

Chapter 2

Plan the Small Business



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Objectives

- 2-1** Explain the importance of planning to the small business.
- 2-2** Define the term *business plan*.
- 2-3** Describe the components of a business plan and explain the importance of each.
- 2-4** Identify the sources for assistance in planning a small business.

GET STARTED

This chapter discusses the business planning process and provides an overview of chapters to follow. In the Project you will be developing a business plan. You have probably heard that writing one of these things takes forever and you never really know what to put in it. Anyone who has ever gone through the complete business planning process would say there is a measure of truth to that rumor.

The value of a business plan in getting financing or serving as a guide for your new business will probably be in direct proportion to how seriously you take the process and how much time you devote to its writing. As far as what to put in it, there are as many suggestions out there as there are cars on an L.A. freeway.

Your first question is probably “Isn’t your business plan suggestion just another addition to an already long list?” In a way the answer is yes, but in what is probably a more important way, the answer is no. The business plan outline provided in this text is a result of in-depth research into what commercial lending officers want in a plan. Additional research involved comparing the contents of several mainstream business plan outlines. Consequently, the business plan outline recommended here includes all the major categories and subcategories required by bankers plus those appearing in other business plan outlines. A business plan written using the recommended outline should meet the requirements of most lenders.

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In business planning, the secret is not to overthink or overwork the process. You should decide why you are writing the business plan. Is it to get your local banker to loan you the money to start? Is it to get your Aunt Mary to bankroll the operation? Is it a way to examine the feasibility of the proposed business? How are you going to use the final business plan? Only you know that. Based on your answer, put as much or as little effort into developing the plan as is required to meet your goal.

According to the Small Business Administration, “Starting and managing a business takes motivation and talent. It also takes research and planning. Although initial mistakes are not always fatal, it takes extra skill, discipline, and hard work to regain the advantage.” Starting a new business is much like going on a long journey. Both undertakings require time, effort, know-how, and a sense of adventure. Both are more enjoyable and rewarding if you know how to go, what to take along, how long it will last, and what to expect along the way. You may still encounter some surprises, but chances are you will be prepared to deal with them.

THE BUSINESS PLAN

Once aspiring entrepreneurs have identified a business idea that seems promising, they must begin preparing for the journey that will transform the idea into a business success. The key step in preparation is planning. Planning is the systematic process of developing an outline for the accomplishment of a goal or set of goals. A well-prepared outline serves as a road map that guides the traveler to the desired destination.

Planning is one of the most important skills needed for starting a business. Whether the entrepreneur is going to start a new business, buy an established business, or purchase a franchise, good planning is the key to business success.



DIGITAL VISION

A business plan serves as a manual to help the entrepreneur during the design and start-up phases of the business. It also states the entrepreneur's expectations, which serve as criteria by which business performance can be periodically evaluated. A good business plan is an ever-evolving resource that grows and changes with the business. As such, it should be consulted regularly and updated annually.

Many entrepreneurs stumble upon an idea that seems certain to be a success. They are tempted to skip the planning phase and jump right into business. After all, a day spent planning is a day without profit. That temptation must be resisted. The steps involved in starting and maintaining even the smallest business can be overwhelming. Neglecting even a minor detail may cause unnecessary aggravation and expense. Overlooking a major detail may ultimately lead to business failure.

Writing a comprehensive business plan ensures that all the details of your proposed business are addressed. It helps you avoid many of the pitfalls that can delay or prevent business success. If you carefully explore and evaluate your proposed business, the time you invest will be a small price to pay for achieving your goals.

Many entrepreneurs have plenty of ideas but very little capital with which to start a business. Most of them have to go to a bank or other financial institution for a loan. A majority of banks require a written business plan before they will consider loaning money for a small business start-up. A comprehensive and detailed business plan shows the bank that you are serious about your new venture and have invested considerable time and effort in planning what will be a successful business. Such a proposal is more likely to win the bank's support than one that presents only vague details.

FORMULATE A BUSINESS PLAN

Below is an outline of a typical business plan. Several of the headings may not be applicable to certain types of businesses and may be omitted. The amount of information required under each heading will also vary from business to business.

