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MINI CHAPTER 2: CONSTRUCTING AN EFFECTIVE BUSINESS PLAN

CHAPTER OPENER

Business plans are essential for guiding the work of organizations, acquiring funding, and attracting both employees and investors to the organization. This chapter teaches students how to write a business plan.

DETAILED LECTURE OUTLINE

I. The Purpose of a Plan

A. What Is a Business Plan?
   1. A business plan is a written document that details a proposed or existing venture, describing the vision, current status, the markets in which it operates, and the current and projected results of a business.

B. Three Purposes of a Business Plan
   1. Development—Writing down your business plan solidifies and defines your intentions.
   2. Management—A business plan should summarize how a business opportunity will translate into profits.
   3. Communication—A business plan is often used to attract investors or obtain loans.

C. Business Plan Competitions
   1. Many top business schools and colleges in the United States offer business plan competitions with cash prizes that range from $10,000 to $100,000.

D. Before the Business Plan: Finding the Right Fit
   1. Before you begin to think about writing a business plan, you should do some soul searching to determine if your goals and objectives match those of the business that you've imagined.

II. Components of a Business Plan

A. The Cover Sheet and Table of Contents
   1. The *cover sheet* provides the first impression of the plan and the business.
   2. It should contain the following (see Figure M2.3):
      a. Basic company information
      b. Company logo
      c. Contact information
      d. Month and year business plan was created
      e. Name(s) of those who prepared the plan
      f. Unique record number for tracking plan distribution.
   3. The *table of contents* follows the cover sheet.

B. Executive Summary
   1. An **executive summary** is a clear and concise (abbreviated) form of the entire business plan, generally no more than two or three pages long.
   2. After reading the executive summary, a person should understand the business's purpose, value, operating methods, and profitability outlook.

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C. The Company and Management Team
    1. This section presents the "big picture" and defines the company and its purpose. It should include:
        a. Mission and vision statements
            i. The *mission and vision statements* should spell out what the founder ultimately envisions the business to be with respect to growth, values, and contributions to society.
        b. Industry profile
            i. The *industry profile* describes the context in which the business will operate.
        c. Company profile and strategy
            i. The *company profile* provides details regarding how the business works and why it has a unique chance to impact the industry.
            ii. The *company strategy* summarizes the company's plans for growth and profits.
        d. Anticipated challenges and planned responses
            i. This section discusses potential vulnerabilities from competition, suppliers, resources, industry, or economic situations.
        e. Management team
            i. This section should list the members of the management team and the pertinent experience, knowledge, or creative ability that each member brings to the team.

D. Market Analysis
    1. The **market analysis** section identifies who your customers are and explains how you will reach them.
        a. The main purpose of this section is to explain the *benefits* of your product.
    2. This section should include an assessment of the general market and:
        a. Market research—an analysis of the market to determine whether enough customers exist and will continue to exist
        b. Assessment of the competition

E. The Product
    1. Product description
        a. This should include any testing you've conducted and approvals you've received as well as trademarks, copyrights, or patents.
        b. It is also important to discuss ongoing service aspects, such as warranties and repairs.
    2. How product will be produced
    3. Pricing strategy
        a. Detail aspects that require a higher price.
        b. Conduct a thorough analysis of what the competition is charging.
        c. List what you expect customers will be willing to pay for your product.

F. Sales and Promotion
    1. This section should describe approaches you'll take to promote the product.
    2. It should also describe your selling approach.

G. Financials

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1. This section includes financial statements, including the income statement, balance sheet, and the cash flow statement.
2. You should cover the financial history of the company and have different forecasts and scenarios projecting the anticipated performance of the business.
3. You should put your financials through a stress test by showing how you expect the business to perform under worst-case, expected-case, and best-case scenarios.

H. Appendices
   1. Any additional information that adds to the credibility of your business, the management team, or the industry, such as:
      a. Resumes of key managers
      b. Pictures of product, facilities, production, and so on
      c. Letters of recommendations, professional references
      d. Published information
      e. Contracts and agreements, copies of patents, copyrights, trademarks
      f. Media, articles

NOTE: End the lecture by asking students to write down the muddiest points or main points of the lecture. This will allow you to know what might need to be reviewed during the next lecture.

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SUPPLEMENTAL ACTIVITIES

Supplemental In-Class/Homework Activity 1
Venture Capitalist PowerPoint Presentation

Activity Overview: This exercise gets students to pare down a business plan into just ten slides—an "elevator speech" for venture capitalists, if you will.

Time Limit: 20–30 minutes

What to Do:

- Tell students that they are being given the opportunity to spend 10 minutes, and only 10 minutes, with a venture capitalist. In that time, they will have to present a sales pitch for their new business idea. Fortunately, the students will have the equipment they need to give a PowerPoint presentation, but the presentation can be no longer than 10 slides, maximum.

