

BUSINESS PLAN GUIDELINE

The following business plan guideline provides the framework for business success. Taking the time to execute all components in a quality manner will significantly improve your odds of success.

FUNCTION & SCOPE

This section describes who you are and what you are selling (Function) as well as who you are going to sell it to and where (Scope). This section is rarely more than a couple paragraphs that gives a clear overview of your business. Think of it as your “elevator pitch”. It should include:

- A summary description of your business / product / service, i.e. who you are (“World’s leading provider of”, etc.) and what you are selling, including what your product is and what benefits it provides to the purchaser.
- A summary description of your target market(s), i.e. who you are going to sell your product to and where they are located, including type of business(es) / market segment / user and the geographic scope of the market (local, state, regional, nationwide, global).

MISSION & PRINCIPLES

Your mission and principles statements will provide the overall focus and guidelines within which decisions can and will be made by your organization.

Mission (Vision) defines who you are, what you do, where you want to go, and how you want your business to be viewed by both your internal team and your customer base. In one sentence to one paragraph maximum, it gives your business overall focus and parameters in which to work.

Example - Telecom Computer Company: Our mission is to be recognized globally as a premier provider of carrier-class communication server infrastructure and associated services. Our products and services are tailored to specific customer application requirements to provide maximum operational value. We will be recognized worldwide for superior system quality, development flexibility, superior service, fast deliveries, and long-term commitment to customer satisfaction that in all cases will exceed expectations.

Principles are the foundational beliefs that define the values, ethics, and operational characteristics that will guide your company’s actions toward your employees, your customers, your community, and yourselves. This list will encompass the critical

operational and ethical components that your business will NEVER compromise for any reason.

Example principles:

Our actions are guided by the following principles:

- *Our primary focus is personal and corporate success over the long term.*
- *Customers are our company's lifeblood. We are dedicated to building enduring relationships with them by understanding their needs and meeting or exceeding their expectations with high quality, high value products and services.*
- *Our employees are the company's most important resources. We expect integrity, creativity, initiative, teamwork, respect, and individual judgment. We favor an entrepreneurial style. We value and reward excellent achievement. We believe that work enjoyment and company performance are closely related.*
- *We treasure the good reputation of our company, its products, its services, and its people. Our reputation matters in everything we do.*
- *We believe that good citizenship requires concern for the community in which we operate and we encourage corporate and employee participation.*

The company mission statement and principles should be framed and posted in a common place for all to review and rely upon in their day-to-day decision making.

EXECUTIVE SUMMARY

Write a brief, one to two page narrative summary of your business plan. Write it like a compelling short story that explains:

- Who are you and what do you do?
- Who is your market and what is your compelling reason for success?
- What is the size of the success opportunity and what is your marketing and operational plan to make it happen?
- Who is your team and what are the three to five year financial outcomes expected?
- If you are looking for funding, you can add a brief paragraph accordingly.

It is essential that this summary capture the potential outcome as well as the validation of the opportunity and the execution required. It should be told in story tone like a book preface – it should compel the reader to read further. It should also be able to stand on its own to attract capital if needed.

THINGS WE HAVE LEARNED

A “Things We Have Learned” section outlines lessons learned in the previous year. This can be a bulleted list of items learned that will impact the plan accordingly.