Outline of Typical Business Plan

COVER SHEET
STATEMENT OF PURPOSE
TABLE OF CONTENTS
EXECUTIVE SUMMARY

1. Concept History and Background
 - A. Description of Product or Service
 - B. Idea History
 - C. Summary of Experience
2. Goals and Objectives
3. Marketing Plan
 - A. Consumers and Demand
 - B. Competition
 - C. Geographic Market
 - D. Pricing Policy
4. Legal Requirements
5. Form of Ownership
6. Financial Plan
 - A. Initial Capitalization Plan
 - B. Projected Income Statement
 - C. Projected Operating Statement
 - D. Cash Flow Projection
7. Organization, Management, and Staffing Plan
 - A. Organization Chart
 - B. Employee Requirements
 - C. Resumes
 - D. Personal Financial Statements
 - E. References
8. Special Considerations
 - A. Production and Manufacturing Needs
 - B. Facility Needs
 - C. Education and Training Needs
 - D. Land and Utility Needs
 - E. Research and Development
 - F. Other



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Small Business Technology

For the entrepreneur needing examples of business plan components or samples of suggested content, business planning software is an option. Two leading business planning software companies are BizPlan™ and Business Plan Pro™.

The individual components of a business plan and how they are developed will be described in detail in later chapters. For the purpose of discussing the general principles of business planning, however, these components and their importance in the planning process are covered briefly here.

FUN FACTS

Wrigley's Chewing Gum was the first product to have a bar code.

Plan Layout

First, your business plan should be “pretty.” Specifically, it should look professional. Use high-quality paper and make sure the print is dark and easy to read. Present the plan in an attractive folder or binder with good use of color on the front. The plan should be free of spelling errors and grammatical inconsistencies. Carefully proofread the final version or get a family member or friend to do it.

The overall appearance of a business plan can never be as important as what it says, but if the plan is sloppy and not visually appealing, it may never get read. Remember, “pretty” is important.

A business plan opens with a cover page, a table of contents, and an executive summary.

Cover Page The cover page answers these questions: Who wrote the plan and how can they be contacted? Why was the plan developed? To whom is it presented?

Since the cover page is one of the first things the reader sees, make sure it is neat and easy to read. Include your name, phone number, and address.

If the plan was developed for bank financing, say so. If you are sending it to a bank lending officer, say the plan is being presented to Gene Miller at the Bank of Clarksdale, for example. If the plan is for planning purposes only or will be viewed by many types of people, leave this section out.

Table of Contents The table of contents follows the cover page and lists the major components of the plan and corresponding page numbers. The table of contents is written when the business plan is in its final draft.

Executive Summary The **executive summary** follows the table of contents and provides a two- to three-page summary of what is in the plan. Because it is a summary, it should also be written after the business plan is in its final draft.



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What should you put in the summary? Put in the most interesting and most important details of the plan. Pretend you have a maximum of three pages to sell your idea to the reader. That is not far from the truth. If you are providing the plan to a banker for funding consideration, keep in mind that he or she probably has to read several similar plans each day. The usual drill is for the banker to read the executive summary and then decide if it is worth spending any more time reading the whole plan.

Write the first paragraph of the executive summary as if your business life depends on it. It probably does! Then write the remaining summary with equal care.

Concept History and Background

The first part of the business plan itself describes the business concept, how it was developed, and what qualifications the potential entrepreneur has for the intended business.

Description of Product or Service The entrepreneur should describe in very specific terms the product or service that the business is going to offer. The description should highlight how the product or service is different from or better than existing products or services. Such details aid in determining the feasibility of the proposed business.

Idea History An idea history summarizes when, how, and why the potential entrepreneur developed the idea for the business. This component is important primarily during the loan application process. At least half of all bank loan officers require applicants to include an idea history in their business plans because it provides insight into the thought processes of the potential business owner.

Summary of Experience Most banks consider a written summary of the entrepreneur's experience an essential component of the business plan. The summary should emphasize practical exposure to the intended business. Relevant volunteer work and hobbies, as well as paid employment, may have provided valuable experience that could be helpful in running the business. Such experience may greatly increase the business owner's chances of success both at the bank and in the marketplace.

Goals and Objectives

A goal can be defined as the overall end toward which one directs one's efforts. An objective is a specific result that is desired. For example, a well-defined goal should answer the question "What do I want to achieve?" An objective answers the question "What specific results do I need to accomplish that will help me reach my goal?"

