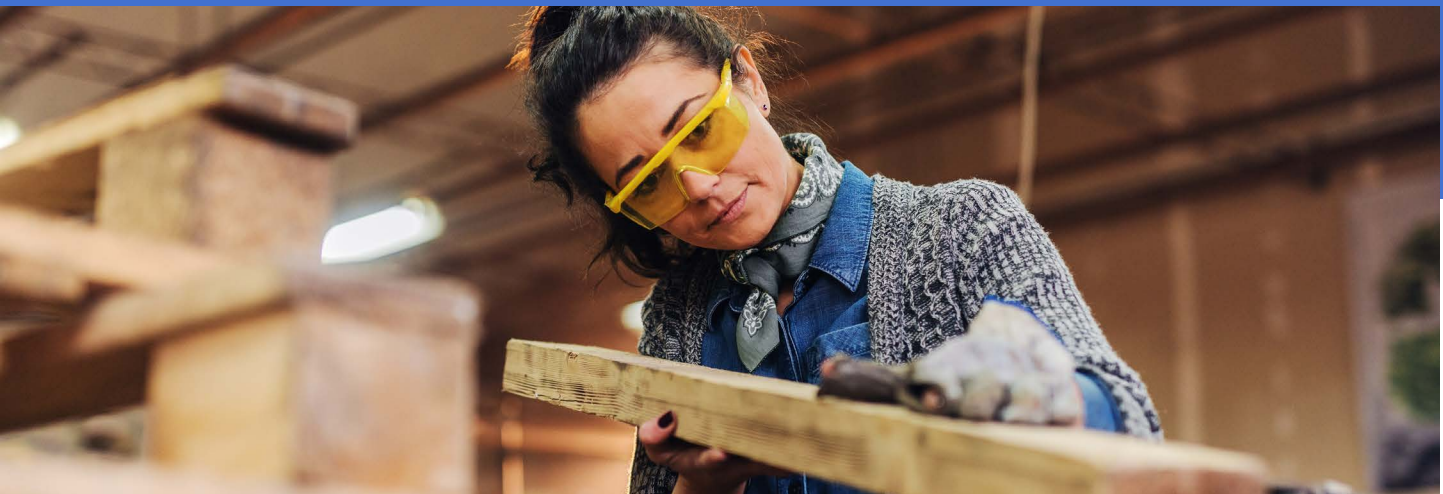
Noah Parsons

COO, Palo Alto Software

CHAPTER ONE

Why Write a Business Plan?

Are you unsure whether a business plan is worth the time and investment? Can't you just jump right into starting and running your business? You could, but you'll be missing out on some key benefits that a business plan provides.



1. Grow your business faster

Writing a business plan is about establishing a foundation for your business. You're not predicting the future, you're working through the core strategy of your business that will [help you grow](#). This initial document isn't meant to be perfect but is designed to be reviewed and adjusted to help you identify and reach your goals.

Without a business plan as a baseline, it will be far more difficult to track your progress, make adjustments, and have historical information readily available to reference when making difficult decisions. Creating a business plan ensures that you have a roadmap that doesn't just outline where you plan to go, but where you've already been.

2. Pitch and get funding

Investors and loan providers need to know that you have a solid understanding of the trajectory of your business. You need to prove that there is an attainable and sustainable need for your solution, that you have a strong business strategy, and that your business can be financially stable. This means having the right financial statements, forecasts, and a digestible explanation of your business model available for potential investors.

Writing your business plan helps you put all of those pieces together and create connections between them to tell a cohesive story about your business.

3. Make confident strategic decisions

Often the biggest decisions you'll make for your business are amidst volatile periods of growth, decline, or even external crises. This requires you to make highly consequential decisions far more quickly than you may like. Without up-to-date planning and forecast information, these decisions may be less certain or strategic than they need to be.

By having a written business plan that you're regularly reviewing, you can make confident decisions. You'll have all the information necessary to know when you can hire new employees, launch a new product line or make a major purchase. At the same time, you can also plan ahead in case a decision doesn't work out as expected, minimizing your potential risk.

4. Test your business idea

Working through your business plan can help you test the viability of your business idea long before launching. As you work through everything from your branding and mission statement, to your opportunity and execution, the best thing you can do is get feedback and test different elements of your business. This can be as simple as having a mentor or partner review elements of your plan, or conducting market research and speaking directly to your potential customer base.

The more you test and review elements of your plan, the better your plan and business will be. This can save you from spending days developing a strategy that just isn't feasible. More importantly, working on a plan can save you from investing money into an idea that just isn't fully developed yet.

5. Establish goals and objectives

You should know what you want to get out of your business upfront. Are you wanting to turn a side hustle into a full-time business? Trying to expand your team or launch an additional location? Knowing what you're trying to accomplish, and having questions like these in mind, can help you develop your business plan specifically to reach these goals.

Now, you may not have every milestone or even specific steps in mind to reach your goals before starting. But that's the beauty of working through your business plan. It will help you define metrics of success, flesh out your goals and further develop elements of your business to meet specific objectives. You just need a vision or even aspirational goals to start with to better hone in on what's important.

CHAPTER TWO

Three Rules that Make Business Planning Easier

Before you get started with your business plan, let's talk about some “rules” that will make the whole business planning process easier. The goal is to get your business plan done so you can focus on building your business.



1. Keep it short

Business plans should be short and concise. The reasoning for that is twofold:

First, you want your business plan to be read. No one is going to read a 100-page or even 40-page business plan. Sure, you may need supporting documentation for specific sections but you can include those elements in your Appendix.

Second, your business plan should be a tool you use to run and grow your business. Something you continue to use and [refine over time](#). An excessively long business plan is a huge hassle to revise—you're almost guaranteed that your plan will be relegated to a desk drawer, never to be seen again.

2. Know your audience

Write your plan using language that your audience will understand.

For example, if your company is developing a complex scientific process, but your prospective investors aren't scientists, avoid jargon, or acronyms that won't be familiar.

Instead of this:

"Our patent-pending technology is a one-connection add-on to existing bCPAP setups. When attached to a bCPAP setup, our product provides non-invasive dual pressure ventilation"

Write this:

"Our patent-pending product is a no power, easy-to-use device that replaces traditional ventilator machines used in hospitals at 1/100th the cost."

Accommodate your investors, and keep explanations of your product simple and direct, using terms that everyone can understand. You can always use the appendix of your plan to provide the full specs if needed.

3. Don't be intimidated

Did you know that the vast majority of business owners and entrepreneurs aren't business experts? They don't have MBAs or accounting degrees. They're learning as they go and finding tools and resources to help them.

Writing a business plan may seem like a big hurdle, but it doesn't have to be. You know your business—you're the expert on it. For that reason alone, writing a business plan and then leveraging your plan for growth won't be nearly as challenging as you think.

