

Business Plan Template
Complete Fill in the Blanks Sample Business Plan Proposal (With MS
Word Version and Excel Spreadsheets)

By BizMove Management Training Institute

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1. Complete Fill In The Blanks Business Plan Template

Here's your sample Title Page.

It's a great idea to put a color picture of your product right on the front. But leave room for the following information.

[Your Company Name]

Month, 20xx

[month and year issued]

Business Plan Copy Number [x]

This document is confidential. It is not for re-distribution.

[Name of point man in financing]

[Title]

[Address]

[City, State ZIP]

[Phone]

[e-mail]

[company home page URL]

This is a business plan. It does not imply an offering of Securities.

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Here's a sample Table of Contents. Be sure to modify the page numbers when you've finished your Business Plan.

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Executive Summary

If the executive summary doesn't succeed, your business plan will never sell investors. We recommend that you write the summary first and use it as a template for the plan as a whole. Since one of its primary functions is to capture the investor's attention, the summary should be no longer than two pages. The shorter the better.

Mission

Our company's mission is to [describe your ultimate goal, or insert your mission statement].

Company

[The Company] was founded in [date] and [describe what your business does, such as baby products manufacturer, distributor of pencils, provider of medical services]. It is a [legal form of your company, such as LLC, S-Corporation, C-Corporation, Partnership, Proprietorship]. Our principal offices are located at [x].

Business

We make [describe product, or service that you make or provide].

Our company is at the [seed, start-up, growth] stage of business, having just [developed our first product, hired our first salesman, booked our first national order].

In the most recent [period], our company achieved sales of [x], and showed a [profit, loss, break-even]. With the financing contemplated herein, our company expected to achieve [x] in sales and [x] in pretax profits in 19[xx] and achieve [x] in sales and [x] in pretax profits in 19[xx+1]. We can achieve this because the funds will allow us to [describe what you will do with the funds, such as a) marketing for your new product, b) build or expand facilities to meet increased demand, c) add retail locations or others means of distribution, d) increase research and development for new products or to improve existing ones.

Product or Service

Tell us about your product or service in terms we can understand.

[The company] produces the following products; [list products here briefly, in order of highest sales or significance in product line].

Alternatively, [The company] delivers the following services; [list services here briefly, in order of highest sales or significance in product line].

Presently, our [product or service] is in the [introductory, growth, maturity] stage. We plan to follow this [product or service] with extensions to our line which include [x,y,and z].

Critical factors in the [production of our product, or delivery of our service are [x, and y]. Our [product or service] is unique because [x,y,or z] and/or we have an advantage in the marketplace because of our [patent, speed to market, brand name].

The Market

We define our market as [manufacture and sale of writing and drawing instruments, low fat cheese, oral care products]. This market was approximately [\$x] at [wholesale or retail] last [period available], according to [site resource], and is expected to grow to [\$x] by the year [x], according to [site resource].

Who are your customers? Where are they, and how do you reach them? Are they buying your product / service from someone else?

How will you educate customers to buy from you? Why will they care?

Competition

We compete directly with [name competition]. or We have no direct competition, but there are alternatives to our [product or service] in the marketplace. Our [product or service] is unique because of [x] and/or we have a competitive advantage because of our [speed to market, established brand name, low cost producer status].

Risk/Opportunity

The greatest risks we have in our business today are [market risk, pricing risk, product risk, management risk]. We feel we can overcome these risks because of [x].

The opportunities before us are significant; we have the opportunity to [dominate a niche in the marketplace, become a major force in the industry] if we can [x].

Management Team

Our team has the following members to achieve our plan. [x] men and women who have a combined [x] years of experience; [y] years in marketing, [y] years in product development, and [y] years in [other disciplines].

Capital Requirements

We seek [\$] of additional [equity, sub-debt, or senior financing] which will enable us to [describe why you need the funds, and why the opportunity is exciting]. We can provide an exit for this [loan, investment] within [x] years by [a dividend of excess profits, recapitalizations, sale of company, or public offering].

Financial Plan

At this point the investor must have a clear idea of where your business stands today. If you bore him or make the information he needs hard to find,

you get canned. You must provide a snapshot, however sparse, of your financial position.

Sales Summary

At this point the investor must have a clear idea of where your business stands today. If you bore him or make the information he needs hard to find, you get canned. You must provide a snapshot, however sparse, of your financial position.

Last Year / This Year / Next Year / Year Two

Sales:

Gross profit:

Pre-tax:

Balance Sheet Summary

Assets:

Liabilities:

Book Value:

In [x] years we will provide an exit, which we expect to be in the form of [sale to a competitor, initial public offering, distribution of profits] or perhaps [z]. We expect to be able to achieve this in [b months / years].

Mission

No one understands a successful company's mission like entrepreneurs who have built successful companies themselves. See Money Hunter's Mentors at <http://www.moneyhunter.com/html/mentor/mentors.htm>.

Mission Statement

Our goal is to become [describe your ultimate goal, or insert your mission statement; example; the leading manufacturer and marketer of branded in-line skate replacement wheels or the first name in low fat cheese].

We aspire to carry a reputation in the marketplace for developing and delivering [time saving, better-way products sold at a fair price for uses in the {x} market]. We can achieve this by [cutting edge product development, close understanding of market trends and needs, innovative and profitable merchandising and packaging].

To accomplish our goal, [your company name] needs [capital, management talent, larger, more efficient facilities].

In pursuit of our goal, we resolve to treat stakeholders, customers, and the community with [description of the reputation your company seeks]. These groups see our company as providing [describe benefits to each group of being associated with your company].

The Company

[The Company] was founded in [date] and [describe what your business does, such as baby products manufacturer, distributor of pencils, provider of medical services]. The legal name of the business is [x]. Include dba in the legal name.

It is a [legal form of your company, such as LLC, S-Corporation, C-Corporation, Partnership, Proprietorship]. Our principal offices are located at [list primary address as well as any other facilities]. We have approximately [x] square feet of office space and [x] square feet of [factory or warehouse]. Our current capacity is [x] units per month. If we exceed [x] units per month, we will need additional space. We expect this facility to be adequate for the company's needs for [two years, a year, a week] after funding.

Regulations and permits- cut now if inappropriate.

[Your Company Name] operates in the [toxic waste, weapons and armaments, genetic engineering, explosives] industry, or [uses controlled substances in the manufacturing process or delivery of service], and falls under the jurisdiction of the [name government agency].

[Your Company Name] has all necessary permits to operate, and has an up-to-date record of inspections. These permits include; [list briefly here]. These agencies regulate our business in the following manner; [we must document and account for uses and disposal of all toxic materials or we must document and background check all employees with access to the launch codes for our missiles].

Strategic Alliances

The leverage from relationships can be appealing to investors. Explain how you work with others to improve your performance.

[Your Company Name] has developed important and profitable strategic alliances with the following larger, more established business; [describe each company, it's position in the marketplace, the details of the alliance, and what risks are involved in the alliance]. For example, we have developed marketing agreements with [x], the [market leader in gummed erasers] which will enable us to sell, along side them, our [extra messy children's pencils].

The side by side positioning at retail, as well as the ability to share wholesale sales leads with their established customer base can help us penetrate the market more quickly.

The risk in the relationship is that they may [decide to sell pencils themselves] and cut us out of the process.

Another type of strategic relationship that benefits the company is our development joint venture with [x]. We would never be able to fund the research of the new [low fat Swiss cheese that melts smoothly], but with access to their prior research in [smooth melting cheddar] we cut our development time in half. By using some of their [equipment, or people] who we not being utilized fully, we were able to avoid the expense of [major capital

expenditures, additions to the payroll]. We have agreed to pay a royalty of [x] to this development partner for their role in this products ultimate success.

We have a strategic relationship with a number of suppliers. In exchange for a blanket commitment to purchase [more than 80% of our supply of a specific raw material from them], they have agreed to [not make it available to the market at large for six months, or to give us a preferential price].

[Your Company Name] also has strategic Original Equipment Manufacturer relationships with a number of customers. This allows us to sell a large and steady volume of [in-line skate wheels] to [boot manufacturers, who use them to sell complete skate sets]. This gets many units of our product out in to the marketplace, however, it provides little or no brand awareness for us.