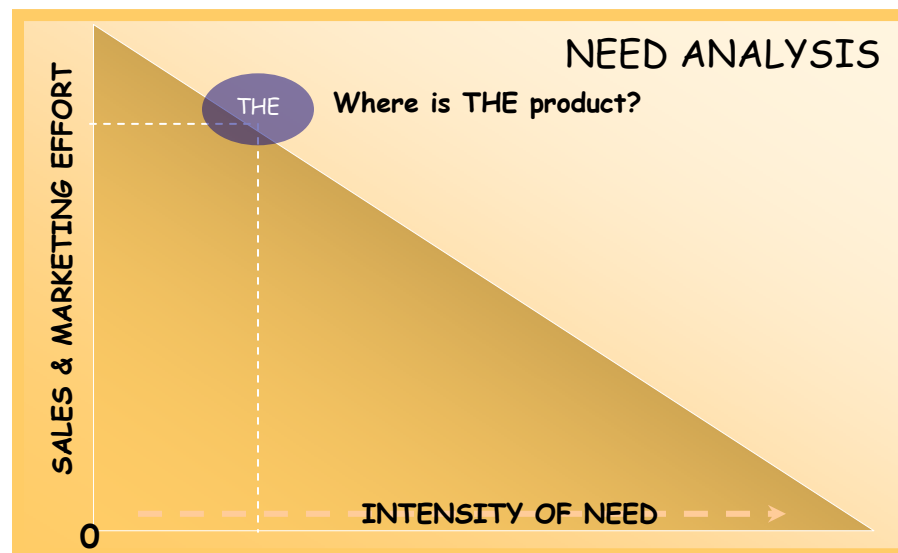
Examples:

- *We learned that it would take clients on average three months longer than projected to make purchase decisions.*
- *We learned that it will cost 5% more than projected to make our product.*
- *Etc.*

STRATEGIC FIT / SITUATION ANALYSIS

The first thing to determine is if there is truly a viable need for your product or service in the marketplace. At a minimum, you should be able to answer:

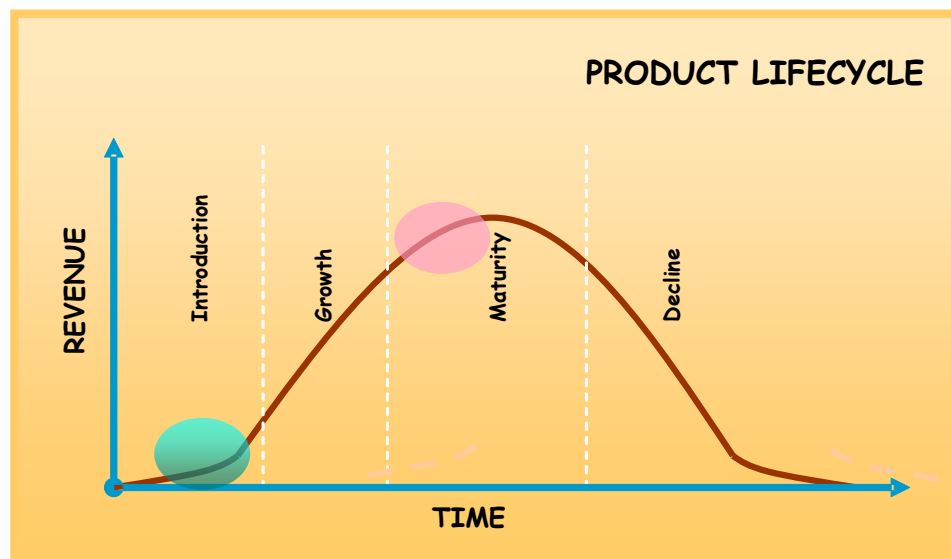
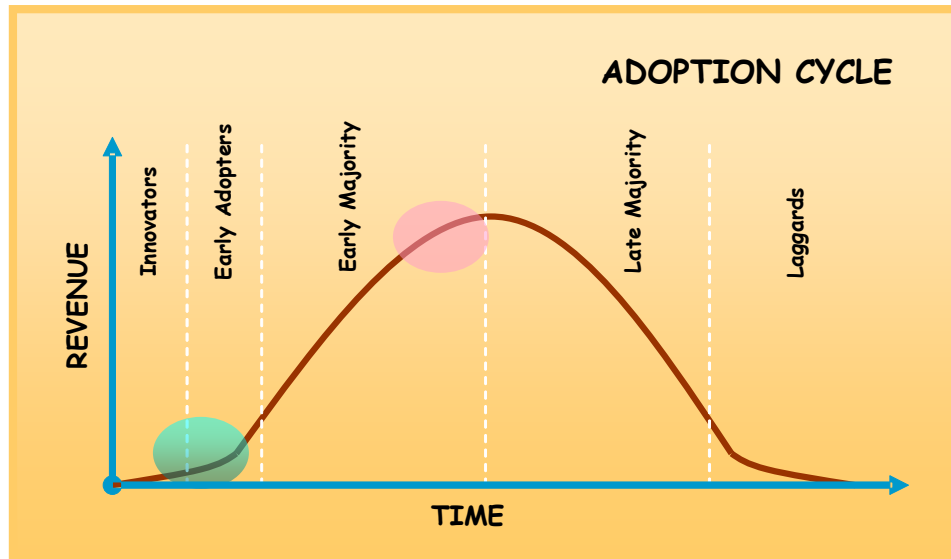
- Will your product / service solve a problem that customers are willing to pay money to have solved? Will they buy **THE** product?
- If so, how intense / big is the need for a product to solve the problem? Are you selling a \$5 cure for cancer or a new #2 lead pencil? The intensity of need will dictate how easy it will be to sell the product? The lower the intensity of need - the harder it is to sell and the more you will have to spend on business development. Make a chart as below, put your business / product on it and be able to defend the position.