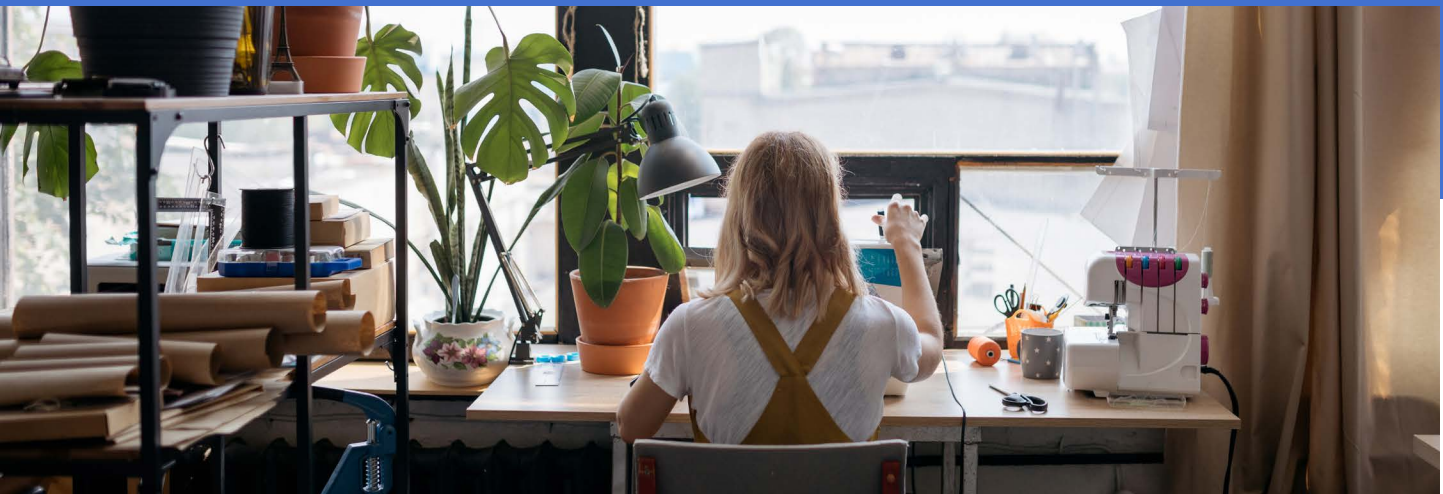
And you don't have to start with the full, detailed business plan that I'm going to describe here. In fact, it can be much easier to start with a simple, [one-page business plan](#)—what we call a Lean Plan—and then come back and build a slightly longer, more detailed business plan later.

The rest of this book will dive into the specifics of what you should include in your business plan, what you should skip, the critical financial projections, and links to additional resources that can help jump-start your plan.

CHAPTER THREE

Start With a Live Plan

Don't waste your time jumping right into a detailed, multi-page business plan. Instead, start with a simple one-page Live Plan. You'll get started (and finished) faster and greatly increase your chances of success with the **Live Planning** method.



Let's face facts—writing a traditional business plan is a hassle.

- A traditional business plan takes too long to write.
- Most people won't even read it from cover to cover.
- It's often outdated by the time you finish writing it.
- It doesn't lend itself to frequent and easy updating—and that's the core of the problem.

Historically, entrepreneurs have taken months to craft detailed plans without even gathering feedback from potential customers. They've viewed business planning as a single hurdle to get their business up and running or a thick wad of paper to shove across a banker's desk in order to get the funding they need. These business plans end up as just a collection of guesses and assumptions, instead of a proven roadmap for growth.

So what if I told you there was a better way to do business planning? One that lets you adjust and refine your plan as you gather more information about your business and your customers. That's Lean Planning.

Why start with a Lean Plan?

Lean Planning is a 4-step process that helps you discover a business model that works and manages your company successfully.

Here's the Lean Planning process:

1. Create a Lean Plan
2. Test the plan
3. Review your results
4. Revise your plan

These 4-steps replace the traditionally lengthy business plan. This ensures that you are taking small steps, reviewing your results, and creating incremental improvements—all while reducing your risk of failure.

It's simpler and faster than writing a traditional business plan. And, possibly the greatest benefit is that this method can benefit both startups and established businesses.

If you're a startup, Lean Planning helps you quickly figure out if your idea is any good and what you need to change to build a viable business.

If you're already up and running—it helps you continually refine and tweak your strategy while measuring your progress toward your goals. After all, planning is about making better management decisions, not about producing a thick document that sits in a drawer.

The Lean Planning methodology starts with a one-page Lean Plan that you can [create in as little as 30 minutes](#).

That's right—one page. Lean Planning is a simple methodology and your Lean Plan should be simple, too. Below you'll find an example of a Lean Plan that you can also [download as a free template](#) as you follow the steps in the next few pages.

Identity

We offer high-quality biking gear for families and regular people, not just gearheads.

Problem Worth Solving

It's hard to buy a new bike in this town without being an "insider" cycling expert.

Our Solution

- New bikes
- Repairs
- University patrol
- Clothing & accessories
- Used bikes

Target Market

- College students
- Young families
- Trail enthusiasts
- Parents

The Competition

- Local bike shops
- Big-box retailers
- Online retailers

Sales Channels

- Local bike shops
- Big-box retailers
- Online retailers

Marketing Activities

- Host social media pages & website
- Partner with Travel Northwest
- Attend outdoor enthusiast trade shows
- Grand opening with deals

Revenue

- New Bikes
- Repairs
- University patrol
- Clothing

Expenses

- Inventory
- Payroll
- Marketing

Milestones

Milestone 1
1/1/18

Milestone 2
1/1/18

Milestone 3
1/1/18

Milestone 4
1/1/18

Milestone 5
1/1/18

Team & Key Roles

- Garrett McKenzie (Founder)
- Jill Bloom (Shop manager)
- Tom McKey (Advisor)

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[Download This Template](#)

How to create a Live Plan

Your Live Plan includes 4 sections:

- **Strategy:** What you're going to do
- **Tactics:** How you're going to do it
- **Business model:** How you're going to make money
- **Schedule:** Who is doing what and when

Let's dive into each section.

1. Your business strategy

Your business strategy is simply an overview of what you want to do and who your customers and competitors are. Start by identifying the problem you are solving for people and follow up by explaining your solution to this problem.

Identity We offer high-quality biking gear for families and regular people, not just gearheads.	
Problem Worth Solving It's hard to buy a new bike in this town without being an "insider" cycling expert.	Our Solution <ul style="list-style-type: none">• New bikes• Repairs• University patrol• Clothing & accessories• Used bikes

2. The problem you're solving

Businesses exist to solve problems for customers. Their products and services fill a need or satiate a desire. If all you have is a solution that is in search of a problem, you're going to have a hard time building a successful business. So, start with the other side of the equation and focus on how you can help your customers solve a problem.

Start small with just one or two sentences or a few bullet points to identify the problem you are solving. Do the same thing to describe your solution.

3. Your ideal customer

Now, quickly describe your target market. Who is your ideal customer? If you know how many potential customers are out there, great. If you're in the early stages of fleshing out your business idea, don't worry too much about detailed market research. Instead, focus on defining your ideal customer—who are they, and what are their key attributes?

Target Market <ul style="list-style-type: none">• College students• Young families• Trail enthusiasts• Parents	The Competition <ul style="list-style-type: none">• Local bike shops• Big-box retailers• Online retailers
--	--

4. Your competition

Finally, create a shortlist of your competition. How do your potential customers solve their problems today?