The Business

[Your Company Name] is a [manufacturer, distributor, marketer, service provider] of [describe your product or service].

Our company is at the [seed, start-up, growth] stage of business, having just [developed our first product, hired our first salesman, booked our first national order].

Product or Service

Explain how your product works or how the service is used. What burning marketplace needs are addressed by your product? What value do you add to the product?

The Mentors also have a wealth of experience when it comes to positioning their products. See <http://www.moneyhunter.com/html/mentor/mentors.htm>.

[The company] produces the following products; [list products here, in order of highest sales or significance in product line]. Be sure to refer readers to product pictures, diagrams, patents, and other descriptive material.

Or, Alternatively

[The company] delivers the following services; [list services here briefly, in order of highest sales or significance in product line].

Be sure to refer readers to brochures and material describing your service.

Presently, our [product or service] is in the [introductory, growth, maturity] stage. We first developed our [product or service] in 19[xx] and have made [x] improvements and redesigns since then. Provide a history of product developments, introductions, and improvements leading up to the present day. Table form may be appropriate.

Unique features or proprietary aspects of Product

This is a crucial paragraph. Investors must see something unique, proprietary, or protected about your product or service.

Our products are unique because of [of secret ingredient, our patented process, our proprietary manufacturing process].

Others in the market are able to provide somewhat similar [products or services], but we are able to differentiate ourselves in the market because of [x].

We have [applied, been granted, licensed] a patent for [x], an abstract of which can be found in appendix [x]. We have integrated this into our process which others will not be able to duplicate. Our lead product, [x] addresses the following customer needs [x] and delivers [x] benefits to customers.

Tell us about the unique value-added characteristics your product line or process provides to customers and how these characteristics translate into a competitive advantage for your company.

Research and Development

Our research and development is headed by [name of person or contractor] whose major objective is to use market input to [develop products that solve problems or provide superior benefits to customers]. Last [period], our R&D yielded the following products and innovations; [list products or innovations]. [Your Company name] has spent [% of revenues, or absolute \$] in the past year in R&D, and plans to spend [% or \$] in the next [period].

Our R&D occasionally yields innovation without input from customers or the marketplace. Our product selection criteria in this case is as follows; [relatively low investment requirements, positive return on investment, fit with present strategy, feasibility of development and production, relatively low risk, time to see intended results, buyer in common]. Our R&D will require additional resources in the future. These will include [people, capital expenditures] to [speed up development process, test results more efficiently].

New and Follow-on Products

Responding to market needs, we plan to follow [product or service] with extensions to our line which include [x,y,and z].

Our target introduction dates for these products are [x,y,and z], which corresponds with [a major trade show, industry event]. In addition, we plan to introduce the following new products in the upcoming season; [x,y,and z].

Production

Our [product, service] is [manufactured in house, assembled in house from components from various vendors, (service) provided by our staff, or subcontracted to field consultants]. [Raw materials, sub-assemblies, components] used in our products are readily available from a variety of manufacturers who can meet our quality standards.

Critical factors in the [production of our product, or delivery of our service are [x, and y].

Enumerate and explain capital equipment, material, and labor requirements. Are the above items readily available? Do you have multiple supply sources? List inventory requirements, quality and technical specifications, hazardous materials

Uniqueness

Our [product or service] is unique because [x,y,or z] and/or we have an advantage in the marketplace because of our [patent, speed to market, brand name].

The Market

Sad fact: this is the most crucial but worst-prepared section of most business plans.

Market Definition

What markets are you competing in? If you make glove-compartment hinges, don't gush about the \$80 billion automobile market. You make hinges -- not cars -- for that market, so tell us how many hinges were sold last year. Are there other markets where you sell your products?

For specific information on understanding your market, see How to Hunt, <http://www.moneyhunter.com/htm/hunt.htm>.

We [expect to compete, are competing] in the [define niche] of the [define industry]. This market was approximately [\$x] at [wholesale or retail] last [period available], according to [site resource]. We believe, the major future trend in the industry will be toward [environmentally oriented, miniaturized, high quality, value oriented] product offerings.

Market research [cite source] suggests this market will [grow/shrink] to [\$x] by the year [19xx]. We expect the niche in which we compete to [grow,shrink, remain stagnant] during this time. The major forces affecting this change will be [falling cost of computers, explosion of home based businesses, tendency for baby boomers to have less kids- and pamper their pets]. The area of greatest growth within the industry will be [x].

Identify where you got this information, and how up to date it is.

Market Segment

We define our market segment as [the writing and drawing instrument segment of the school/home/office products industry, the low fat dairy products segment of the food industry]. This segment has been [volatile, steady] in the last few years. Industry experts [name them] forecast [x] for the industry in the next few years.

The major market segments [segment a, segment b, segment c]. List, in general, the types of customers you are likely to reach (retailers, electrical contractors, catalog buyers, etc.) The [a] segment of the market is based on [product type] that retail in the [x to y] price range. Most of the sales in the

segment are delivered through the [catalogs, retailers, manufacturers reps, OEM's].

A typical customer for our product is a person who current may use [alternative product or service] for [what purpose]. They are motivated to buy our product because of [its value, its quality, its usefulness]. We know this from [customer responses, trade show input, ad inquiries] and feel our customers perceive our products as [good value, superior performance, great taste].

Our product, does, however, have the following weaknesses; [higher price point than most other cheeses, weak brand identity in a commodity market]. We are working to position our product as [x] in order to reduce this vulnerability.

Marketing

Our marketing plan is based on the following fundamentals;

We expect to penetrate the [x] segment of the market[s] and achieve this by using the [retail, mail order, multi-level marketing, internet] as our primary distribution channel[s]. In time, we plan to capture [%] share of the market.

Position

We will position our product as [good value for price, top quality, cheap and fun], which is a position not presently being addressed by the competition. One demographic group in particular, the [elderly, hispanic, generationX, techies] has a particular need for this product, and we tailor our positioning accordingly.

Pricing

Our pricing strategy is [describe policy or, at least philosophy]. *Is this pricing based on cost? Gross margin objectives? Market?*

We arrive at our pricing based on [cost, gross margin objectives, market prices, perceived value].

We review this pricing [monthly, quarterly, annually] to ensure that potential profits are not squandered. Customers seem willing to pay as much as [x] because of [explain reasoning].

Distribution channels

The distribution channels we use for our product are [wholesalers, cataloguers, mass merchant retailers, consolidators]. These make sense for delivering our product to the end user because [customer profile, geography, seasonal swings]. The competition uses the [[wholesalers, cataloguers, mass merchant retailers, consolidators] channel. Our channel will prove more advantageous because [x].

Our major current customers include; [list top five, with one or two sentence descriptions]. The attached chart [see appendix z] demonstrates how our product reaches the customer.

Advertising, promotion, trade shows

Your purpose is to introduce, promote, and support your products in the marketplace. Although considered a cost, a properly designed and executed campaign is an investment.

[Your Company Name] has developed a comprehensive advertising and promotion strategy, which will be implemented by the best possible firm when funded is completed. We expect to have a presence in several national magazines as well as the trade press. We will produce our own ads and be a part of ad campaigns of our JV partners or OEMs. Our publicity plan is to remain in constant contact with editors and writers of the [trade journals that serve our industry] and seek stories and coverage that will [enhance our reputation, introduce us to buyers].

We plan to promote our product through a variety of [on site product sampling, demonstrations at high profile events, give-aways at fund raisers] and other high leverage events. The objective of all our promotions is to [expand the audience, position our product as a premium brand, strengthen our ties to the community].

[Your company name] participates in the following trade shows; [list trade shows, briefly describe organization that sponsors it and who attends, and describe presence there]. We have a regular [20 foot display booth of knock down construction which allows us to display our existing products and introduce new ones, or we prefer to attend trade shows as visitors and walk the show while displaying our wares only to pre-qualified buyers who will come to our nearby hospitality suite]. The following factors are taken into account when considering a trade show; will this event help deliver our message to our target audience? Does the location of the show have significance? Is the time frame convenient? Is it a "must-go show"?

Competition

Tell us about key competitors in regard to product, price, location, promotion, management, and financial position. False or incomplete information here translates as dishonesty and negligence to investors, bankers, etc. Do not delude yourself (or your investors) about your competition.