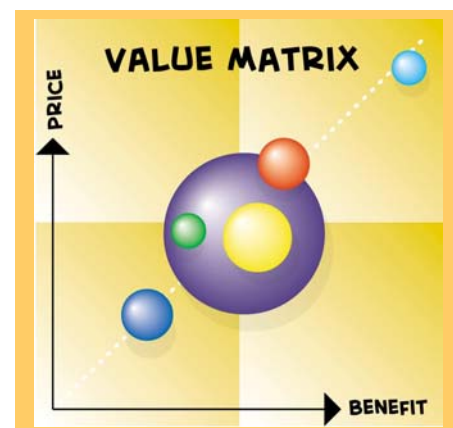
- Will your product / service provide a defensible benefit that will cause it to be purchased instead of other offerings over time? Why they will buy **YOUR** product? Plot your product on the Value Matrix chart below and be able to defend the position.

Opportunity Size - If there is a viable need, next you must determine how big and stable the opportunity is over time. At a minimum, you should be able to answer:

- Who is your target customer - What do they look like?
 - Demographics – age, sex, income, business size, etc...
 - Psychographics – generation, lifestyle, etc...
 - What stage are they in the adoption cycle?
 - How many are there and where are they located?
 - How many are likely to adopt **the** product and **your** product?
 - How often will they re-purchase such a product?
- Where is your product in its life cycle?
 - Plot on the chart – the later in the cycle the harder it is to penetrate and the shorter the life of the product.
 - This will correspond with your position on the adoption cycle chart



- Who and what is your competition?
 - List the competition and products
 - How does your product compare?
 - Benefits to price
 - Plot yours and competition
 - What is your relative market share?
 - Indicate graphically by circle size



Financially Viable Product / Service – Can you provide a product or service that meets the customer's needs on a profitable basis? You should know:

- Price points needed to generate revenue (retail and wholesale pricing)
 - NOTE: Distribution channel requirements
- COGS (cost of goods sold = actual direct cost to manufacture / provide)
 - NOTE: Make sure your estimate is well founded – don't guess
- Gross margin (GM = revenue minus the COGS)
- Operating expenses (all other costs of operating the business)
- NOP (net operating profit = GM minus operating expenses)
- Ability to produce as needed

Influencing Factors - Are there any other significant factors that can / will influence your ability to succeed:

- Social factors (trends, influences, etc.)
- Technological factors (new technology, technological problems, etc.)
- Environmental factors (EPA restrictions, changing climates, etc.)
- Economic factors (oil prices, mortgage rates, inflation / recession, etc.)
- Political factors (legislation / laws, war, etc.)