Goals and objectives are important because they provide direction and focus for your activities. How will you know where you are going unless you identify where you want to go? A new business might set a goal of becoming the number-one business of its type in the metropolitan area. One of its objectives may be to grow its customer base by 10 percent per year. By setting the goal and several objectives, the business has established the direction it will take.



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Goals and objectives work in much the same way for entrepreneurs—by keeping business owners focused on what they are trying to achieve. Many entrepreneurial goals deal with profitability. Goals and objectives are also useful to banks because the lender must know the entrepreneur's intentions. More than two-thirds of banks require written goals and objectives for at least the first year. For this reason, entrepreneurs should be insightful, realistic, and concise when writing goals and objectives for the business plan.

Short-Term and Long-Term Goals A short-term goal is one that can be achieved in a short period of time, perhaps within several months or a year. A long-term goal is one that is to be achieved over a longer period of time, such as a number of years. The entrepreneur should set short- and long-term goals concerning both financial and personal interests, always focusing on the ultimate goal of the business.



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As an example, a short-term personal goal might sound like this: Work part-time while planning my new business, then, at the end of one year, quit my job and devote all my efforts to opening and managing the new business. A long-term financial goal might sound like this: Pay back my \$20,000 start-up loan within six years.

Using Goals and Objectives to Measure Success Success can be measured by how close entrepreneurs come to reaching their goals and objectives. Certainly one of the most satisfying

feelings for entrepreneurs comes from achieving the goals and objectives they established—personal as well as financial. If they accomplish this, they should consider themselves successful.

If, after some period of time, goals or objectives are not being met, they may have been unrealistic in the first place. The entrepreneur should re-evaluate the business and try to determine what went wrong. The important thing to remember is to review, reevaluate, and, if appropriate, reestablish goals and objectives at least once a year to make sure that the business venture is on the right track.

Marketing Plan

Just speculating that many people will want to buy a product or service is not enough. Entrepreneurs need to quantify information about their potential markets—that is, they need to express that information in specific, measurable terms.

The **marketing plan** defines and quantifies consumers, demand, competition, geographic market, and pricing policy for a specific small business. Most business experts consider the marketing plan a key component of the planning process. Drawing an accurate picture of the potential market for a product or service helps the entrepreneur to set realistic goals and objectives for the business. Bank loan officers devote considerable attention to the marketing plan.

FUN FACTS

On May 5, 1978, Jerry Greenfield and Ben Cohen opened the first Ben & Jerry's ice cream shop in a converted gas station in Burlington, Vermont.

Consumers and Demand The first part of the marketing plan describes the consumers and demand for the product or service. It may profile a typical customer in terms of age, sex, income, occupation, family status, or other characteristics that make that person likely to frequent the business. It may also estimate how often a typical customer will want to buy the product or service and at what price.

Competition The second part of the marketing plan deals with competition. Suppose you decide that a shoe store is a good venture. You know that everybody in town is already wearing shoes—in other words, they are shopping at your competitors' stores. The only way for you to bring customers into your new store is to lure them away from the competition. One way you can do this is by making your store different from the others in terms of location, selection, quality, price, or service. But in order to make your store different, you need to know about the competition. In addition, you need to consider what your competitors' reaction will be to your business. What will you do to counteract their responses?

As you plan your business, then, you should learn as much as possible about the competition. In particular, you should determine how the competition is different from the business you have in mind. All of this information should be summarized in your marketing plan.

Do banks think you should be concerned with your competition? You bet they do! One of the first questions many loan officers ask is, "What can you tell us about your competition?" If your answer is "Nothing," their next statement may well be "Good-bye!"

Geographic Market This part of the marketing plan describes the geographic area from which the business will draw its customers. The entrepreneur must project how far people will be willing to travel to frequent the business, and from which areas they will come. Correctly identifying the geographic market makes setting realistic sales goals easier.

Pricing Policy The last part of the marketing plan is the **pricing policy**, which determines how you will set prices for the product or service. Your prices will have a direct impact on the number of customers you will have and the profits you accumulate. A carefully considered pricing policy can help you achieve your sales and profit goals.

Legal Requirements

As aspiring entrepreneurs consider opening their new businesses, legal problems are the last thing on their minds. But if they do not devote time and attention to the legal aspects of a new business, legal problems may soon be the only thing on their minds. Entrepreneurs must consider potential legal problems before they actually go into business.