Look in your telephone book's yellow pages. Look in the industrial directories at your local library. Search on-line databases that provide competitive profiles of other companies. Read industry magazines and look for advertisers.

Money Hunter can help you size up the competition:

<http://www.moneyhunter.com/html/hunt.htm>.

We have no direct competition, but there are alternatives to our [product or service] in the marketplace.

or

We compete directly with [name competitor a, b, and c].

Provide a sample of each...[example...Acme Inc. is a \$3 million sales manufacturer and marketer of pencils in the Northeast region. Acme Inc. is a division of Acme Corp, a public company with \$800 million sales. The division sells pencils, pens, and other writing and drawing instruments. The recent trend for the division has been static, as the parent has not provided working capital to modernize machinery. Acme Inc. is managed by one Vice President who has been there for six months. The previous manager worked there for 11 months.]

The competition [does,doesn't] [use the same means of distribution as the company, advertise in the same trade journals]. *If the advertising is regular-it probably works!*

Our [product or service] is unique because of [x] and/or we have a competitive advantage because of our [speed to market, established brand name, low cost producer status].

Risk/Opportunity

Business Risks

This is also a critically important part of the plan. Knowing your risks and having a strategy is a must for attracting an investor. There are several kinds of risk, especially among entrepreneurial, growing businesses. Be sure to address the following, and provide your strategy for dealing with them;

Some of the major risks facing our development include [limited operating history; limited resources; market uncertainties; production uncertainties; limited management experience, dependence on key management].

Opportunities

This is also a critically important part of the plan. Use it to provide excitement and promise.

Although our business today has its share of risk, we feel we can overcome these risks because of [x]. We will address [market risk] by [doing a comprehensive study, partnering with a larger company who knows the market]. We feel we can address [pricing risk, product risk, management risk] by focusing on [x].

If we are able to overcome these risks, our company has the opportunity to [dominate a niche in the marketplace, become a major force in the industry]. We feel our brand could become know as the [place entrepreneurs look for financing help, the place people look for good tasting, low fat cheese]. We think we can achieve this goal in the next [x] years.

Specifically, our lead product [x], has the chance to [change the industry, affect many lives, improve performance in the [x] field]. This would also enable

us to tap markets we have not yet begun to approach, such as [international sales, ethnic market, genX].

Management Team

It ds cliché but true: investing is a people business. Tell us not only about your managers, but how they work together as a team.

Our team has the following members to achieve our plan. [x] men and women who have a combined [x] years of experience; [y] years in marketing, [y] years in product development, and [y] years in [other disciplines].

Frankly, if you have more than a few people filling these positions, you're lucky. Tell us who you have, how much they have aged, and how much of the company they own.

Officers and Key Employees / Age / Stock

[A], President

[B], Vice President of Marketing

[C], Vice President of Sales

[D], Vice President of Finance

[E], Vice President of R & D

[F], Vice President of Operations

[G], Controller

[H], Corporate Attorney

Ownership

The company has authorized [x] shares of common stock, of which [100] are issued and outstanding. The following persons or organizations are significant owners of the company;

Name / # Shares Held / % Ownership

[A. B. Founder] / 52 / [52%]

[C. R. Inventor] / 22 / [22%]

Management Team / 10 / [10%]

[Seed Ventures] / 10 / [10%]

Professional Support

We have strung together a team of professionals, including;

[Corporate Attorney]

[Accounting Firm]

[Other Consultants]

Board of [Advisors, Directors]

We have also secured the assistance and support of the following business and industry experts to help in the decision making, strategizing, and opportunity pouncing process;

Highlight your board members, detailing where and why they add strategic importance, what experience they have and what contacts they can contribute.

Capital Requirements

Needless to say, this is important -- state what your capital requirements are.

Money Hunter can help you find investors to back you. Go to Rolodex at <http://www.moneyhunter.com/cfm/grolodex2.htm>

We seek [\$] of additional [equity, sub-debt, or senior financing] to fund our growth for the next [two years, year, month]. At that time, we will need an additional [\$x] to reach a positive cash flow position.

The initial stage of funding will be used to [complete development, purchase equipment, introduce and market our new/next product line, fund working capital, acquire a competitor]. Here is a breakdown of how the funds will be spent;

complete development - [\$x]

purchase equipment - [\$x]

market our new/next product line - [\$x]

fund working capital - [\$x]

We can provide and exit for this [loan, investment] within [x] years by [a dividend of excess profits, recapitalizations, sale of company, or public offering].

Define how much time you will require to pay back the loan or provide a return to investors. And tell us how the repayment will be accomplished, and what strategy will be used to achieve that exit.

Conclusion

Be bold, amigo(a). This is the finale of the entire document.

Based on our projections, we feel an [investment in, loan to] our Company is a sound business investment. In order to proceed, we are requesting an [investment, loan] of [\$x] by [date].

Financial Plan

Needless to say, this is important -- state what your capital requirements are.

Money Hunter can help you find investors to back you. Go to Rolodex at <http://www.moneyhunter.com/cfm/grolodex2.htm>

Assumptions

The attached projections assume the following;

Income statements

We recommend that financial statements be monthly for the first year or two, then quarterly thereafter. Incorporate year to date figures if they exist.

Sales will increase with the introduction of the [new line, improved line]. We plan to introduce these products roughly on the following schedule: [detail here]. And we expect to be able to sell at the rate of [x] units per month within [x] months of introduction.

Cost of good sold will [decrease as a percentage] as we are able to buy more efficiently in the marketplace and use our new equipment to produce more units at lower cost.

Gross profit will remain static as [new introductions will be at higher margins, while we expect margins of older lines to erode].

Selling and administration expense will increase in absolute dollars, but decrease as a percentage because while expense is increasing, [name largest items here, or items that will change most significantly] our sales will be growing faster.

Research and Development, which will appear as a high percentage of sales early, will be reduced as a percentage over time.

Our head count will increase after funding to [x], which will include a [VP-Sales, paid on commission; VP R&D, \$[x], VP Finance, \$[x]; VP Operations, \$[x].

Keep in mind that projections do not stand on their own. The rationale of how you prepared the numbers- and how sober you were when you did them- is important to investors. Expect to tie in the discussions you made about market size, time to market, market acceptance, and competitive pressures to tie into these numbers.

Discuss any large numbers or numbers that change significantly from period to period. Include discussion of sales growth rationale, expense growth, etc.

Balance Sheet Summary

Comment on any large or unusual items, such as other current assets, other accounts payable, or accrued liabilities.

Cash Flow and Break Even Analysis

These are critical statements, even more so than the Balance Sheets and Income Statements. Cash, and how much you have at the end of the day, is everything to investors.

We have assumed that our suppliers will be willing to grant us terms of [x] until we reach monthly purchases of [x]. At that time, we have assumed that our terms will be stretched to [x] days.

We have also assumed that we can collect our billings within [x] days because of [special programs with large customers, factoring arrangement, credit card and COD sales].

We have assumed that the first part of our [loan, investment] will be made in [month], and the balance in [month].

We can reach break even by the [x] month. Sales are expected to be at the [\$x] level by that date.

Exhibits

A common rookie error is mucking up the body of a plan with too much detail. That's what the exhibits are for.

Exhibits give an investor a better feel for the company behind the numbers. Be sure to include illustrative material such as:

Product literature and brochures

Sales sheets

Media coverage

Clips from industry publications

Relevant patents

Market research data

Past advertising campaigns

Useful photographs of facilities, warehouses etc.

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2. Sample Business Plan

Here is an abbreviated example of a serious sample business plan examples template proposal. It is provided to give you a feeling for the style of writing that is used in a business plan, and is not intended to be a comprehensive guide of what should be covered in a good plan.

The humorous content of this business plan example is supplied only for the readers interest. For optimum effectiveness, care should be taken to minimize the humorous content in an actual proposal.

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Appendix

Statement Of Funding Proceeds

Children's World has developed a line of toys that are superior to all other products that exist on the market today. In order to service our identified target markets with these superior toys, significant capital infusion is required.

