



How to Write a Business Plan

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This Ebook is a thorough outline of what you need to do when writing your business plan. It's a good way to get started, but as you know, you can't just read this once, knock out a 40 page plan, and turn it in to the bank. Every business is unique, and your business plan should reflect that.

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Introduction

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

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

Since then, I've spent over 15 years becoming an expert on business planning. I've written countless plans and been a judge at prestigious business plan competitions.

Let's make business planning easy

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

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

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

Noah Parsons

Noah Parsons
COO, Palo Alto Software

CHAPTER 1

Three Rules that Make Business Planning Easier

Before you get started, let's talk about some rules that make business planning easier.

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

1. Keep it short

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

1. First, you want your business plan to be read (and no one is going to read a 100-page or even 40-page business plan).
2. Second, your business plan should be a tool you use to run and grow your business, something you continue to use and refine over time. An excessively long business plan is a huge hassle to revise—you're almost guaranteed that your plan will be relegated to a desk drawer, never to be seen again.

2. Know your audience

Write your plan using language that your audience will understand.

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

Instead of this:

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

Write this:

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

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

3. Don't be intimidated

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

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

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

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

CHAPTER 2

What's in a business plan?

A quick overview of the six sections you need to include
in your business plan

Whether you're building a business plan to raise money and grow your business or just need to figure out if your idea will work, every business plan needs to cover 6 essential topics. Here's a quick overview of each topic. There are a lot more details and instructions for each step later in this guide.

1. Executive Summary

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

2. Opportunity

The opportunity section answers these questions: What are you actually selling and how are you solving a problem (or "need") for your market? Who is your target market and competition?

3. Execution

In the execution chapter of your business plan, you'll answer the question: how are you going to take your opportunity and turn it into a business? This section will cover your marketing and sales plan, operations, and your milestones and metrics for success.

4. Company & Management Summary

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

5. Financial Plan

Your business plan isn't complete without a financial forecast. We'll tell you what to include in your financial plan, but you'll definitely want to start with a sales forecast, cash flow statement, income statement (also called profit and loss) and your balance sheet.

6. Appendix

If you need more space for product images or additional information, use the appendix for those details.

In the upcoming sections of this guide, we'll dive into the details of each section of your business plan and focus on building one that your investors and lenders will want to read.



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CHAPTER 3

Executive Summary

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

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

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

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

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

The critical components of a winning executive summary

One sentence business overview

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

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

Problem

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

Solution

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

Target market

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

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

Competition

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

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

Company overview and team

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

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

Financial summary

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

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

Funding requirements

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

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

Milestones and traction

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

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

CHAPTER 4

Opportunity

Your opportunity is the all about the business you are building. You'll describe what you're building and who your customers are.

There are four main chapters in a business plan—opportunity, execution, company overview, and financial plan. The opportunity chapter of your business plan is where the real meat of your plan lives—it includes information about the problem that you’re solving, your solution, who you plan to sell to, and how your product or service fits into the existing competitive landscape.

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

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

The problem and solution

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

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

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

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

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

Target Market

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

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

Market analysis and market research

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

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

TAM, SAM, and SOM

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

Here are some quick definitions:

- **TAM:** Your Total Available or Addressable Market (everyone you wish to reach with your product)
- **SAM:** Your Segmented Addressable Market or Served Available Market (the portion of TAM you will target)
- **SOM:** Your Share Of the Market (the subset of your SAM that you will realistically reach—particularly in the first few years of your business)

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

Your ideal customer

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

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

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

Key customers

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

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

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

Competition

Immediately following your target market section, you should describe your competition. Who else is providing solutions to try and solve your customers' pain points? What are your competitive advantages over the competition?

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

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

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

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

Future products and services

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

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

CHAPTER 5

Execution

How are you going to make your business work? The execution chapter covers your marketing and sales plans, operations, how you'll measure success, and the key milestones that you expect to achieve.

Now that you've completed the opportunity chapter, you're going to move on to the execution chapter, which includes everything about how you're actually going to make your business work. You'll cover your marketing and sales plans, operations, how you'll measure success, and the key milestones that you expect to achieve.