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The legal requirements for conducting almost any business today can be extensive and complicated. Certain patents, copyrights, agreements, contracts, or other legal arrangements will be needed to carry out day-to-day business. The planning phase is the proper time to consider these requirements and how they will be met. Indeed, 94 percent of the banks doing business with entrepreneurs in new small business ventures require that the legal aspects of the ventures be addressed in the planning process.

Form of Ownership

Before you seek financial assistance, you must decide on a form of ownership for your business. If you are going it alone, this part of the plan is easy. If you are starting a new business with one or more other persons, however, choosing the form of ownership becomes a critical decision. Form of ownership affects business management, division of profits, division of labor, liability, and many other issues.

The most common forms of ownership are sole proprietorship, partnership, LLC (limited liability company), and corporation. Each of these will be discussed briefly in Chapter 4. Entrepreneurs must decide during the planning phase which form of ownership best suits the needs of the business and the people involved.



Ethics for ENTREPRENEURS

In a well-written business plan, the entrepreneur presents the proposed business in a positive, upbeat manner, by personally gathering the information and stating it in an optimistic way. The question is, when do facts presented in a positive light cross the ethical line and become lies? Are they lies if you did not really develop the plan yourself?

Lies occur when the entrepreneur misrepresents the facts in such a way that the reader reaches an incorrect conclusion. For example, Lee always had a passion for gourmet coffee. Six months after being fired as a foreman at a local manufacturing plant, he decided to become an entrepreneur and open an Internet coffee shop.

Lee's first stop was at his bank, where he spoke to a commercial lending officer. The banker told Lee that in order to be considered for financing, he had to write an original business plan.

Like most entrepreneurs, Lee was in a big hurry to get the new business up and running. Writing a comprehensive business plan can take months. Perhaps, Lee thought, he could find a business plan on the Internet. Then he could simply change the name and a few facts and submit it to the bank.

Good ethics and good business go hand-in-hand.

Think Critically

Would Lee be lying to the banker by presenting an online business plan as his own? Is this an ethical approach?

Financial Plan

Along with the marketing plan, the financial section of the business plan is a key component in the overall planning process. A basic **financial plan** contains the entrepreneur's estimates for the following categories:

1. cost of starting the business and maintaining it for a specified period of time (initial capitalization plan)
2. projected income
3. projected operating expenses
4. projected cash flow
5. initial balance sheet

Some small business experts say that potential entrepreneurs should start their business planning process with the financial plan. They argue that, until the entrepreneur determines what the proposed venture will cost and whether or not it is feasible, other planning is fruitless.

All experts agree that the financial plan must be developed very carefully. Poor financial planning at the start of a business venture almost inevitably leads to overall business failure. Therefore most bank loan officers carefully scrutinize all five categories in the financial plan.



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Organization, Management, and Staffing Plan

Although opening day may be a long way off, the entrepreneur must determine how many employees the business will require and what their responsibilities will be. Such concerns are addressed in the organization, management, and staffing plan section of the business plan.

Organization Chart The **organization chart** deals with the actual management of the business. The chart defines who will be responsible for tasks such as purchasing, advertising, accounting, and hiring personnel. The chart also shows who reports to whom in the organizational hierarchy.



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The Global **ENTREPRENEUR**

The entrepreneur planning expansion into global markets must approach the business planning process from a slightly different perspective. An excellent place to start is the Small Business Administration's Online Guide to Exporting. The SBA offers several suggestions. First, select the most exportable products. Determine what makes your products unique for an overseas market. Ask yourself why international buyers would purchase the products from your company. How much inventory will you need to sell overseas? Identify customers within your chosen markets. Determine what companies, agents, or distributors would be prospective customers for your export products. Decide your method of exporting. How do other U.S. firms sell in the markets you have chosen? The SBA offers information to guide you through the entire planning process. Use their help. The global entrepreneur must face more complex issues and answer additional questions during the business planning process.

Think Critically

Which of the questions above do you consider the most important? Why?

Employee Requirements Planning for an appropriate number of employees is essential. If too few employees are hired, there will not be enough people to meet customers' needs. On the other hand, if too many employees are hired, the excessive labor costs will decrease profits. During the business planning phase the entrepreneur should use information such as the organization chart and projected sales figures to estimate how many employees will be needed.