Specifically, the required \$15,000,000 will be allocated appropriately to:

Marketing and Advertising \$ 1,500,000

Salaries -0-

Facilities 50,000

Capital Equipment 450,000

Research and Development 1,000,000

Operational Expenses 2,000,000

Inventory 10,000,000

Total \$15,000,000

Â Executive Summary

Children's World is the major player in the global gift giving industry. Originally founded as a sole proprietorship in 1930, the marketing tactics employed by Children's World had grown to the level of being a family legend by 1940. Annual toy production of Children's World exceeded 86,000,000 units at this time, and major expansion plans were developed. However, due to a slight downturn in the global economy, these plans have been shelved as projected profit levels have fallen to a near break even point in 1993.

To revitalize the company, a rigorous program of research and development was undertaken in the early 1950's. The first major breakthrough of which is ready for production. To be able to make maximum use of our proprietary breakthrough technology, Children's World needs to upgrade its existing facilities, as well as reevaluate the company's sleigh delivery system. It is anticipated that a late model Cessna Citation could be modified to meet the operating requirements of Children's World. In addition, several used cargo planes will need to be acquired to facilitate the development of large stockpiles of toys at strategic global locations. A central hub system is being considered.

Additional manufacturing upgrades are planned to facilitate the projected increases in manufacturing output. Some of the upgrades include the replacement of manual lathes with automated CNC machines, the installation of spray booths using the latest in electrostatic technology, computerized conveyor and sorting systems, and an upgrade in the Statistical Process Control (SPC) area of the Quality Assurance Department.

As can be seen, Children's World is now at a point where they need to seek outside funding to refurbish/renovate their production facilities, upgrade their global navigational equipment, establish a more visible image, and to establish an extensive line of credit to cover seasonal inventory expenses.

This loan will be backed by the full assets and inventory of the Children's World company. As the attached Balance Sheet indicates, these assets have a current valuation of \$5,000,000. In addition, of the \$15,000,000 requested, \$10,450,000 will be spent on inventory and capital equipment which will also be used as collateral for the note. As the attached cash flows indicate, Children's World should be able to service the debt incurred by this loan application. It is anticipated that the Return On Investment (ROI) thrown off from this loan will be 200% adjusted on a yearly basis. Timing of the loan and the market entry of the product will be critical, however, with the maximum value occurring from a November entry.

Description Of The business

Our Mission at Children's World is: "To provide toys and games of exceptional quality, in a timely manner, priced at or below our competition, to enhance the profits of our company."

Background

Children's World is a sole proprietorship that was founded in 1930. It is wholly owned by Mr. and Mrs. Sanford Theodore Clause. For the past 50 years, Children's World has experienced an increase in the public awareness of our year end close-out (where we give away surplus inventory). Because of this practice, the public has begun to think of us on a seasonal basis as a philanthropic organization.

To alleviate this problem, we have just completed the development phase of a novel and proprietary product line that will once again place Children's World in the minds of the public on a daily basis. By 1940, our operation had produced 86,000,000 toys, and has operated profitably ever since. However, revenue projections for fiscal year xxxx, without external funding for the introduction of this new product line, is expected to be down to a break even level (\$1,100). With the funding for the renovations, advertising, and new product line our profits are expected to reach \$30,000,000. Annual growth is projected to be 21% per year through the year 2100.

Concept

The "state of the art" of the industry today dictates that toys are produced without ever being touched by human hands. Our new revolutionary product line capitalizes on the fact that our toys have traditionally been hand built by our local elf community. Although our production methods are slow in comparison to other manufacturers, our quality levels are high while our costs are kept very modest.

This new product line incorporates a rare, refined essence (known only to our advanced Research And Development Dept.) that causes a strong attraction to be formed between the toy and the customer who first sees the toy. This essence is well known in the animal community. For instance, it is the reason why ducklings bond to the first animal they see after emerging from their shell (commonly called "imprinting"). These ducklings will not physically allow themselves to be separated, to any significant distance, from the "parent" animal for approximately six months.

After lengthy collaboration with the local duck community, and extensive field testing (test population will not be disclosed), our top notch R&D staff has been able to identify and synthesize the essence and increase its strength. When incorporated into our line of toys, this essence will create a bond between the recipient and the toy that will last for one full year! During this time, like the ducklings, the recipient who first sees the toy will not want to be separated from the toy to any significant distance (typically less than fifteen feet).

This instant "imprinting" at the time of viewing the toy had initially placed our R&D staff in a considerable quandary. To be effective and "imprint" on only the intended recipient, the entire channel of distribution must not be able to see the product. This enigma was eventually resolved by the decision to place the product in an opaque wrapper, bag, etc. that could be given to the intended recipient to be "opened". To prevent the early opening of the

wrapper/bag, we have developed several colorful prints that can be placed on the opaque wrapper thereby lending it an attractive external appearance.

Compared to competitors products, the use of the "essence" will dramatically increase the recipients enjoyment of, and involvement with, our product line. Other significant refinements that our R&D staff has been able to develop are:

1. Gender Specific Essences. Using this innovation, a toy incorporating a female gender essence will bond most strongly with female recipients, and vice versa. This will help reduce the demand for pink and lavender trucks, baseball mitts, etc., and will dramatically reduce our internal manufacturing problems and inventory requirements.

2. Variable Time Factor Essences. This innovation will allow us to produce toys that have a "short" imprint time (30 - 90 days) for use when we need to spur sales, or a longer imprint time (up to 365 days) for a moderated sales level. We have found through extensive research that 330 days is optimal in that it allows for approximately one month of "de-imprinting" and subsequent anticipation build up among the recipients. Naturally, this will cause some friction among the family sub-units, but that can not be avoided if we are to develop a maximum market penetration.

Business plan example - The Market

The Children's World target market includes the pre-adolescent to young adult groups on a global scale. Using data supplied by the Bureau of the Census the total population of the world is estimated at 5,700,000,000. Of this basis group, we have conservatively placed our estimate of our total target market at slightly over 300 million customers. At the present time our sales are hovering at the 250,000,000 unit mark (up from 86,000,000 in 1940) giving us an 83.3% market share. We believe that the requested funding will allow us to increase this market share to roughly 95% over the next two years. This would increase our sales by an additional 35,000,000 units per year (see Appendix A for source information and calculations).

Our primary focus (and most of our extensive field testing) is on the 1-5 year old individual. Our products are gender specific, with male vs. female sales forecasts mirroring the population demographics. As our products gain acceptance within this market, we will move to expand into the teenage markets as this time frame is known for its friction between family sub-units. This will mask the effects of the "de-imprinting" irritations, and will aid us in minimizing any public disclosure (and competitor espionage) during the early phase of our market introduction.

All Children's World products are protected by the trademark and copyright laws, however we will not seek patent protection for the "essence" lines. Instead, we will keep these lines as a trade secret, thus preventing public disclosure and the subsequent possibility of legal entanglements from disgruntled parents, consumer activists, etc.

Initial responses from our market test customers indicate that our new lines are enjoying an excellent reaction. Inquiries from prospective customers

suggest that there is considerable demand for these toys. Relationships with leading retailers, major accounts, and distributors substantiate the fitness of Children's World for considerable growth and accomplishment.

Competition

Although Children's World is a broad based manufacturing and transportation company, competitive threats today come primarily from other toy manufacturers. However, with 83.3% of the overall market, the competition does not play a significant role on company pricing/credit policies.

The major competitors that are facing Children's World are as follows:

Mattel, Inc. (Hawthorne, CA) Primarily a game manufacturer/marketer with sales of over \$50,000,000/year.

Roadmaster Corp. (Olney, IL) Manufacturer of juvenile riding toys with sales of over \$100,000,000/year.

Parker Brothers (Beverly, MA) Primarily a game manufacturer/marketer with sales of over \$250,000,000/year.

Flexible Flyer Co. (West Point, MS) Manufacturer of juvenile riding toys with sales of over \$50,000,000/year.

Tyco Toys, Inc. (Mount Laurel, NJ) Manufacturer of trucks/cars with sales of over \$100,000,000/year.

Hasbro, Inc. (Pawtucket, RI) Primarily a game manufacturer/marketer with sales of over \$50,000,000/year.

In spite of the competition in the toy industry, Children's World has continued to deliver a high quality, low cost product that is unique to this industry. In addition, our research indicates that our performance is superior to any other company on the market today.