Marketing and sales plan

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

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

Your positioning statement

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

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

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

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

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

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

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

For example, the positioning statement for LivePlan, our business planning product, is:

"For the businessperson who is starting a new company, launching new products or seeking funding or partners, LivePlan is software that produces professional business plans quickly and easily. Unlike [name omitted], LivePlan creates a real business plan, with real insights—not just cookie-cutter, fill-in-the-blank templates."

Pricing

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

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

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

- **Covering your costs.** There are certainly exceptions to this, but for the most part, you should be charging your customers more than it costs you to deliver your product or service.
- **Primary and secondary profit center pricing.** Your initial price may not be your primary profit center. For example, you may sell your product at, or even below, your cost, but require a much more profitable maintenance or support contract to go along with the purchase.
- **Matching the market rate.** Your prices need to match up with consumer demand and expectations. Price too high and you may have no customers. Price too low and people may undervalue your offering.

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

- **Cost-plus pricing.** You can establish your pricing based on several factors. You can look at your costs and then mark up your offering from there. This is usually called “cost-plus pricing” and can be effective for manufacturers where covering initial costs is critical.
- **Market-based pricing.** Another method is to look at the current landscape of competitors and then price based on what the market is expecting. You could price at the high-end or low-end of the market to establish your positioning.
- **Value pricing.** Yet another method is to look at a “value pricing” model where you determine the price based on how much value you are providing to your customer. For example, if you are marketing lawn care to busy professionals, you may be saving your customers 1 hour/week. If that hour of their time is valued at \$50/hour, your service could charge \$30/hour.

Promotion

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

Packaging

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

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

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

Advertising

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

Public relations

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

Content marketing

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

Content marketing is what the website www.Bplans.com is all about, for example. An easy way to define content marketing is publishing useful information, tips, and advice—usually made available for free—so that your target market can get to know your company through the expertise that you deliver. Content marketing is about teaching and educating your prospects on topics that they are interested in, not just on the features and benefits that you offer.

Social media

These days, having a social media presence is essentially a requirement for the vast majority of businesses.

You don't need to be on every social media channel, but you do need to be on the ones that your customers are on. More and more, prospects are using social media to learn about companies and to find out how responsive they are.

Strategic alliances

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

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

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

Operations

The operations section is how your business works. It's the logistics, technology, and other nuts and bolts. Depending on the type of business you are starting, you may or may not need the following sections. Only include what you need and remove everything else.

Sourcing and fulfillment

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

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

Technology

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

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

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

Distribution

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

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

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

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

Direct distribution

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

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

Retail distribution

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

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

Manufacturers' representatives

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

OEM

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

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

Milestones and metrics

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

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

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

Traction

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

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

Metrics

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

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

Key assumptions and risks

Finally, your business plan should detail the key assumptions you have made that are important for your business’s success.

Another way to think about key assumptions is to think about risk. What risks are you taking with your business? For example, if you don’t have a proven demand for a new product, you are making an assumption that people will want what you are building. If you are relying on online advertising as a major promotional channel, you are making assumptions about the costs of that advertising and the percentage of ad viewers that will actually make a purchase.

Knowing what your assumptions are as you start a business can make the difference between business success and business failure. When you recognize your assumptions, you can set out to prove that your assumptions are correct. The more that you can minimize your assumptions, the more likely it is that your business will succeed.

CHAPTER 7

Company and Team

How is your company structured and who is going to help you turn your idea into a reality?

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

Team

The old adage is that investors don't invest in ideas, they invest in people. Some investors even go as far as to say that they would rather invest in a mediocre idea with a great team behind it than a blockbuster idea with a mediocre team.

What this really means is that running a successful business all comes down to getting the work done. Can you actually accomplish what you have planned? Do you have the right team in place to turn a good idea into a great business that will have customers banging down your doors?

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

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

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

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

Finally, you may choose to include a proposed organizational chart in your business plan. This isn't critical and can certainly live in your business plan's appendix. At some point, as you explore funding options, you may be asked for an "org chart," so it's good to have one. Beyond raising money, an org chart is also a useful planning tool to help you think about your company and how it will grow over time. What key roles will you be looking to fill in the future and how will you structure your teams to get the most out of them? An org chart can help you think through these questions.