Proper Fit Synopsis - Identifying your Strategic Fit based upon quality information will significantly increase your chance of success. A proper fit analysis will allow you to identify and profitably defend a valid product / market position. At a minimum this will require:

- **Valid Need** - An identifiable and valid market need that can justify the entry or current position of your product.
- **Valid Target** - Focused market segment(s) that will actually buy enough of your product or service over a predictable period of time.
- **Valid Product** - The ability to provide the required benefits and differentiate from current and potential competition.
- **Valid Pricing** - Price points that the target market(s) will actually pay, that will support the brand position, and that will allow your business the margins necessary for viability and growth.
- **Valid Operation** - The overall ability of your company to consistently deliver and support your product or service over time and meet growth projections.
- **Valid Environment** - A market environment that supports the acceptance of your product or service. Potential factors include social, technological, and environmental trends, current and projected economic conditions, and national / global political environments.

ASSUMPTIONS & CRITICAL ISSUES

Based upon your strategic fit analysis, provide a list of assumptions you must make or critical issues that will / may impact your overall chance of success:

- **Assumptions:** List of assumptions you must make to validate your plan - examples:
 - No significant terrorist attack on US soil during planned sales cycle

- Current XX technology will continue to work at or above current performance levels
- No industry-wide health risk will be found within our product segment, etc.
- **Critical Issues:** List of items you believe to be critical to your success - examples:
 - Our XX technology will perform as expected
 - We will be able to raise XX dollars at the times projected
 - Competitor SS will not introduce a competitive product below our price point, etc.

OBJECTIVES & GOALS

Provide a specific list of the overall objectives and the associated goals that you wish to attain. This list will include:

- Overall business objective(s) – related to your mission statement
- Market share goals (if applicable)
- P&L goals (*revenue, COGS, gross margin, expenses, etc.*)
- Balance sheet and cash flow goals
- Revenue and net profit per employee goals
- Employee advancement goals
- Product development goals
- Other

STRATEGIES

Strategies define how you intend to attain your company goals and objectives. You must create specific strategies and supporting tactics that will be used to attain those goals in light of the strategic fit analysis, assumptions and critical issues.

Strategies are summary statements of what you will do and tactics are the specific actions that you will take to accomplish that strategy. As an example; *“Our distribution strategy is to provide our products to the (defined market) on a direct sales and local dealer basis.”* Then list the tactics you will employ to accomplish that strategy: Staffing requirements, number of dealers, organizational structure, territory structure, compensation / incentive programs, etc.

There are six key strategies required for any business:

- **Product strategies & tactics** – Summary product strategy along with the specific product(s) you will offer / introduce to your defined marketplace (including when you will introduce them if new).

Example: Our product strategy will be to provide XYZ products that offer a higher quality level than all other competitive offerings, positioning our company as the quality leader. The specific products we will offer to our target market are as follows:

- **Pricing strategies & tactics** – Summary pricing strategy along with the specific pricing you will introduce by product. Include in this area any special pricing incentives, discounts, etc.

Example: Our pricing strategy will be to establish and maintain pricing 10% to 20% above the level of all other competitive offerings to support our quality product / brand positioning as well as meet company margin requirements. Specific pricing and promotional programs are offered as follows:

Your pricing strategy should identify:

- Target selling price based upon your strategic fit analysis
- Target cost to produce - COGS (cost of goods sold) based upon your target margin requirements
- Target margin requirements:
 - Target distribution margins, if any
 - Target gross margins (net sales minus COGS)
 - Target profit margins (Gross margin minus expenses)

- **Distribution strategies & tactics** – Summary distribution strategy along with a complete explanation of the way(s) in which you will take your product(s) to market. (*Direct sales, independent reps, telesales, web sales, distributors, etc.*)

Example: Our distribution strategy will be to make our products available to our target clients through exclusive retailers supported by an international distributor channel and direct company channel representatives. Our specific distribution structure is as follows:

- **Advertising strategies & tactics** – Summary branding & positioning strategy along with a complete marketing communications plan. Pay particular attention to your strategic fit summary as your branding statement / program must support that position.