The gift market is heavily seasonal, with the preponderance of sales coming late in the year. As stated in the "Background" section of the Business Description above, Children's World has experienced an increase in the public awareness of our year end close-out (where we give away surplus inventory). Because of this practice, the public has begun to think of us on a seasonal basis as a philanthropic organization.

It is our belief that we will be able to turn this mistaken perception around with the funds that we are seeking via this proposal. After all, in all comparisons Children's World's products provide more features and have superior performance than competitive products. In most cases, the difference in the number of features is substantial. A complete technical comparison is available upon request.

Marketing Strategy

The "state of the art" of the industry today dictates that toys are produced without ever being touched by human hands. Our new revolutionary product

line capitalizes on the fact that our toys have traditionally been hand built by our local elf community. Although our production methods are slow in comparison to other manufacturers, our quality levels are high while our costs are kept very modest. In addition, the exciting new breakthroughs that we have achieved in our R&D department (see the Description of the Business section above) will further increase the sales and usage of our products.

To get the most out of our marketing dollars, we have developed the following strategy for promoting our products:

Pricing and Profitability. Our pricing is tied to our philosophy of operating at a break even basis. However, because of both the past losses incurred in the toy giveaways, and to pay for the capital improvements outlined in this plan, we will increase our pricing in order to retire the newly incurred debt. We are projecting a first year net profit of \$30,000,000 as the result of this project.

Selling Tactics. Consistent with previous years, preseason publicity outlining new merchandising concepts is utilized extensively to generate paid advertising participation from retailers and shopping centers world wide. This has worked well, and we have no plans to alter this strategy.

Distribution. Central pre-distribution hubs have now been established in each country. This concept permits faster delivery, without the need to return to the North Pole each time the sleigh needs restocking. This is the most cost effective procedure implemented by Children's World in the last 50 years.

Advertising and Promotion. Cooperative advertising funds are available to all participating retailers which leverages our national advertising exposure 400%. Proof of advertising activity from the participating merchant in the form of a paid invoice from the merchant and a tear sheet from the print media is required for final payment.

Public Relations. This activity has outgrown our in-house capabilities. Therefore, we have retained the services of an international public relations firm, Good, Better and Best, Inc., to coordinate those activities. The firm provides us their services at cost, as they benefit measurably through their visibility and association with Children's World .

Business Relationships. Children's World participates heavily in trade shows during the Summer months. This activity permits us to maximize our efforts and focus on the major retailers and buyers. Promotional activity by retailers may need to be reviewed in the near future, as seasonal promotion once targeted exclusively for December, has been pushed backward to Thanksgiving, and on occasion is now occurring as early as Halloween. This is a concern we are reviewing with our public relations firm.

Credit Terms. Standard credit terms will be offered to wholesalers/retailers (2% 10 net 30), while cash and checks will be accepted on the retail level.

Business Plan Examples - Business Location

The Children's World production facilities wholly owned and are located at 101 North Pole Lane, Arctic Circle, Earth. Due to the nature of the toy industry,

and its propensity for industrial espionage, Children's World decided at an early stage that steps must be taken to isolate and camouflage their facilities. To date, their efforts have been largely successful, although a few close calls have been noted.

The facilities are debt free and are kept in good repair by the local elf community. To accommodate the planned product line expansion, only minor renovations (approximately \$50,000) will be necessary as stated in the "Statement of Funding Proceeds" section above.

To safeguard both their new and existing product lines, Children's World respectfully declines to provide detailed information on this subject heading.

Licenses/Permits/Registrations

All licenses, and permits required for the continued operation of the company have been either secured, or renewed. Due to our location, our company is not affected by zoning regulations.

All Children's World products are already protected by the appropriate trademark and copyright filings. Children's World will not seek patent protection for the "essence" lines, however. Instead, we will keep these lines as a trade secret, thus preventing public disclosure and the subsequent possibility of legal entanglements from disgruntled parents, consumer activists, etc.

FAA certification and flight tests of all pilots and craft are both current and comprehensive, and are on file with the proper authorities.

Insurance/Employee Benefits

Due to the unique nature of their work force and the isolation of the environment, Children's World does not have to provide insurance for their employees. However, Children's World does have full property insurance as well as a general liability insurance policy for \$1,000,000 per the requirements of most retailers.

Employee benefits include unlimited supplies of aspirin, nasal decongestants, as well as other cold related medicines. Regarding vacation leave, Children's World provides two weeks of paid vacation each year. The company also their employees with equipment, lift passes, etc. free of charge for skiing, snowmobiling, snowshoeing, etc. However, no vacations are permitted during the months of October through December due to production demands.

Management

How we started

Children's World was founded in 1930 by Sanford Theodore Clause who recognized the entrepreneurial opportunities presented by the establishment of a charitable society. Through his efforts gift giving became more fashionable, particularly around the time of the Christian celebration of Christmas.

Management team

Our key management team consists of Mr. and Mrs. Clause whose backgrounds consist of almost 60 years of manufacturing and marketing experience. Our manufacturing team consists of over 300 well trained elf volunteers, each with at least 200 years of manufacturing, engineering and design experience.

A listing of our corporate organization is as follows:

Sanford T. Clause, President

Elizabeth M. Clause, Vice President, Henry J. Ticklebone, Director of Finance, Abigail B. Greenleaf, Director of Marketing Princely J. Rockafellow, Director of Sales, James A. Bronson, Director of Engineering, Jillaney P. Quackenmeyer, Director Research & Development' Jeremy C. McDougal, Director of Operations, Thistle P. Stickler, Corporate Attorney.

As stated above, the strength of Children's World management team stems from the combined expertise in both management and technical areas. This has produced outstanding results over the past 60 years.

The time honored leadership characteristics of Children's World's management team have resulted in broad and flexible goal setting -to meet the ever changing demands of the quickly moving marketplace requiring our products. This is evident when the team responds to situations requiring new and innovative capabilities.

Personnel

The following are the summary job descriptions for the key officers of the Children's World organization:

Abigail B. Greenleaf, Director of Marketing (\$100,000/year salary) Manage market planning, advertising, public relations, sales promotion, merchandising and facilitate staff services. Identifying new markets and corporate scope and market research. Identify foreign markets.

Princely J. Rockafellow, Director of Sales (\$100,000/year salary) Manage field sales organization, territories and quotas. Manage sales office activities including customer/product support/service.

Henry J. Ticklebone, Director of Finance (\$150,000/year salary) Management of working capital including receivables, inventory cash and marketable securities. Financial forecasting, including capital budget, cash budget, proforma financial statements, external financing requirements, financial condition requirements.

James A. Bronson, Director of Engineering (\$85,000/year salary) Oversees product development including quality control, physical distribution, product and packaging design, new product development improvement, and improvements on existing products. Research and development.

Jeremy C. McDougal, Director of Operations (\$175,000/year salary) Service, manufacturing, raw materials management and allocation.

Outside support

An outside Board of Advisors, including highly qualified business and industry professionals/experts from the elfin community, will assist our management team to make appropriate decisions and take the most effective action; however, they will not be responsible for management decisions.

At this time we do not forecast any need for extensive restructuring, and/or large scale hiring campaigns. Our expansion campaign will be able to be handled by our current staff of highly skilled employees.

Financial Data

Please see the attached financial projections including five years of historical financials, as well as a three year cash flow and income statement projection.

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3. How to Develop a Results Driven Business Plan

There are many reasons why a business plan should be prepared. Each is sufficient by itself for why one must go through the exercise of preparing the actual business plan. This guide discusses free small business plans, business plan outline. Regardless of the specific reason, the underlying goal of preparing a business plan is to insure the success of the business. Here are the main reasons why a business plan should be prepared:

Provides you with the road map that you need in order to run your business. It allows you to make detours, change directions, and alter the pace that you set in starting or running the business.

To assist in financing. Whether one is starting up a small business or is an entrepreneur, banks and financial institutions want to see that you know where you are, where you are going, and how you are going to get there.

The plan will tell you how much money you need, when you will need it, and how you are going to get it. In other words, how you will do your financing?

Helps you to clearly think through what type of business you are starting, and allows you to consider every aspect of that business.

Raises the questions that you need to have answered in order to succeed in your business.