Resumes, Personal Financial Statements, and References If opening a new business will require bank financing, each borrower must prepare a resume, a personal financial statement, and a list of references. The resume outlines the borrower's education and work experience. Banks use the resume to determine whether the entrepreneur has the necessary background for the proposed business. The **personal financial statement** describes the borrower's financial condition. In particular, it shows what assets the borrower could use as **collateral**—something of value pledged as security—for the loan. Banks use the personal financial statement to evaluate the borrower's ability to repay the loan. The list of references contains the names and addresses of people who can supply information concerning the borrower's character and history.

Special Considerations

The last component of the business plan deals with any special considerations that apply to the entrepreneur's chosen business. Some small businesses will have many special considerations; some will have none.

If the business will involve manufacturing a product, the list of special considerations may be quite lengthy. If the business will consist exclusively of selling a service, however, the only special consideration may be a facility. Other special considerations may include training for the entrepreneur or employees, land and utility needs, and research and development. The entrepreneur's goal is to recognize and deal with all these special considerations during the planning process.

Decide Whether to Go into Business

Once the business plan is complete, the entrepreneur can make the final decision as to whether or not to go into business. The three most useful pieces of information are the marketing plan, the financial plan, and the personal financial statement. If the entrepreneur has worked carefully, these items should reveal whether there is a market, how much money it will take to reach that market, and whether enough resources are available to pull it all together.

SOURCES FOR PLANNING ASSISTANCE

Many entrepreneurs bring enthusiasm and a wealth of technical knowledge to their new venture. What is usually lacking is management expertise and specific information about the nuts and bolts of starting a business. Fortunately, a variety of resources can offer assistance. Three of the most commonly available resources are community colleges, chambers of commerce, and the Small Business Administration.

Local Community Colleges Many community colleges have small business development centers designed to assist local small businesses. The first such center established in the state of Colorado almost two decades ago by one of the textbook authors is located at Pueblo Community College. It serves a three-county area in the southern part of the state and provides a wide array of services. In addition to community colleges, many four-year colleges and universities have resources available to the aspiring entrepreneur. Before embarking upon the planning process, check your local community for higher education resources.



DIGITAL VISION

Pueblo Community College

Small Business Development Center

Pueblo's Small Business Development Center offers "one-stop" assistance to small businesses, making a wide variety of information and guidance available in central and easily accessible locations. The Pueblo SBDC provides services for Pueblo, Fremont, and Custer counties, and has office locations in Pueblo and Canon City.

The Small Business Development Center provides free one-on-one counseling for both existing and start-up businesses. It also sponsors seminars and workshops designed to help small business owners improve their business knowledge and entrepreneurs plan their start-up business.

The center's mission: "To promote a vigorous and viable small business community by providing high-quality counseling and training to owners and prospective owners of small businesses in Pueblo, Fremont, and Custer counties, and to proactively work with lenders, government entities, and other small business service providers to enhance the probability of success of these businesses."



Chamber of Commerce In many communities, the chamber of commerce has a small business development committee that can offer guidance to entrepreneurs. One such example is discussed in the section on Internet resources later in this chapter.

Small Business Administration The SBA is an independent federal government agency with offices in most metropolitan areas. It offers a range of services, including seminars, counseling, and loans. For entrepreneurs contemplating the small business planning process, the SBA offers excellent information in the following areas:

Start-up Basics	Financing
Business Planning	Marketing
Business Plan Basics	Employees
Writing the Plan	Taxes
Using the Plan	Legal Aspects
Specific Training	Special Interests

Entrepreneurs should contact the closest SBA office or go online to retrieve information in any of the above areas.

Accountants and Attorneys

Accountants and lawyers should not be overlooked as sources for planning assistance. During the planning process, the entrepreneur should establish a working relationship with an accountant and an attorney who have experience with small businesses. The accountant should review or, in some cases, help to develop the financial plan. The attorney should be consulted to determine the legal requirements of the proposed business.

These professionals are a necessary part of the planning process regardless of whether you are starting a new business, buying an existing business, or purchasing a franchise. Their fees, which usually run \$100 an hour and up, must simply be viewed as part of the expense of doing business.

Internet and Electronic Indexes

The Internet is probably the best place to start searching for planning assistance. Your local chamber of commerce likely has a web page providing local business and community information. For instance, the Grand Junction, Colorado, Area Chamber of Commerce lists community information, economic outlook, demographics, transportation, community resources, and much more valuable information for entrepreneurs. The SBA also has an excellent site.