That's it. A business strategy doesn't have to be complicated with Live Planning. It's just a few bullet points that describe the essence of your business: what you're doing and who you're doing it for.

5. Tactics

The next section of your Live Plan is a short outline of your business tactics. This is just an outline of how you're going to make your strategy happen. You'll be thinking about sales, marketing, the team you might need, and any partners or outside resources you'll need to leverage.

6. Your sales strategy

Start by thinking through your sales strategy. Are you selling online or building a physical store? Maybe both? Or, perhaps your product will be sold in stores owned by other companies.

Sales Channels

- Local bike shops
- Big-box retailers
- Online retailers

Marketing Activities

- Host social media pages & website
- Partner with Travel Northwest
- Attend outdoor enthusiast trade shows
- Grand opening with deals

7. Your marketing strategy

Next comes your marketing strategy. How are you going to reach your customers? How do they find out that you exist and that you solve their problem?

8. Your team

If you need to build a team to grow your business, who are the key people that you'll need to hire? If you're an existing business, who are the critical employees that run the company and execute your strategy?

9. Key partners and resources

Finally, think about other businesses that you might need to work with to make your strategy happen. Are their key suppliers or distributors that you'll need to have relationships with?

Remember, this is a Live Plan, so each of these sections should just be three to five bullet points each.

Team & Key Roles

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10. Schedule

Now it's time to build a schedule for your Live Plan. **Live Planning** is all about getting things done, so including a schedule is one of the most important things to include in your Live Plan.

Milestones

Milestone 1	Milestone 2	Milestone 3	Milestone 4	Milestone 5
1/1/18	1/1/18	1/1/18	1/1/18	1/1/18

If you're a startup, your next step is to get out from behind your desk and go talk to your potential customers. Your goal will be to verify that you've defined a solid strategy. To that end, a startup's schedule should include things like conducting customer interviews, sending surveys, researching physical locations, interviewing potential suppliers, and so on.

If you're an established business, your schedule will likely be focused on [specific business milestones](#) that are related to executing your strategy and implementing your tactics.

It's critical to have accountability here. Your schedule should have dates and people responsible for completing each task.

Finally, make sure to include a time to regularly review your Live Plan. You'll want to review and revise this plan frequently, so having a regular review point is critical. I recommend a monthly review cycle, but reviewing more frequently is fine, too.

11. Business model

Even if you have a problem that's worth solving, a solid solution to the problem, and a target market that needs your solution, you don't have a business unless the numbers work out. You [need a business model](#) that works. The last component of your Live Plan is a basic forecast and budget to ensure that a great idea can actually lead to a great business.

Revenue

- New Bikes
- Repairs
- University patrol
- Clothing

Expenses

- Inventory
- Payroll
- Marketing

Yes, forecasting and budgeting do mean looking into the future, and no one knows the future (at least I don't!). But, it doesn't have to be as difficult as it sounds.

Putting together some [basic, bottom-up sales forecasts](#) and a basic budget for expenses will quickly tell you if you have a business model that works—one that can create a viable business that will pay the bills.

At this stage, it's important not to paint an incredibly rosy picture of your financial prospects. Instead, the sales forecasts should be as realistic as possible. Assume that not nearly as many people as you think will show up in your store. Assume that your website won't get mainstream press coverage.

With this “realistic” forecast, do you still have a viable business? Can you turn a profit? If you can only be successful with incredibly high volumes of customers, you may need to take a second look at your pricing, expenses, and other aspects of your business model. Or, make sure that you get the kind of funding that's needed for large marketing and PR campaigns.

Put your Live Plan to work

Now that you have your Live Plan in hand, you're ready to start putting the plan into action to see if your ideas will work.

Depending on your business stage, you'll do this in different ways. If you're a startup with an unproven idea or an existing business that's considering a new strategic direction, your next step is to validate the ideas in your Live Plan.

Your Live Plan is just a set of assumptions about a business. Ask yourself:

- Do the target customers actually have the problem that you think they have?
- Does the solution you're proposing actually solve their problem?
- Do your target customers want to pay for your solution? How much?

Starting a business is full of risks. There are just so many unknowns, and it's incredibly risky to just build your business based on a set of assumptions about your target market, their problems, and how they'll react to your solution.

Your Live Plan is really just a set of educated guesses that need to be answered and then revised on a continuous basis until most unknowns are removed. That's how you reduce risk.

So, you need to take the very simple, but very challenging step of actually talking to your potential customers.

Look at your first version of your Live Plan as a set of assumptions that need to be proven true or false and then go back and revise your assumptions as you go. Refining your plan so that it's a collection of facts instead of guesses can be the difference between a successful business and a failure.

For more mature businesses that already know a lot about their target customers, the goal of the plan is to help guide implementation. In this situation, use a Live Plan to get everyone on the same page, set goals, and manage the business.

Review your results

Both Silicon Valley startups and Main Street small businesses need to know how they are doing. Which means Are they growing according to plan? Why or why not? If not, what changes need to be made? Should the plan change?

For new startups, If you're just getting started and don't have many (or any) metrics to track yet, you should be reviewing the results of your customer interviews and any other information that you've gathered that would change your strategy. Perhaps you'll be refining your solution or even tweaking the definition of the problem you are solving. Perhaps you'll refine your marketing and sales strategy.

Established businesses should have more numbers to look at to examine their performance. Beyond tracking key financial metrics such as cash, sales, expenses, accounts receivable, and accounts payable, businesses must track the other key metrics that are critical to their success. These other key metrics might be website visits, foot traffic in the store, tables turned in a restaurant or any other core number that drives business success.

Reviewing your results regularly is key to better management and success. These metrics should be reviewed at least monthly in a regular plan review meeting with key business partners and employees. This is when you refine your plan and your pitch if necessary and track your ongoing action plan.

Revise your plan

Live Planning is a process, not just a document. It is all about continuous improvement. You're quickly defining a strategy, experimenting to see if that strategy works, reviewing the results, and revising the plan before you start again.

Live Planning is never finished. It's simply a process for running your business better, more efficiently, and setting you and your team up for success.

What if you need a more detailed business plan?

There may be a time when you need a more detailed business plan. There's nothing wrong with that. Some people might want to read it, you may need to submit a full plan for funding and you might even want to document your strategy in more detail.

Your detailed business plan will be born from your Live Plan. The ideas in your Live Plan will transfer from bulleted lists to sentences and paragraphs. You'll add more detail to your sales and marketing strategy, your pricing strategy, and perhaps your manufacturing plans and distribution strategy.

Our next chapter will take a look at what you should expect to include in your detailed business plan.

CHAPTER FOUR

What's in a Business Plan?

Whether you're building a business plan to raise money and grow your business or just need to figure out if your idea will work, every business plan needs to cover 6 essential topics.



This chapter provides a quick overview of each topic that you'll include in your business plan. Future chapters will cover each topic in detail.

1. Executive summary

The executive summary is an overview of your business and your plans. It comes first in your plan and is ideally only one to two pages. Most people write it last, though.