Example: Our advertising strategy will support our quality brand image and maximize target client mindshare in support of our distribution channel strategy by establishing a direct consumer “pull-through” program as well as a targeted channel “push” program. Specific media plans are offered as follows:

- **Promotion strategies & tactics** – Summary promotional strategy along with a complete promotional plan including conventions / trade shows, public relations, seminars, specialties, etc.

Example: Our promotional strategy will support our brand image and maximize target client mindshare, in support of our distribution channel and advertising programs by providing “hands-on” client demonstration opportunities and related media testimonials. Specific promotional programs are offered as follows:

- **Support strategies & tactics** – Summary support strategy along with a complete outline of how you will handle after-sale support of your product(s). Include staffing, third-party services, etc.

Example: Our support strategy will provide customer and channel support programs in line with our overall brand strategy by providing the best support service in the industry on a 24 x 7 basis. Specific support staffing and programs are offered as follows:

OPERATIONS PLAN

This section will outline how you will handle the operations components of your business. Specifically, include:

- Accounting plan:
 - Accounting system / software
 - Reporting and record keeping infrastructure & policies
 - Benefits and insurance programs
 - Banking relationships / plan
 - Capital plan
- Production / manufacturing plan:
 - In-house or outsourced production
 - Overhead and labor structure
 - Metric goals: warranty, delivery, labor variance, etc.
- Materials and inventory plan:
 - Material requirements planning (MRP) system
 - Key vendor relationships
 - Metric goals: Inventory turns, scrap & rework, obsolete, etc.
- Order entry / processing plan:
 - Order entry application / program
- Prospect management:
 - Contact management application
 - Other customer relationship management (CRM) applications
- Organizational plan / charts:
 - Staffing
 - Board / advisors

FINANCIALS / RESOURCES:

This section of your plan should outline all of the resources necessary to operate your business successfully and should specifically tie back to all the goals and strategies established.

This section will contain all of your financial requirements and projections, including:

- Capital budget for the next three years:
 - Facilities (building, furniture, etc.)
 - Equipment (machinery, vehicles, etc.)
 - Information technology (computers, software, etc.)
 - Development (R&D that can be capitalized)
- Outside capital required, if any:
 - Capital required with summary of how it will be used
 - Previous equity / valuation established / shares issued

- Current equity / valuation offered / shares available
- Exit strategy
- Projected income statements for the next three years:
 - Contingency risk analysis – what happens if sales are 20% more or less than projected? What happens if COGS is 4 points higher due to fuel prices? etc.
- Projected balance sheets for the next three years
- Projected cash flow for the next three years
- Annual comparisons (three years historical and next year projected) for:
 - Departmental expense by percent:
 - Sales & Marketing
 - Development
 - Service / support
 - General & administrative
 - Warranty
 - Revenue per employee - \$
 - Net profit per employee - \$
 - COGS - %
 - Gross Margin - %
 - NOTE: For any significant change across time, include an explanation

MONITORING

A monitoring plan is a simple outline / statement of how often the plan will be reviewed, by whom, and what the process is for amendments. Recommended review is monthly by your entire executive team.

Example: This plan will be reviewed on a monthly basis by the entire VP team at an offsite meeting. Each VP is expected to come prepared to discuss their team's performance to the plan as well as any suggested modifications. It is agreed that plan changes will be made on a quarterly basis, provided that previous performance and suggestions substantiate such change.

ACTION PLAN

This section should outline who will do what and when it must be accomplished to attain your goals and objectives. Build a detailed outline, by month, of key executable actions by timeline and responsible department / person and then manage to this action plan on a weekly / monthly basis.

Example:

JANUARY		
ACTION	RESPONSIBLE	DATE REQUIRED
Advertisement in X magazine	Julie S.	1/5
Product X released to production	John D.	1/15
Sales rep for eastern region hired	Sue J.	1/31