Establishes a system of checks and balances for your business so that you avoid mistakes.

Sets up bench marks to keep your business under control.

Helps you develop the competitive spirit to make you keenly prepared and ready to operate.

Makes you think through the entire business process so that you do not open the business blindly or lack vital information in opening and maintaining your business.

Forces you to analyze competition.

Will give you a "go" or "no go" answer about starting the business.

Small Business Plans Business Plan Outline Guide

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Confidentiality Agreement

The undersigned reader acknowledges that the information provided in this business plan is confidential; therefore, the reader agrees not to disclose it without the express written permission of <<*Company/Promoter*>>.

It is acknowledged by the reader that information to be furnished in this business plan is in all respects confidential in nature, other than information that is in the public domain through other means, and that any disclosure or use of this confidential information by the reader may cause serious harm or damage to <<*Company*>>.

Upon request, this document is to be immediately returned to <<*Company/Promoter*>>.

Signature

Name (printed)

Date

This is a business plan. It does not imply offering of securities.

1. Executive Summary

<< Introduce promoters here, and the reason you are now preparing this Business Plan.

This section should not be completed until the business plan is written. It will highlight all milestones in the company's development over the next five years. It should sum up the following areas:

- Purpose of the plan
- Product or service and its advantages
- Market opportunity
- Management team
- Track record, if any
- Financial projections
- Funding requirements

Financial projections should be summarized and highlighted. The following format is suggested as a guide:

	Year 1	Year 2	Year 3
Sales			
Exports			
Net Profit before Tax			
Investment			
Employment			

Remember that potential investors often make a provisional judgement based on the executive summary, and that their decision to read the main body of the business plan will depend on the information presented here. The appendices at the back of the plan contain more detailed information to support the main text of the business plan. >>

2. Company Description

Promoters and Shareholders

<< Description of the people involved in starting the business:

- Promoters
- Management structure and areas of responsibility

- Shareholders names, no. of shares, % shareholding and cash investment to date

Advisors

<< Financial, legal, and other advisors should be listed, with names, addresses and contact details. >>

Products and services

<< Explain clearly what your product or service is and what it does.

- Background to its development
- Benefits and Features
- Unique selling points
- Advantages to customers
- Disadvantages or weak points
- Future developments >>

Long Term Aim of the Business

<< State the long-term aim of the new business. >>

Objectives

<< State the specific milestones to be achieved by the company over the next five years (sales, exports, employment, product development, etc). >>

SWOT Analysis

<< Analyze the strengths and weaknesses of the business and product or service, the opportunities that exist in the marketplace, and the threats to the viability of the project. This is best done in a matrix diagram as follows:

Strengths	Weaknesses
Opportunities	Threats

3. Market Analysis

<< This section covers market research and competitor analysis. You must show that you have done the market research to justify the projections made in your business plan. It must demonstrate that there is a viable market and that you can beat the competition in the market for sales. >>

Target Market

<< The market to which you are planning to sell the product or service. Analyze the segments of this market as follows:

- Size of each market segment
- Is the segment growing or declining?
- Characteristics of potential customers in each segment >>

Total Market Valuation

<< Show the total potential value of the market for this type of product or service, in all the targeted markets, domestic and international. >>

Target Company revenue

<< These figures are the basis for the sales figures in your financial projections and must be based on realistic assessments. Include average deal size, length of sales cycle, recurring revenues>>

Market Trends

<< Analyze what is happening in the market:

- Recent changes
- Future predictions
- Drivers such as demographic changes, economic and legislative factors
- Implications for your product or service
- Your plans to meet future demands and changes in the market >>

Profile of Competitors

<<Analysis of your competitors in the market:

- What are the competing products and services?
- Profile of key players (company size, turnover, profitability etc) and their market share
- Advantages and disadvantages of the competitors' offerings >>

Competitive Advantage

<< This is your assessment of why potential customers will choose to buy your product in place of those profiled above. Advantages may include:

- Unique features
- Price
- New technologies or systems
- Better value to customers in terms of efficiency or ROI or cost/benefit ratios
- Greater compatibility with existing systems
- Include any independent validation or case studies >>

Benefits to Clients

<< This is what your product or service provides to potential customers in terms of their own business goals. Does your product or service enable them to:

- Increase sales
- Increase efficiencies
- Save money?
- Save time?
- Maximise resources?
- Reduce errors?
- Reduce downtime?
- Improve Customer Service, reduce churn, increase loyalty

What will buying your product or service actually do for the customer? >>

4. Marketing/Sales Strategy

<< This section sets out your strategies for reaching your target market, arousing their interest in your product or service, and actually delivering the product or service to them in sales. >>

Marketing Strategy

<< How you will position your product or service in the market and differentiate it from its competitors:

- Which segments of the market will be targeted first and why?
- How will this be developed to reach the full target market?
- How will you differentiate your product or service?
- What key benefits will be highlighted?
- What potential customers have you already targeted?
- Have you a test site in operation, and what feedback is coming from this?

- What contacts can be used to generate market awareness and sales?
- Who will do the marketing: staff, agency, reps? >>

Revenue Sources

<< What contributions to revenue and profit will your business have?

	Irl	EU	US	Rest of World
Products				
Services				
Licenses				
After sales				
Upgrades				

Sales Strategy

<< How you will sell your product or service to the target market.

- Directly
- Retail
- Distributor
- Agent
- Sales rep
- Website
- Revenue Sharing Partners

Analyze for each method the costs involved, whether it will reach the intended market efficiently, the control you would retain over the pricing and positioning, the logistics, and the overall integration with your marketing strategy. State the advantages of the methods you have chosen to sell your product or service. >>

Pricing

<< How you will set the price charged for your product or service. Considerations include:

- Competitors' prices
- Level of competition in the market
- Perception of quality-price relationship by customers
- Production costs and overheads
- Chain of distribution and the added-value at each stage
- The extent to which the buyer can control the price

State how each product or service will be priced, referring to the income sources above.
>>

Marketing and Communications Strategy

<< How you will promote your product or service in the marketplace.

- Advertising – where, when, how, to whom
- Public relations
- Direct marketing
- Website and internet marketing
- Exhibitions and conferences
- Word of mouth >>

5. Research and Development

Technology Roadmap

<< Show the intended future development of your product or service, i.e., changes to meet future market demands, adaptations to international markets, or upgrades. Also detail plans for new products or services to add to the range.

Include

- Team/Department structure
- Methodology
- Platforms used
- Milestones to be achieved
- System Overview Diagram>>

Research and Development

<< Indicate whether you will have ongoing R&D as an activity of the company, what areas this will be exploring and what future contributions to the company you expect from this research. >>

Technical Partners

<< List all partners and indicate nature of involvement >>

IP, Patents, Copyrights, Brands

<< Indicate any protection available for your product or service: whether the technology can be or has been patented, whether you can avail of copyright or trademark registration, and the brand image you intend to build up as a protection against competition. >>

6. Staffing and Operations

<< This is where you will outline the intended structure of the company in terms of management, number of employees, and the physical operational requirements to produce or supply the product or service. >>

Management (including Board) Organisation Chart

<< Include a diagram of the way in which the management of the new venture will be organized. This should show the areas of responsibility of each manager and the employees to be taken on over the next three years. >>

Staffing

<< State what employees will be taken on over the next three years, with which skills, in which areas of the business. >>

Training Plans

<< Outline the planned employee and management development to be undertaken in order to maintain a skilled workforce. This should also tie in with the future market developments and any new product or service developments. >>

Operations

<< State the physical requirements of the business:

- Premises
- Equipment
- Production facilities
- Infrastructure
- Communications facilities
- Costs involved
- Suppliers >>

7. Financial Projections

- I Key Assumptions
- II Profit and Loss Accounts
- III Balance Sheets
- IV Cashflow

Requirements for Preparation of Projections

1. Opening figures included based on latest Mgmt/Audited accounts
2. Shareholders Fund analyzed into Share Capital, Share Premium and Retained Profits
3. Sales Assumptions provided by unit, price segment & geography and reconciled to pipeline
4. Expenditure categorized into R&D, Admin and Overheads and Promoters / key managers salaries
5. Identification of monthly and cumulative company operational deficits
6. Sensitivity analysis may be required, detailing strategies to be implemented if sales or expenditure targets are not met.
7. Projections should identify separately Operational Cash Flow and external Cash Injections

I Key Assumptions

<< This section reviews the key assumptions used in the financial projections. It is a guide to explain how key figures in the financial projections were arrived at. Included here should be items such as:

- Income sources
- Number of employees projected for each year and their intended salaries
- Projected investment in equipment and materials
- Projected R&D costs
- Depreciation allowed for
- Expected rent and rates charges
- Creditor days expected and debtor days allowed
- Expense calculations

This section should be brief and to the point. Further detail regarding these items can be placed in the Appendices. >>

II Profit & Loss Accounts

<< Attach here projected profit and loss accounts for the first three years of the company's operations. >>

III Balance Sheets

<< Attach here projected balance sheets for the first three years of the company's operations. >>

IV Cashflow

<< Attach here a monthly cashflow prediction for the first two years of the company's operations. >>

8. Sales Pipeline

Table as follows:

Name of Customer	Size of Deal	Date PO expected	Probability % of Getting Sale

9. Funding Requirements

<< State here the total funding requirements of the business, and how those are intended to be provided. You will also need to state the approximate breakdown of how these funds are to be spent.