Ideally, the executive summary can act as a stand-alone document that covers the highlights of your detailed plan. In fact, it's very common for investors to ask for only the executive summary when they are evaluating your business. If they like what they see in the executive summary, they'll often follow up with a request for a complete plan, a pitch presentation, and more in-depth financials.

Your executive summary should include a summary of the problem you are solving, a description of your product or service, an overview of your target market, a brief description of your team, a summary of your financials, and your funding requirements (if you are raising money).

2. Products & services

The products & services chapter of your business plan is where the real meat of your plan lives. It includes information about the problem that you're solving, your solution, and how your product or service fits into the existing competitive landscape.

3. Market analysis

This section is where you will showcase all of the information about your potential customers. You'll cover your target market as well as information about the growth of your market and your industry.

4. Marketing & sales

The marketing and sales plan section of your business plan details how you plan to reach your target market segments (also called target marketing), how you plan on selling to those target markets, what your pricing plan is, and what types of activities and partnerships you need to make your business a success.

5. Company organization and management team

Investors look for great teams in addition to great ideas. Use this chapter to describe your current team and who you need to hire. You will also provide a quick overview of your legal structure, location, and history if you're already up and running.

6. Financial projections

Last, but certainly not least, is your financial plan chapter. This is often what entrepreneurs find most daunting, but it doesn't have to be as intimidating as it seems. Business financials for most startups are less complicated than you think, and a business degree is certainly not required to build a solid financial forecast.

7. Appendix

An appendix to your business plan isn't a required chapter by any means, but it is a useful place to stick any charts, tables, definitions, legal notes, or other critical information that either felt too long or too out-of-place to include elsewhere in your business plan. If you have a patent or a patent-pending, or illustrations of your product, this is where you'd want to include the details. For more details, read about what to include in your business plan appendix.

CHAPTER FIVE

Executive Summary

The executive summary of your business plan introduces your company, explains what you do, and lays out what you're looking for from your readers.



The executive summary of your business plan introduces your company, explains what you do, and lays out what you're looking for from your readers. Structurally, it is the first chapter of your business plan. And while it's the first thing that people will read, I generally advise that you write it last.

Why? Because once you know the details of your business inside and out, you will be better prepared to write your executive summary. After all, this section is a summary of everything else you're going to write about.

Ideally, the executive summary can act as a stand-alone document that covers the highlights of your detailed plan. In fact, it's very common for investors to ask for only the executive summary when they are evaluating your business. If they like what they see in the executive summary, they'll often follow up with a request for a complete plan, a pitch presentation, and more in-depth financials.

Because your executive summary is such a critical component of your business plan, you'll want to make sure that it's as clear and concise as possible. Cover the key highlights of your business, but don't go into too much detail. Ideally, your executive summary will be one to two pages at most, designed to be a quick read that sparks interest and makes your investors feel eager to hear more.

Business overview

At the top of the page, right under your business name, include a one-sentence overview of your business that sums up the essence of what you are doing.

This can be a tagline but is often more effective if the sentence describes what your company actually does. This is also known as your value proposition.

Problem

In one or two sentences, summarize the problem you are solving in the market. Every business is solving a problem for its customers and filling a need in the market.

Solution

This is your product or service. How are you addressing the problem you have identified in the market?

Target market

Who is your target market, or your ideal customer? How many of them are there? It's important here to be specific.

If you're a shoe company, you aren't targeting "everyone" just because everyone has feet. You're most likely targeting a specific market segment such as "style-conscious men" or "runners." This will make it much easier for you to target your marketing and sales efforts and attract the kinds of customers that are most likely to buy from you.

Competition

How is your target market solving their problem today? Are there alternatives or substitutes in the market?

Every business has some form of competition and it's critical to provide an overview in your executive summary.

Company overview and team

Provide a brief overview of your team and a short explanation of why you and your team are the right people to take your idea to market.

Investors put an enormous amount of weight on the team—even more than on the idea—because even a great idea needs great execution in order to become a reality.

Financial summary

Highlight the key aspects of your financial plan, ideally with a chart that shows your planned sales, expenses, and profitability.

If your business model (i.e., how you make money) needs additional explanation, this is where you would do it.

Funding requirements

If you are writing a business plan to get a bank loan or because you're asking angel investors or venture capitalists for funding, you must include the details of what you need in the executive summary.

Don't bother to include terms of a potential investment, as that will always be negotiated later. Instead, just include a short statement indicating how much money you need to raise.

Milestones and traction

The last key element of an executive summary that investors will want to see is the progress that you've made so far and future milestones that you intend to hit. If you can show that your potential customers are already interested in—or perhaps already buying—your product or service, this is great to highlight.

You can skip the executive summary (or greatly reduce it in scope) if you are writing an internal business plan that's purely a strategic guide for your company. In that case, you can dispense with details about the management team, funding requirements, and traction, and instead treat the executive summary as an overview of the strategic direction of the company, to ensure that all team members are on the same page.

CHAPTER SIX

Products & Services

The core of your business is what you do. What are you selling and what problems are you solving?



The Products & Services chapter of your business plan is where the real meat of your plan lives—it includes information about the problem that you're solving, your solution, and how your product or service fits into the existing competitive landscape.

You'll also use this section of your business plan to demonstrate what sets your solution apart from others, and how you plan to expand your offerings in the future.

People who read your business plan will already know a little bit about your business because they read your executive summary. But this chapter is still hugely important because it's where you expand on your initial overview, providing more details and answering additional questions that you won't cover in the executive summary.

Problem and solution

Start the opportunity chapter by describing the problem that you are solving for your customers. What is the primary pain point for them? How are they solving their problems today? Maybe the existing solutions to your customer's problem are very expensive or cumbersome. For a business with a physical location, perhaps there aren't any existing solutions within reasonable driving distance.

Defining the problem you are solving for your customers is by far the most critical element of your business plan and crucial for your business success. If you can't pinpoint a problem that your potential customers have, then you might not have a viable business concept.

To ensure that you are solving a real problem for your potential customers, a great step in the business planning process is to get away from your computer and actually go out and talk to potential customers. Validate that they have the problem you assume they have, and then take the next step and pitch your potential solution to their problem. Is it a good fit for them?

Once you have described your target market's problem, the next section of your business plan should describe your solution. Your solution is the product or service that you plan on offering to your customers. What is it and how is it offered? How exactly does it solve the problem that your customers have?

For some products and services, you might want to describe use cases or tell a story about a real user who will benefit from (and be willing to pay for) your solution.

Competition

Immediately following your discussion of the problem you are solving and your solution, you should describe your competition. Who else is providing solutions to try and solve your customers' pain points? What are your competitive advantages over the competition?

The most important thing to illustrate in this section of your business plan is how your solution is different or better than other offerings that a potential customer might consider. Investors will want to know what advantages you have over the competition and how you plan on differentiating yourself.

One of the biggest mistakes entrepreneurs make in their business plans is stating that they don't have any competition.