Company overview

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

For a plan that you will share with people outside of your company, this section should include:

- Mission statement
- Intellectual property
- A review of your company's legal structure and ownership
- The business location
- A brief history of the company if it's an existing company

Mission statement

Don't fall into the trap of spending a day or more on your mission statement. An hour or two should be plenty of time.

Avoid putting together a long, generic statement about how your company is serving its customers, employees, and so on. Your company mission should be short—one or two sentences at most—and it should encompass, at a very high level, what you are trying to do. Frankly, your mission statement and your overall value proposition might even be the same thing.

Here at Palo Alto Software, our mission statement is this: "We help people succeed in business." It's simple and encompasses everything we do from the types of products that we build to the kind of marketing that we do.

Intellectual property

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

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

Business structure and ownership

Your company overview should also include a summary of your company's current business structure. Are you an LLC? A c-corp? An s-corp? A sole proprietor? A partnership?

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

Company history

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

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

Location

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

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

CHAPTER 8

Financial Plan

A solid financial forecast is the key to your success in business.

Last, but certainly not least, is your financial plan chapter. This is often what entrepreneurs find most daunting, but it doesn't have to be as intimidating as it seems. Business financials for most startups are less complicated than you think, and a business degree is certainly not required to build a solid financial forecast. That said, if you need additional help, there are plenty of tools and resources out there to help you build a solid financial plan.

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

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

Sales forecast

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

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

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

Your sales forecast will also include a corresponding row for each sales row to cover Cost of Goods Sold, also known as COGS (also called direct costs). These rows show the expenses related to making your product or delivering your service. COGS should only include those costs directly related to making your products, not regular business expenses such as rent, insurance, salaries, etc. For restaurants, it would be the cost of ingredients. For a product company, it would be the cost of raw materials. For a consulting business, it might be the cost of paper and other presentation materials.

Personnel plan

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

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

Income statement or profit and loss statement

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

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

A typical P&L will be a spreadsheet that includes the following:

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

Cash flow statement

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

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

A typical cash flow statement starts with the amount of cash you have on hand, adds new cash received through cash sales and paid invoices, and then subtracts cash that you have paid out as you pay bills, pay off loans, pay taxes, etc. This will then leave you with your total cash flow (cash in minus cash out) and your ending cash starting cash + cash in – cash out = ending cash).

Your cash flow statement will show you when you might be low on cash, and when it might be the best time to buy new equipment. Above all, your cash flow statement will help you figure out how much money you might need to raise or borrow to grow your company. Since an operating business can't run out of cash without having to close its doors, use your cash flow statement to figure out your low cash points and consider options to bring in additional cash.

Balance sheet

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

Instead of providing additional detail on the balance sheet here, I'll refer you to [this article on building and reading balance sheets](#). You can also download this [balance sheet example](#) to help you get started.

Use of funds

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

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

Exit strategy

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

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

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



Download a Business Plan Template

You can follow along with this guide and create your own business plan using our free business plan template. Go ahead and download it now to create your own business plan.

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Further Reading

There are some fantastic additional resources to help you write your business plan. Here are our top recommendations.

Sample business plans

If you need inspiration or just need to bust through writer's block, check out this gallery of sample plans.

The key elements of the financial plan

Get an in-depth guide on building the financial statements you need to include in your plan.

The most common business plan mistakes

Learn the top mistakes and how to avoid them in your business plan.

How to do market research

Knowing your customer is key to a success plan and a successful business.

How to run a plan review meeting

Your business plan should be one of your most useful management tools once you're up and running. Learn how to turn your plan into a monthly management guide.

What to include in your pitch deck

If you're raising money from investors, you'll need a pitch presentation. Learn how to transform your plan into a compelling presentation.

Need help writing your plan?

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1. Research and Discovery

First, you'll chat directly to your plan writer to establish an in-depth understanding of your business. Then, we'll begin the market research and lock down your growth drivers.

2. Plan Writing

Then, you'll review the first draft of your business plan. Once our research is complete, we'll write the body of your business plan and provide you with a document to review.

3. Financial Modeling

Next, based on your feedback we'll turn your financial assumptions into forecasts that include everything lenders and investors need to see.

4. Design and Review

You'll get a polished business plan with a design that matches your brand.

5. Print (optional)

Once you're 100% happy with your plan, you can have it professionally printed. You'll receive two professional-grade, full-color plan copies and a CD shipped to your door.

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