Sources:

- Promoters' funds
- Bank lending
- Grants or loans from agencies
- Investment already received
- Investment sought

Required for:

- Equipment
- R&D
- Marketing
- Staffing >>

10. Appendices

<< This section is used to provide the detailed data on which the main text of the business plan is based, and to provide extra information of interest to the readers of the business plan. Items for inclusion in appendices vary from business to business, but normally include some of the following:

- Promoters' CVs
- Detailed financial assumptions
- Most recent Company Audited Accounts
- Share Cap table and Investment history
- Term Sheet from Potential Investors
- Detailed market research findings
- Promotional literature
- Product or service information
- Details of company website
- Testimonials or letters of intent from customers >>

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4. How to Attract Investors

Venture capital financing is a method used for Raising Cash For Business and Getting Investments for Business, but less popular than borrowing. Venture capital firms, like banks, supply you with the funds necessary to operate your business, but they do it differently. Banks are creditors; they expect you to repay the borrowed money. Venture capital firms are owners; they hold stock in the company, adding their invested capital to its equity base. While banks may concentrate on cash flow, venture capital firms invest for long-term capital. Commonly, these firms look for their investment to appreciate three to five times in five or seven years.

One way of explaining the different ways in which banks and venture capital firms evaluate a small business seeking funds is: Banks look at its immediate future, but are most heavily influenced by its past; venture capitalists look to its longer run future.

To be sure, venture capital firms and individuals are interested in many of the same factors that influence bankers in their analysis of loan applications from smaller companies. All financial people want to know the results and ratios of past operations, the amount and intended use of the needed funds, and the earnings and financial condition of future projections.

But venture capitalists look much more closely at the features of the product and the size of the market than do commercial banks.

What Venture Capital Firms Look For (Raising Cash For Business)

Banks are creditors. They're interested in the product/market position of the company for assurance that this product or service can provide steady sales and generate sufficient cash flow to repay the loan. They look at projections to be certain that owners/managers have done their homework.

Venture capital firms are owners. They hold stock in the company, adding their invested capital to its equity base. Therefore, they examine existing or planned products or services and the potential markets for them with extreme care. They invest only in firms they believe can rapidly increase sales and generate substantial profits. The reason for this is that venture capital firms invest for long-term capital, not for interest income. A common estimate is that they look for three to five times their investment in five or seven years.

Of course, venture capitalists don't realize capital gains on all their investments. Certainly they don't make capital gains of 300 to 500% except on a very limited portion of their total investments. But their intent is to find venture projects with this appreciation potential to make up for investments that aren't successful.

Venture capital is risky due to the difficulty of judging the worth of a business in its early stages. Therefore, most venture capital firms set rigorous policies for venture proposal size, maturity of the seeking company, management of the seeking company, and "something special" in the plan that is submitted. They also have rigorous evaluation

procedures to reduce risks, since their investments are unprotected in the event of failure.

Size of the Venture Proposal

Most venture capital firms are interested in investment projects requiring an investment of \$250,000 to \$1,500,000. Projects requiring under \$250,000 are of limited interest because of the high cost of investigation and administration; however, some venture capital firms will consider smaller proposals if the investment is intriguing enough.

The typical venture capital firm receives over 400 proposals a year. Probably 90% of these will be rejected quickly because they don't fit the established geographical, technical or market area policies of the firm - or because they have been poorly prepared.

The remaining 10% are carefully investigated. These investigations are expensive. Firms may hire consultants to evaluate the product, particularly when it is the result of innovation or is technologically complex. The market size and competitive position of the company are analyzed by contacts with present and potential customers, suppliers, and others. Production costs are reviewed. The financial condition of the company is confirmed by an auditor. The legal form and registration of the business are checked. Most importantly, the character and competence of the management are evaluated by the venture capital firm, normally via a thorough background check.

These preliminary investigations may cost a venture firm between \$2,000 and \$3,000 per company investigated. They result in perhaps ten to fifteen proposals of interest. Then, second investigations, more thorough and more expensive than the first, reduce the number of proposals under consideration to only three or four. Eventually, the firm invests in one or two of these.

Most venture capital firms' investment interest is limited to projects proposed by companies with some operating history, even though they may not yet have shown a profit. Companies that can expand into a new product line or a new market with additional funds are particularly interesting. The venture capital firm can provide funds to enable such companies to grow in a spurt rather than gradually as they would on retained earnings. Raising Money From Investors.

Companies that are just starting or that have serious financial difficulties may interest some venture capitalists, if the potential for significant gain over the long run can be identified and assessed. If the venture firm has already extended its portfolio to a large risk concentration, they may be reluctant to invest in these areas because of increased risk of loss. Getting Investments for Business.

Although most venture capital firms will not consider a great many proposals from start-up companies, there are a small number of venture firms that will do "start-up" financing. The small firm that has a well thought-out plan and can demonstrate that its management group has an outstanding record (even if it is with other companies) has a decided edge in acquiring this kind of seed capital.

Most venture capital firms concentrate primarily on the competence and character of the management. They feel that even mediocre products can be successfully manufactured, promoted, and distributed by an experienced, energetic management group.

They look for a group that is able to work together easily and productively, especially under conditions of stress from temporary reversals and competition problems. Obviously, analysis of managerial skill is difficult. A partner or senior executive of a venture capital firm normally spends at least a week at the offices of a company being considered, talking with and observing the management to estimate their competence and character.

Venture capital firms usually require that the company under consideration have a complete management group. Each of the important functional areas product design, marketing, production, finance, and control - must be under the direction of a trained, experienced member of the group. Responsibilities must be clearly assigned. And, in addition to a thorough understanding of the industry, each member of the management team must be firmly committed to the company and its future. Raising Money From Investors.

Next in importance to the excellence of the management group, most venture capital firms seek a distinctive element in the strategy or product/market/process position of the company. This distinctive element may be a new feature of the product or process or a particular skill or technical competence of the management. But it must exist. It must provide a competitive advantage.

Elements of a Venture Proposal - Getting Investments for Business

Purpose and Objectives

Include a summary of the what and why of the project.

Proposed Financing: You must state the amount of money you will need from the beginning to the maturity of the project proposed, how the proceeds will be used, how you plan to structure the financing, and why the amount designated is required.

Marketing: Describe the market segment you've got or plan to get, the competition, the characteristics of the market, and your plans (with costs) for getting or holding the market segment you're aiming at.

History of the Firm: Summarize the significant financial and organizational milestones, **description of employees and employee relations**, explanations of banking relationships, recounting of major services or products your firm has offered during its existence, and the like.

Description of the Product or Service: Include a full description of the product (process) or service offered by the firm and the costs associated with it in detail.

Financial Statements: Include statements for both the past few years and pro forma projections (balance sheets, income statements, and cash flows) for the next three to five years, showing the effect anticipated if the project is undertaken and if the financing is secured. (This should include an analysis of key variables affecting financial performance, showing what could happen if the projected level of revenue is not attained.)

Capitalization: Provide a list of shareholders, how much is invested to date, and in what form (equity/debt).