The simple fact is that all businesses have competition. Competitors may not always come in the form of "direct competition," which is when you have a competitor offering a similar solution to your offering. Oftentimes, you may be dealing with "indirect competition," which is when consumers solve their problem with an entirely different kind of solution.

For example, when Henry Ford was first marketing his cars, there was very little direct competition from other car manufacturers—there weren't any other cars. Instead, Ford was competing against other modes of transportation—horses, bikes, trains, and walking. On the surface, none of these things look like real direct competition, but they were how people were solving their transportation problems at that time.

Sourcing and fulfillment

If your company is buying the products it is selling from other vendors, it's important to include details on where your products are coming from, how they get delivered to you, and ultimately how you deliver the products to the customer—that's sourcing and fulfillment.

If you are sourcing products from manufacturers overseas, investors are going to want to know about your progress working with these suppliers. If your business is going to be delivering products to your customers, you should describe your plans for shipping your products.

Technology

If you are a technology company, it's critical for your business plan to describe your technology and what your “secret sauce” is.

You don't have to give away trade secrets in your business plan, but you do need to describe how your technology is different and better than other solutions out there. At a high level, you will want to describe how your technology works. You don't need to go into excruciating detail here, though—if an investor is interested in more detail they will ask for it, and you can provide that information in your appendix.

Remember, your goal is to keep your business plan as short as possible, so too much detail here could easily make your plan much too long.

Future products and services

All entrepreneurs have a vision of where they want to take the business in the future if they are successful.

While it's tempting to spend a lot of time exploring future opportunities for new products and services, you shouldn't expand too much on these ideas in your business plan. It's certainly useful to include a paragraph or two about potential future plans, to show investors where you are headed in the long term, but you don't want your plan to be dominated by long-range plans that may or may not come to fruition. The focus should be on bringing your first products and services to market.

Intellectual property

This mostly applies to technology and scientific ventures, so just skip this if you don't need to discuss patents and other intellectual property.

But, if you have intellectual property that is proprietary to your business and helps your business defend itself against competitors, you should detail that information here. If you have patents or are in the patent application process, this is the place to highlight those patents. Equally important to discuss is technology licensing—if you are licensing core technology from someone else, you need to disclose that in your business plan and be sure to include details of the financial relationship.

CHAPTER SEVEN

Market Analysis

Who you are selling to is as important as what you are actually selling.



Now that you have detailed your problem and solution in your business plan, it's time to turn your focus toward your target market: Who are you selling to?

Depending on the type of business you are starting and the type of plan you are writing, you may not need to go into too much detail here. No matter what, you need to know who your customer is and have a rough estimate of how many of them there are. If there aren't enough customers for your product or service, that could be a warning sign.

Market analysis and market research

If you are going to do a market analysis, start with some research. First, identify your market segments and determine how big each segment is. A market segment is a group of people (or other businesses) that you could potentially sell to.

Don't fall into the trap, though, of defining the market as "everyone." A classic example is a shoe company. While it would be tempting for a shoe company to say that their target market is everyone who has feet, realistically they need to target a specific segment of the market in order to be successful. Perhaps they need to target athletes or business people who need formal shoes for work, or perhaps they are targeting children and their families. Learn more about target marketing in this article.

TAM, SAM, and SOM

A good business plan will identify the target market segments and then provide some data to indicate how fast each segment is growing. When identifying target markets, a classic method is to use the TAM, SAM, and SOM breakdown to look at market sizes from a top-down approach as well as a bottom-up approach.

Here are some quick definitions:

TAM: Your Total Available or Addressable Market (everyone you wish to reach with your product)

SAM: Your Segmented Addressable Market or Served Available Market (the portion of TAM you will target)

SOM: Your Share Of the Market (the subset of your SAM that you will realistically reach—particularly in the first few years of your business)

Once you have identified your key market segments, you should discuss the trends for these markets. Are they growing or shrinking? Talk about the market's evolving needs, tastes, or other upcoming changes to the market.

Your ideal customer

When you have your target market segments defined, it's time to define your ideal customer for each segment.

One way to talk about your ideal customer in your plan is to use your “buyer persona” or “user persona.” A buyer persona is a fictitious representation of your market—they get a name, gender, income level, likes, dislikes, and so on.

While this may seem like additional work on top of the market segmentation that you have already done, having a solid buyer persona will be an extremely useful tool to help you identify the marketing and sales tactics you'll need to use to attract these ideal customers.

Key customers

The final section of your target market chapter should discuss key customers.

This section is really only required for enterprise (large) companies that have very few customers. Most small businesses and typical startups can skip this and move on.

But if you are selling to other businesses (B2B), you may have a few key customers that are critical to the success of your business, or a handful of important customers that are trend leaders in your space. If so, use this final portion of your target market chapter to provide details about those customers and how they are important to your business's success.

CHAPTER EIGHT

Marketing & Sales

Once you know who your customers are, it's time to come up with a plan to get your products and services in front of them.



The marketing and sales plan section of your business plan details how you plan to reach your target market segments (also called target marketing), how you plan on selling to those target markets, what your pricing plan is, and what types of activities and partnerships you need to make your business a success.

Before you even think about writing your marketing plan, you must have your target market well-defined and have your buyer persona(s) fleshed out. Without truly understanding who you are marketing to, a marketing plan will have little value.

Your positioning statement

The first part of your marketing and sales plan is your positioning statement. Positioning is how you will try and present your company to your customers. Are you the low-price solution, or are you the premium, luxury brand in your market? Do you offer something that your competitors don't offer?

Before you start working on your positioning statement, you should take a little time to evaluate the current market and answer the following questions:

- What features or benefits do you offer that your competitors don't?
- What are your customers' primary needs and wants?
- How are your competitors positioning themselves?
- How do you plan on differentiating from the competition? In other words, why should a customer choose you instead of someone else?
- Where do you see your company in the landscape of other solutions?

Once you've answered these questions, you can then work on your positioning strategy and define it in your business plan.

Don't worry about making your positioning statement very long or in-depth. You just need to explain where your company sits within the competitive landscape and what your core value proposition is that differentiates your company from the alternatives that a customer might consider.

You can use this simple formula to develop a positioning statement:

For [target market description] who [target market need], [this product] [how it meets the need]. Unlike [key competition], it [most important distinguishing feature].

For example, the positioning statement for [LivePlan](#), our business planning product, is: “For the businessperson who is starting a new company, launching new products or seeking funding or partners, LivePlan is software that produces professional business plans quickly and easily. Unlike [name omitted], LivePlan creates a real business plan, with real insights—not just cookie-cutter, fill-in-the-blank templates.”

Pricing

Once you know what your overall positioning strategy is, you can move on to pricing.

Your positioning strategy will often be a major driver of how you price your offerings. Price sends a very strong message to consumers and can be an important tool to communicate your positioning to consumers. If you are offering a premium product, a premium price will quickly communicate that message to consumers.

Deciding on your price can feel more like an art than a science, but there are some basic rules that you should follow:

- **Covering your costs**
There are certainly exceptions to this, but for the most part, you should be charging your customers more than it costs you to deliver your product or service.
- **Primary and secondary profit center pricing**
Your initial price may not be your primary profit center. For example, you may sell your product at, or even below, your cost, but require a much more profitable maintenance or support contract to go along with the purchase.