Many private sites offer excellent links. A good example is the web page of one of the authors. It has been developed over the course of many years for use by his entrepreneurship students. Comprising over 400 links, the site is organized into sections for ease of use. Sections currently include links to information about finance and taxes, government, industry/company information, Internet search and directories, international business, legal and hiring law, marketing, news and journals, business protocol, and start-up and planning. It is available for use by any entrepreneur planning a business.

Electronic indexes are sites that usually charge a fee to access their collection of publications. A good example of a useful index for entrepreneurs is Business Source Premier. It offers full-text articles from over 2,804 business-related publications, with indexing and abstracts for nearly 3,335 journals. It is updated daily.

Another index is the Fortune 500 Annual Reports, which offers the full text of official annual reports for the current year and six previous years for Fortune 500 companies, company home pages, stock reports, and news wire articles. Mergent's (formerly Moody's) offers full-text updates on news and financial information for publicly traded companies and municipal and government entities covered in the annual Mergent Manuals.

Using your computer is a quick and easy way to locate business assistance and other valuable information.



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Chapter Review

Ship in a BOTTLE

The Plan



One month after their first exchange of e-mails, Fred Johnson was at the Atlanta airport meeting Johann Schneider. He was pleased to learn that they had much in common. They were about the same age, had families, were sports fans, and wanted to develop a successful business venture.

They set about developing a business plan. The first step was to decide that for the time being they would restrict themselves to selling ships-in-bottles manufactured in Germany. Later on, they agreed, they might expand into other product lines in which Johann had experience and resources. But first they needed to develop their advantage in their special area.

They decided that Fred would distribute their products in two ways. He would serve as a wholesaler to retail gift and nautical stores and also as an Internet retailer. The business would be called Ship in a Bottle. They would create a color brochure showing 75 different models. They compiled wholesale and retail price lists, devised billing terms and credit application forms, and set up a bank account and credit card vendor arrangements. Fortunately for Fred, Johann was not only fluent in English but also experienced in computer design. Together they set up a simple web site similar to the one Johann had developed in Germany. They secured a web site domain listing and launched a five-page retail site.

The other part of the distribution plan would require taking the products to wholesale trade shows. They decided to lease exhibition booths for the two-day to week-long events that were attended by retail buyers. Since one of the largest merchandise marts in the country is in Atlanta, they made plans to exhibit at the January Atlanta gift show two months later. In the meantime Fred would travel to various coastal towns and visit potential retailers.

Their financial plan began to take shape. There would have to be enough money for the brochure, initial inventory, shipping materials, supplies, exhibit booth space, and, it seemed, a million incidentals. Ship in a Bottle would be Fred's business. Johann would be the supplier. They agreed on an initial order of samples, basic inventory, and terms and estimated they would need \$10,000 to get the fledgling business off the ground.

After five days of feverish work, Fred threw Johann a going-away party featuring bratwurst, sauerkraut, and German beer. Not only had they created a business, they had also launched a friendship.

Think Critically

1. Sketch an outline of a business plan for Fred and Johann.
2. What resources can they turn to for help in writing their business plan?

Summary

Planning is critical to the ultimate success of a small business. At the heart of the process is the business plan, which contains the following components:

1. **Concept History and Background:** The first part of the business plan itself describes the business concept, how it was developed, and what qualifications the potential entrepreneur has for the intended business.
2. **Goals and Objectives:** A goal can be defined as the overall end toward which one directs one's efforts. An objective is a specific result that is desired.
3. **Marketing Plan:** Most business experts consider the marketing plan a key component of the planning process. Drawing an accurate picture of the potential market for a product or service helps the entrepreneur to set realistic goals and objectives for the business.
4. **Legal Requirements:** The legal requirements for conducting almost any business today can be extensive and complicated. Certain patents, copyrights, agreements, contracts, or other legal arrangements will be needed to carry out day-to-day business.
5. **Form of Ownership:** Entrepreneurs must decide during the planning phase which form of ownership best suits the needs of the business and the people involved.
6. **Financial Plan:** Poor financial planning at the start of a business venture almost inevitably leads to overall business failure.
7. **Organization, Management, and Staffing Plan:** The entrepreneur must determine how many employees the business will require and what their responsibilities will be.
8. **Special Considerations:** This component deals with considerations such as a manufacturing facility or special training that apply to the chosen business.