Biographical Sketches: Describe the work histories and qualifications of key owners and employees.

Principal Suppliers and Customers, Problems Anticipated and Other Pertinent Information

Provide a candid discussion of any contingent liabilities, pending litigation, tax or patent difficulties, and any other contingencies that might affect the project you're proposing. List the names, addresses and the

telephone numbers of suppliers and customers; they will be contacted to verify your statement about payments (suppliers) and products (customers).

Provisions of the Investment Proposal

What happens when, after the exhaustive investigation and analysis, the venture capital firms decides to invest in a company? Most venture firms prepare an equity financing proposal that details the amount of money to be provided, the percentage of common stock to be surrendered in exchange for these funds, the interim financing method to be used and the protective covenants to be included.

This proposal will be discussed with the management of the company. The final financing agreement will be negotiated and generally represents a compromise between the management of the company and the partners or senior executives of the venture capital firm. The important elements of this compromise are: ownership, control, annual charges, and final objectives.

Ownership

Venture capital financing is not inexpensive for the owners of a small business. The partners of the venture firm buy a portion of the business' equity in exchange for their investment.

This percentage of equity varies, of course, and depends on the amount of money provided, the success and worth of the business, and the anticipated investment return. It can range from perhaps 10% in the case of an established, profitable company to as much as 80 or 90% for beginning or financially troubled firms.

Most venture capital firms, at least initially, don't want a position of more than 30 to 40% because they want the owner to have the incentive to keep building the business. If additional financing is required to support

business growth, the outsiders' stake may exceed 50% but investors realize that small business owner/managers can lose their entrepreneurial zeal under those circumstances. In the final analysis, however, the venture firm, regardless of its percentage of ownership, really wants to leave control in the hands of the company's managers because it is really investing in that management team in the first place.

Most venture firms determine the ratio of funds provided to equity requested by a comparison of the present financial worth of the contributions made by each of the parties to the agreement. The present value of the contribution by the owner of a starting or financially troubled company is obviously rated low. Often it is estimated as just the existing value of his or her idea and the competitive costs of the owner's time. The contribution by the owners of a thriving business is valued much higher. Generally, it is capitalized at a multiple of the current earnings and/or net worth.

Financial valuation is not an exact science. The final compromise on the worth of the owner's contribution in the equity financing agreement is likely to be much lower than the owner thinks it should be and considerably higher than the partners of the capital firm think it might be. In the ideal situation, of course, the two parties to the agreement are able to do together what neither could do separately: 1) the company is able to grow fast enough with the additional funds to do more than overcome the owner's loss of equity; and 2) the investment grows at a sufficient rate to compensate the venture capitalists for assuming the risk.

An equity financing agreement with an outcome in five to seven years which pleases both parties is ideal. Since the parties cannot see this outcome in the present, neither will be perfectly satisfied with the compromise reached.

It is important, though, for the business owner to look at the future. He or she should carefully consider the impact of the ratio of funds invested to the ownership given up, not only for the present, but for the years to come.

Control

Control is a much simpler issue to resolve. Unlike the division of ownership over which the venture firm and management are likely to disagree, control is an issue in which they have a common interest. While it is understandable that the management of a small company will have some anxiety in this area, the partners of a venture firm have little interest in assuming control of the business. They have neither the technical nor the managerial personnel to run a number of small companies in diverse industries. They much prefer to leave operating control to the existing management.

The venture capital firm does, however, want to participate in any strategic decisions that might change the basic product/market character of the company and in any major investment decisions that might divert or deplete the financial resources of the

company. They will, therefore, generally ask that at least one partner be made a director of the company.

They also want to be able to assume control and attempt to rescue their investment if severe financial, operating or marketing problems

develop. Thus, they will usually include protective covenants in their equity financing agreements to permit them to take control and appoint new officers if financial performance is very poor.

Annual Charges

The investment of the venture capital firm may be in the final form of direct stock ownership which does not impose fixed charges. More likely, it will be in an interim form - convertible subordinated debentures or preferred stock. Financings may also be straight loans with options or warrants that can be converted to a future equity position at a pre-established price.

The convertible debenture form of financing is like a loan. The debentures can be converted at an established ratio to the common stock of the company within a given period, so that the venture capital firm can prepare to realize their capital gains at their option in the future. These instruments are often subordinated to existing and planned debt to permit the company invested in to obtain additional bank financing.

Debentures also provide additional security and control for the venture firm and impose a fixed charge for interest (and possibly principal) on the company. The owner/manager of a small company seeking equity financing should consider the burden of any fixed annual charges resulting from the financing agreement.

Final Objectives

Venture capital firms generally intend to realize capital gains on their investments by providing for a stock buy-back by the small firm, by arranging a public offering of stock of the company invested in or by providing for a merger with a larger firm that has publicly traded stock. They usually hope to do this within five to seven years of their initial investment. (It should be noted that several additional stages of financing may be required over this period of time.)

Most equity financing agreements include provisions guaranteeing that the venture capital firm may participate in any stock sale or approve any merger, regardless of their percentage of stock ownership. Sometimes the agreement will require that the management work toward an eventual stock sale or merger. Clearly, the owner/manager of a small company seeking equity financing must consider the future impact upon his or her own stock holdings and personal ambition of the venture firm's aims, since taking in a venture capitalist as a partner may be virtually a commitment to eventually sell out or go public.

Types of Venture Capital Firms

Traditional Partnerships are often established by wealthy families to aggressively manage a portion of their funds by investing in small companies.

Professionally Managed Pools are made up of institutional money and which operate like the traditional partnerships.

Investment Banking Firms usually trade in more established securities, but occasionally form investor syndicates for venture proposals.

Insurance Companies often have required a portion of equity as a condition of their loans to smaller companies as protection against inflation.

Manufacturing Companies have sometimes looked upon investing in smaller companies as a means of supplementing their research and development programs.

In addition to these venture capital firms, there are individual private investors and finders. Finders, which can be firms or individuals, often know the capital industry and may be able to help the small company seeking capital to locate it, though they are generally not sources of capital themselves. Care should be exercised so that a small business owner deals with reputable, professional finders whose fees are in line with industry practice. Further, it should be noted that venture capitalists generally prefer working directly with principals in making investments, though finders may provide useful introductions.

The Importance of Formal Financial Planning

In case there is any doubt about the implications of the previous sections, it should be noted that it is extremely difficult for any small firm especially the starting or struggling company - to get venture capital.

There is one thing, however, that owner/managers of small businesses can do to improve the chances of their venture proposals at least escaping the 90% which are almost immediately rejected. In a word - plan.

Having financial plans demonstrates to venture capital firms that you are a competent manager, that you may have that special managerial edge over other small business owners looking for equity money. You may gain a decided advantage through well-prepared plans and projections that include: cash budgets, pro forma statements, and capital investment analysis and capital source studies.

Cash budgets should be projected for one year and prepared monthly.

They should combine expected sales revenues, cash receipts, material, labor and overhead expenses, and cash disbursements on a monthly basis. This permits anticipation of fluctuations in the level of cash and planning for short term borrowing and investment.

Pro forma statements should be prepared for planning up to three years ahead. They should include both income statements and balance sheets.

Again, these should be prepared quarterly to combine expected sales revenues; production, marketing and administrative expenses; profits; product, market or process investments; and supplier, bank or investment company borrowings. Pro forma statements permit you to anticipate the financial results of your operations and to plan intermediate term borrowings and investments.

Capital investment analyses and capital source studies should be prepared for planning up to five years ahead. The investment analyses should compare rate of return for product, market, or process investment, while the source alternatives should compare the cost and availability of debt and equity and the expected level of retained earnings, which together will support the selected investments. These analyses and source studies should be prepared quarterly so you may anticipate the financial consequences of changes in your company's strategy. They will allow you to plan long term borrowings, equity placements, and major investments.

There is a bonus in making such projections. They force you to consider the results of your actions. Your estimates must be explicit; you have to examine and evaluate your managerial records; disagreements must be resolved - or at least discussed and understood. Financial planning may be burdensome but it is one of the keys to business success.

Now, making these financial plans will not guarantee that you'll be able to get venture capital. Not making them will virtually assure that you won't receive favorable consideration from venture capitalists.

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