- **Matching the market rate**

Your prices need to match up with consumer demand and expectations. Price too high and you may have no customers. Price too low and people may undervalue your offering.

Defining your pricing strategy

You can approach your pricing strategy in different ways. Here are a few ways that you can think about your pricing and come up with the right strategy for your business:

- **Cost-plus pricing**

You can establish your pricing based on several factors. You can look at your costs and then mark up your offering from there. This is usually called “cost-plus pricing” and can be effective for manufacturers where covering initial costs is critical.

- **Market-based pricing**

Look at the current landscape of competitors and then price based on what the market is expecting. You could price at the high-end or low-end of the market to establish your positioning.

- **Value pricing**

A “value pricing” model is where you determine the price based on how much value you are providing to your customer. For example, if you are marketing lawn care to busy professionals, you may be saving your customers 1 hour/week. If that hour of their time is valued at \$50/hour, your service could charge \$30/hour.

Promotion

With pricing and positioning taken care of, it's time to look at your promotion strategy. A promotion plan details how you plan on communicating with your prospects and customers. Remember, it's important that you'll want to measure how much your promotions cost and how many sales they deliver. Promotional programs that aren't profitable are hard to maintain in the long term.

Packaging

If you are selling a product, the packaging of that product is critical. If you have images of your packaging, including those in your business plan is always a good idea.

Be sure the packaging section of your plan answers the following questions:

- Does your packaging match your positioning strategy?
- How does your packaging communicate your key value proposition?
- How does your packaging compare to your competition?

Advertising

Your business plan should include an overview of the kinds of advertising you plan to spend money on. Will you be advertising online? Or perhaps in traditional, offline media? A key component to your advertising plan is your plan for measuring the success of your advertising.

Public relations

Getting the media to cover you—PR—can be a great way to reach your customers. Getting a prominent review of your product or service can give you the exposure you need to grow your business. If public relations is part of your promotional strategy, detail your plans here.

Content marketing

A popular strategy for promotion is engaging in what is called content marketing.

Content marketing is what Bplans is all about. It's when you publish useful information, tips, and advice—usually made available for free—so that your target market can get to know your company through the expertise that you deliver. Content marketing is about teaching and educating your prospects on topics that they are interested in, not just on the features and benefits that you offer.

Social media

Having a social media presence is essentially a requirement for the vast majority of businesses.

You don't need to be on every social media channel, but you do need to be on the ones that your customers are on. More and more, prospects are using social media to learn about companies and to find out how responsive they are. Outlining which channels you'll prioritize and what your branding will be are essential elements you'll need to consider.

Strategic alliances

As part of your marketing plan, you may rely on working closely with another company in the form of a partnership.

This partnership may help provide access to a target market segment for your company while allowing your partner to offer a new product or service to their customers.

If you have partnerships already established, it's important to detail those partnerships in your business plan.

Distribution

For product companies, a distribution plan is an important part of the complete business plan. For the most part, service companies can skip this piece and move on.

Distribution is how you will get your product into the hands of your customers. Every industry has different distribution channels and the best way to create your distribution plan is to interview others in your industry to figure out what their distribution model is.

Here are a few common distribution models that you may consider for your business:

Direct distribution

Selling directly to consumers is by far the most simple and most profitable option.

You could consider passing the savings of selling directly on to your customers or you could simply increase your profit margins. You will still need to cover the logistics of how you will get your products to your customers from your warehouse, but a direct distribution model is usually fairly simple.

Retail distribution

Most large retailers don't like the hassle of dealing with thousands of individual suppliers.

Instead, they prefer to buy through large distribution companies that aggregate products from lots of suppliers and then make that inventory available to retailers to purchase. Of course, these distributors take a percentage of the sales that pass through their warehouses.

Manufacturers' representatives

These are typically salespeople who work for a "repping" agency. They often have relationships with retailers and distributors and work to sell your products into the appropriate channel. They typically work on commission and it's not uncommon for a rep to be necessary for getting a new company access to a distributor or retailer.

OEM

This stands for "original equipment manufacturer." If your product is sold to another company that then incorporates your product into their finished product, then you are using an OEM channel.

A good example of this is car parts suppliers. While large auto manufacturers do build large components of their cars, they also purchase common parts from third-party vendors and incorporate those parts into the finished vehicle.

Most companies use a mixture of distribution channels as part of their plans, so don't feel that you need to be limited to a single channel. For example, it is very common to both sell direct and via distributors—you can purchase an iPhone directly from Apple, or go into a Target store and get one there.

Milestones and metrics

A business plan is only a document on paper without a real path to get the work done, complete with a schedule, defined roles, and key responsibilities.

While the milestones and metrics section of your business plan may not be long, it's critical that you take the time to look forward and schedule the next critical steps for your business. Investors will want to see that you understand what needs to happen to make your plans a reality and that you are working on a realistic schedule.

Start with a quick review of your milestones. Milestones are planned major goals. For example, if you are producing a medical device, you will have milestones associated with clinical testing and government approval processes. If you are producing a consumer product, you may have milestones associated with prototypes, finding manufacturers, and first-order receipt.

Traction

While milestones look forward, you will also want to take a look back at major accomplishments that you have already had. Investors like to call this “traction.” What this means is that your company has shown some evidence of early success.

Traction could be some initial sales, a successful pilot program, or a significant partnership. Sharing this proof that your company is more than just an idea—that it has actual evidence that it is going to be a success—can be critically important to landing the money you need to grow your business.

Key Metrics

In addition to milestones and traction, your business plan should detail the key metrics that you will be watching as your business gets off the ground. Metrics are the numbers that you watch on a regular basis to judge the health of your business. They are the drivers of growth for your business model and your financial plan.

For example, a restaurant may pay special attention to the number of table turns they have on an average night and the ratio of drink sales to food sales. An online software company might look at churn rates (the percentage of customers that cancel) and new signups. Every business will have key metrics that it watches to monitor growth and spot trouble early, and your business plan should detail the key metrics that you will be tracking in your business.

CHAPTER NINE

Company Overview & Team

An idea is just an idea without a team to turn it into a reality.



In this chapter, you'll review the structure of your company and who the key team members are. These details are especially important to investors as they'll want to know who's behind the company and if they can convert a good idea into a great business.

Team

The company overview and team chapter of your business plan is where you make your best case that you have the right team in place to execute your idea. It should show that you have thought about the important roles and responsibilities your business needs in order to grow and be successful.

Include brief bios that highlight the relevant experiences of each key team member. It's important here to make the case for why the team is the right team to turn an idea into a reality. Do they have the right industry experience and background? Have members of the team had entrepreneurial successes before?

A common mistake novice entrepreneurs make in describing the management team is giving everyone on the team a C-level title (CEO, CMO, COO, and so on). While this might be good for egos, it's often not realistic. As a company grows, you may require different types of experience and knowledge. It's often better to allow for the future growth of titles rather than to start everyone at the top with no room for future growth or change.