A business plan serves as a manual to help the entrepreneur during the design and start-up phases of the business. It also states the entrepreneur's expectations, which serve as criteria by which business performance can be periodically evaluated. A good business plan is an ever-evolving resource that grows and changes with the business. As such, it should be consulted regularly and updated annually.

The value of a business plan in getting financing or serving as a guide for your new business will probably be in direct proportion to how seriously you take the process and how much time you devote to its writing.

Writing a comprehensive business plan ensures that all the details of your proposed business are addressed. It helps you avoid many of the pitfalls that can delay or prevent business success. If you carefully explore and evaluate your proposed business, the time you invest will be a small price to pay for achieving your goals.

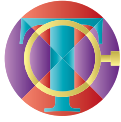
The completed business plan contains the information a potential entrepreneur needs to decide whether or not to start a business. The three most useful pieces of information are the marketing plan, the financial plan, and the personal financial statement. If the entrepreneur has planned carefully, these items should reveal whether there is a market, how much money it will take to reach that market, and whether enough resources are available to pull it all together.

Most banks also require a written plan before they will consider lending money for a new business venture. Planning assistance is available from community college business development centers, chambers of commerce, and the Small Business Administration. The services of an accountant and an attorney are invaluable in the planning process.

Chapter Review

A Case in POINT

To Loan or Not to Loan



Evan Yang lives in a small town 250 miles west of Denver. Recently he started thinking about opening his own small business. After a lot of thought and discussion with his friends, he decided to open a bicycle sales and repair business.

Knowing that he needed a loan to get his business started, Evan went to his bank. He had been doing business at Thunder Mountain National Bank since he was a teenager. Before going, he called ahead and made an appointment with Marty Swink, the commercial loan officer.

After Evan explained his idea, Marty's first question was, "How much money do you need?" Evan answered that he thought \$10,000 or \$15,000 should be enough.

"There's a lot of difference between \$10,000 and \$15,000, Evan," said Marty. "Let me see your business plan and I'll help you figure the exact amount you need."

Evan hesitated for a moment, then asked, "What's a business plan?"

Think Critically

1. Do you think Ms. Swink will loan Evan the money he needs? Would you? Why or why not?
2. Which part of the business plan will Ms. Swink probably want to see first? Why?
3. What is the first thing Evan needs to do after leaving the bank if he doesn't want his business dream to die?

Vocabulary Builder

Write a brief definition of each word or phrase.

- | | |
|---------------------------------|-----------------------|
| 1. business plan | 2. collateral |
| 3. executive summary | 4. financial plan |
| 5. marketing plan | 6. organization chart |
| 7. personal financial statement | 8. pricing policy |

Review the Concepts

9. Why is careful planning crucial to developing a small business?
10. What are the eight components of a business plan?
11. How can a business plan help an aspiring entrepreneur decide whether or not to go into business?
12. What are three sources of assistance available to entrepreneurs?
13. What services can an accountant and an attorney provide during the business planning phase?

14. What are electronic indexes?
15. Describe two examples of electronic indexes.

Critical Thinking

16. What are the two key components of a business plan and why are they so important?
17. Why must entrepreneurs consider the competition when developing a business plan?
18. What is the importance of staffing to business success?
19. What is the importance of the form of ownership to the business operations of a small business?
20. Why is the Internet a good place to start searching for planning assistance?

Project

Build Your Business Plan



In the last chapter you decided what type of business you were interested in investigating. As you will see, the decision you made then will guide the rest of the business planning process.

As the first step in the planning process, start a business plan notebook. Briefly respond to each of the following points.

1. Write a one- or two-paragraph description of the product or service that your business will sell.
2. How did you get the idea for this business?
3. What experience do you have in the intended business?
4. Develop two goals you hope to attain during the first year in business. Develop two goals you hope to attain within five years. Do not skip this section; it is very important to the planning process.

Now, using your responses, write the first component of your business plan—the concept history and background. Remember that this should include a description of your product or service, an idea history, and a summary of your experience and qualifications. It is very important that you do as thorough job as possible planning the first section.

The information developed here will form the foundation for other decisions that have to be made later in the business planning process. As you proceed through the chapters of this text, you will be adding other components of the business plan to your notebook.