Management team

Your management team doesn't necessarily need to be complete in order to have a complete business plan. If you know that you have management team gaps, that's O.K. In fact, investors see the fact that you know you are missing certain key people as a sign of maturity and knowledge about what your business needs to succeed. If you do have gaps in your team, simply identify them and indicate that you are looking for the right people to fill certain roles.

Organization chart

Finally, you may choose to include a proposed organizational chart in your business plan. This isn't critical and can certainly live in your business plan's appendix. At some point, as you explore funding options, you may be asked for an "org chart," so it's good to have one.

Beyond raising money, an org chart is also a useful planning tool to help you think about your company and how it will grow over time. What key roles will you be looking to fill in the future and how will you structure your teams to get the most out of them? An org chart can help you think through these questions.

Company overview

The company overview will most likely be the shortest section of your business plan. For a plan that you intend to just share internally with your business partners and team members, skip this section and move on.

Business structure and ownership

Your company overview should also include a summary of your company's current business structure. The most common business structures include:

- LLC
- C-corp
- S-corp
- Sole proprietor
- Partnership

Be sure to provide a review of how the business is owned as well. Does each business partner own an equal portion of the business? How is ownership divided? Potential lenders and investors will want to know the structure of the business before they will consider a loan or investment.

Company history

If you are writing a business plan for an existing company, it's appropriate to include a brief history of the company and highlight major historical achievements. Again, keep this section short—no more than a few paragraphs at most.

This section is especially useful to give context to the rest of your plan, and can also be very useful for internal plans. The company history section can provide new employees with a background on the company so that they have a better context for the work that they are doing and where the company has come from over the years.

Location

Finally, the company overview section of your business plan should describe your current location and any facilities that the company owns.

For businesses that serve consumers from a storefront, this information is critical. Also, for businesses that require large facilities for manufacturing, warehousing, and so on, this information is an important part of your plan.

CHAPTER TEN

Financial Projections

At the end of the day, the numbers for your business have to work. Create a financial plan for your business that makes it sustainable over the long term.



Last, but certainly not least, is your financial plan chapter. This is often what entrepreneurs find most daunting, but it doesn't have to be as intimidating as it seems. Business financials for most startups are less complicated than you think, and a business degree is certainly not required to build a solid financial forecast.

That said, if you need additional help, there are plenty of tools and resources out there to help you build a solid financial plan. You can download [free financial forecasting templates](#) on our website or use business planning software such as LivePlan to make forecasting easy.

A typical financial plan will have monthly sales and revenue forecasts for the first 12 months, and then annual projections for the remaining three to five years. Three-year projections are typically adequate, but some investors will request a five-year forecast.

Following are details of the financial statements that you should include in your business plan, and a brief overview of what should be in each section.

Sales forecast

Your sales forecast is just that—your projections of how much you are going to sell over the next few years.

A sales forecast is typically broken down into several rows, with a row for each core product or service that you are offering. Don't make the mistake of breaking down your sales forecast into excruciating detail. Just focus on high-level buckets at this point.

For example, if you are forecasting sales for a restaurant, you might break down your forecast into these groups: lunch, dinner, and drinks. If you are a product company, you could break down your forecast by target market segments or into major product categories.

Your sales forecast will also include a corresponding row for each sales row to cover the Cost of Goods Sold, also known as COGS (also called direct costs). These rows show the expenses related to making your product or delivering your service. COGS should only include those costs directly related to making your products, not regular business expenses such as rent, insurance, salaries, etc.

For restaurants, it would be the cost of ingredients. For a product company, it would be the cost of raw materials. For a consulting business, it might be the cost of paper and other presentation materials.

Personnel plan

Your personnel plan details how much you plan on paying your employees. For a small company, you might list every position on the personnel plan and how much will be paid each month for each position. For a larger company, the personnel plan is typically broken down into functional groups such as “marketing” and “sales.”

The personnel plan will also include what is typically called “employee burden,” which is the cost of an employee beyond salary. This includes payroll taxes, insurance, and other necessary costs that you will incur every month for having an employee on your payroll.

Income statement

Your income statement, also known as the profit and loss (or P&L), is where your numbers all come together and show if you’re making a profit or taking a loss. The P&L pulls data from your sales forecast and your personnel plan and also includes a list of all your other ongoing expenses associated with running your business.

The P&L also contains the all-important “bottom line” where your expenses are subtracted from your earnings to show if your business is making a profit each month or potentially incurring some losses while you grow.

The most common income statement items include:

- **Sales**
This number (also known as income or revenue) will come from your sales forecast worksheet and includes all revenue generated by the business.
- **Cost of goods sold (COGS)**
This number also comes from your sales forecast and is the total cost of selling your product. For service businesses, this can also be called the cost of sales or direct costs.

- **Gross margin**
Subtract your COGS from your sales to get this number. Most profit and loss statements also show this number as a percentage of total sales (gross margin/sales = gross margin percent)
- **Operating expenses**
List all of your expenses associated with running your business, excluding the COGS that you already detailed. You should also exclude taxes, depreciation, and amortization. However, you do include salaries, research and development (R&D) expenses, marketing expenses, and other expenses here.
- **Total operating expenses**
This is the sum of your operating expenses.
- **Operating income**
This is also known as EBITDA, or earnings before interest, taxes, depreciation, and amortization. This is a simple calculation where you just subtract your total operating expenses and COGS from your sales.
- **Interest, taxes, depreciation, and amortization**
If you have any of these expense streams, you will list them below your operating income.
- **Total expenses**
Add your operating expenses to interest, taxes, depreciation, and amortization to get your total expenses.
- **Net profit**
This is the all-important bottom line that shows if you've made a profit, or taken a loss, during a given month or year.

Cash flow statement

The cash flow statement often gets confused with the profit and loss statement, but they are very different and serve very different purposes. While the P&L calculates your profits and losses, the cash flow statement keeps track of how much cash (money in the bank) that you have at any given point.

The key to understanding the difference between the two statements is understanding the difference between cash and profits. The simplest way to think about it is when you make a sale. If you need to send a bill to your customer and then your customer takes 30 or 60 days to pay the bill, you don't have the cash from the sale right away. But, you will have booked the sale in your P&L and shown a profit from that sale the day you made the sale.

Balance sheet

The last financial statement that most businesses will need to create as part of their business plan is the balance sheet. The balance sheet provides an overview of the financial health of your business. It lists the assets in your company, the liabilities, and your (the owner's) equity. If you subtract the company's liabilities from assets, you can determine the net worth of the company.

Use of funds

If you are raising money from investors, you should include a brief section of your business plan that details exactly how you plan on using your investors' cash.

This section doesn't need to go into excruciating detail about how every last dollar will be spent, but instead, show the major areas where the investors' funds will be spent. These could include marketing, R&D, sales, or perhaps purchasing inventory.

Exit strategy

The last thing that you might need to include in your financial plan chapter is a section on your exit strategy.

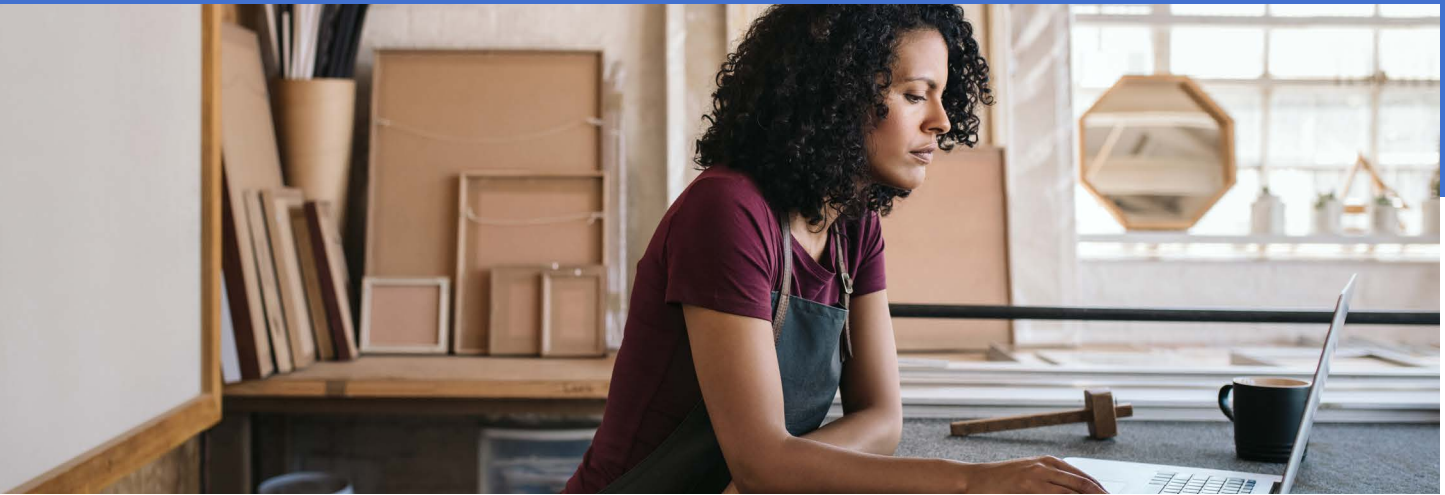
An exit strategy is your plan for eventually selling your business, either to another company or to the public in an IPO. If you have investors, they will want to know your thoughts on this. If you're running a business that you plan to maintain ownership of indefinitely, and you're not seeking angel investment or VC funding, you can skip the exit strategy section. After all, your investors will want to get a return on their investment, and the only way they will get this is if the company is sold to someone else.

Again, you don't need to go into excruciating detail here, but you should identify some companies that might be interested in buying you if you are successful.

CHAPTER ELEVEN

Make Your Plan Work for You

Learn to keep your plan alive and make it work for your business.



Most people think that meetings are a waste of time. They're right.

Too many meetings are run poorly, have no real objective, and waste employees' time—which kills productivity.

There's tons of advice and information on how to run better meetings and cut down on useless meetings that are making your organization move slower. I absolutely encourage you to be ruthless in your pursuit of fewer and more efficient meetings.

But, here at Palo Alto Software, we've found **one meeting that is simply indispensable**. It only takes an hour each month, keeps the management team up to speed on everything that's going on in the company, and helps us plan and manage in a lean and effective way.

This meeting is our monthly plan review meeting. The meeting has been a fixture of our management strategy for years and is simply one of the most effective ways for us to continue to grow the company and adjust our course as necessary.

For us, business planning isn't just a one-time or annual event. Instead, it's an ongoing process where we are constantly reviewing our process and adjusting course as necessary while ensuring that we're staying on track toward our larger goals.

We treat planning not as a document, but as a management tool that helps guide decisions and strategy.

How to run a monthly plan review meeting

Here's a quick overview of how we structure our monthly plan review meetings and what's worked for us over the years.

Let's do the numbers

We always start with the numbers first. How did we do last month compared to our forecast? How did we do compared to the same month last year? What does our year-to-date performance look like?

We always spend time drilling into the numbers, beyond the top-line revenue and expenses to better understand what the drivers were behind our performance. Did all product lines perform well? Or did some underperform? Did we spend as planned or were there some areas that we overspent in?

Most importantly, we review our cash position and cash flow. Did we collect money as planned? What does our cash flow forecast look like for the next few months?

While financial reports can be reviewed outside of a meeting, reviewing them together as a team encourages questions and discussion around our revenue and spending.

Of course, we use LivePlan to review our numbers because it's much easier than drilling through exported reports from QuickBooks.

Are we there yet?

Once we review our financial performance, we review our “major milestones”—the big tasks we had hoped to get done in the past month and our plans for the next month.

We discuss how various teams might be working with each other on different projects and talk about the specific milestones that we have planned. Are these still the tactics that we want to work on that will help achieve our goals? Do we need to shift priorities? Is there new learning and information that would have us change our schedule?

By reviewing major initiatives on a monthly basis, we can stay agile and make changes as needed. As we learn more about our customers and our market, we might shift strategies and develop new milestones.

Long-range goals and strategy

Next, we review our long-range strategic goals. While this doesn't change too often in our situation as an established company, new startups might shift their strategy frequently as they search for a business model that works.

For those early-stage startups, this step of the meeting may be the most important step and take the longest. For more established companies, this part of the meeting might typically only take a few minutes.

Instead of delving deep into a 40-page business plan document to review our strategy, we review our Live Plan, or our one-page business plan (in LivePlan, [it's called the Pitch](#)). It covers our company identity, the core problem we solve for our customers, our solution, competition, and sales and marketing strategy. It's all on one page so it's easy to read, review, and change quickly.

Issues to process

Finally, anyone on the team can bring forward any issues that they want to discuss. This could include new opportunities to consider, prioritization of product features, potential partnerships, or internal HR issues.

Everything is fair game and we try to come up with resolutions and next steps for any issue that's brought up.

We've found that this type of open-ended discussion really helps generate new ideas and brings different perspectives from managers of different teams.

I believe that all companies would benefit from a monthly review of their business. These types of meetings keep everyone on the same page, help share information about progress, and turn planning into a tool that helps teams make informed decisions.

Tips for running a successful meeting

To make a monthly strategy meeting successful, you also need to follow a few guidelines:

1. Put the meeting on the calendar

It's important to make it a formal event that's on the schedule. It can't be optional and it has to be at a regular time so that everyone always knows when the meeting is.

For us, we started out with a meeting on the 3rd Thursday of every month. As our bookkeeping and accounting processes have become more efficient, we've been able to move our meeting to the 2nd Friday of the month.

2. Follow a repeatable agenda

While different topics will come up for discussion, it's important that your plan review meeting has a repeatable agenda.

That means making sure that you have your numbers ready for review and that your team has updates on their goals.

3. Be prepared to change the plan

These plan review meetings aren't just about staying the course and blindly following the plan. Instead, they are about adjusting the plan. Perhaps you'll discover that you should be investing more in marketing, or that you're going to be able to expand and hire faster than you originally planned.

The plan review meeting is about making adjustments to your goals and strategies based on what you've discovered in the past month.

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