- Suggest that students construct their presentations as follows:

Slide 1:	Contact information, such as that found on the cover sheet.
Slide 2:	Mission statement.
Slide 3:	Team members and key background information.
Slide 4:	Describe the nature of the problem you address. Try not to get into how the product solves the problem on this slide. Include how dire a problem this is and solutions introduced currently by competing products.
Slide 5:	Introduce the product and benefits.
Slide 6:	Elaborate on how the product resolves problems introduced on slide 4, and any relevant technology/methodology used.
Slide 7:	Present customer testimonials, product successes, positive media reactions.
Slide 8:	Sales strategy. How do you intend on reaching the customer?
Slide 9:	Who are your competitors? What is the market size? How do you think competitors will react to your product?
Slide 10:	Key financial information (may need to slip in a few extra slides to handle this).

- Have students present their final plan to the class for review.

Don't Forget: Constructing a business plan, even this slide outline, is difficult for many introductory business students. Giving lots of guidance or doing this together may be helpful to create a broad understanding of what is required in planning a new business.

Wrap-Up: Have the class critique the business plans as they are presented. Ask them whether or not they would fund the project, and why. Then ask them to discuss how well

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each team incorporated material from the various chapters of the text into their presentation.

Supplemental In-Class/Homework Activity 2
Business Plan Review

http://www.businessplans.org/businessplans.html

Activity Overview: Students locate an actual business plan and critically review it.

Time Limit: 30–45 minutes

What to Do: Students can work alone or in groups. As homework, have students go to: http://www.businessplans.org/businessplans.html and look at the business plans that are presented there. Then, students should assume the role of a venture capitalist. Would they invest their money in this venture? Why or why not? What areas of the business plan help promote the business? What areas of the business plan need further refining?

Don't Forget: Note that although the business plans presented on this website are the "best of the best", investors may still not want to finance them, due to economic or other considerations. Students should be prepared to discuss the rationale behind their decisions.

Wrap-Up: After providing sufficient time for students to go through the business plan, come together to discuss student's findings. What areas of the business plan need improvement and why? What areas of the business plan were really helpful? Why?

Supplemental Homework Activity 1
SCORE!!

Activity Overview: Students explore the SCORE website.

Time Limit: 5–20 minutes

What to Do: Ask students to visit the SCORE website at www.score.org and write a brief report on how SCORE can help entrepreneurs and small business owners get started. Encourage them to click on "About SCORE" and "How Score Can Help You". Other places of interest include: "How to" articles and "business templates" and "Start-Up Business Plan", which contains a template for creating a business plan.

Don't Forget: The idea is to let students know that starting a business is within reach.

Wrap-Up: Anyone who is interested in starting a business can get help from SCORE. There are many Small Business Association offices located near most people. Help can

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also be found from local colleges and universities, if they have a small business development center, and from local Chambers of Commerce.

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ENHANCING THE ONLINE COURSE

SBA Review: Have your students access the information at the website for the Small Business Administration at www.sba.gov. Ask your students to provide an outline on the discussion board of the major points of information required/recommended by the SBA for a business plan.

Business Plan Rally: Have your students search the Internet for at least three examples of business plans published online by companies (large, well-known companies, if possible). Ask your students to "audit" the business plans by comparing them to the example in the mini chapter. Do these plans have the comprehensive information outlined in the text? What is missing?

On a Mission: Ask your students to identify examples of mission statements of three Fortune 500 companies as posted online. Ask your students to comment on what is unique about the mission statements. Are your students surprised at the overall direction of these companies as stated in the mission statements? Are the stated goals (via the mission statements) commensurate with the public images of the companies? Have your students post their assessments on the discussion board.

To Market: Have your students examine the business plans of at least three companies as posted online. Ask your students to review the market analyses of the business plans. Do your students think the companies have done a good job in assessing the markets? Are the online postings lacking in detail? Is it possible that the companies have posted shorter versions of the analyses? Do the analyses seem to be comprehensive, with usable data that can be relied on to make decisions?

Financial Review: Using the same companies that the students have previously identified, have your students review the financial data included in the business plan. Ask them to audit the financial data to determine: 1) the investment the company will need for startup or to continue business; 2) outside sources for the investment; 3) outstanding expenditures or investments (such as capital projects) that are included in the business plan; 4) timeframe in which return on investment is predicted.

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THE BUSINESS PLAN PROJECT: Instructor Notes

Assigning the Business Plan: An Overview

The business plan project is a great learning experience for students. Many students will enter your classroom with the dream of owning their own business. This project is often the starting point for making that dream come true. As a result, this project will have a high level of authenticity for these students. The project also serves as an exceptional assessment tool, helping you identify how well students have mastered the course material. More importantly, the business plan project stimulates higher-level thinking that a learner can take into any profession. During this assignment, students will consider the many aspects of the world of business and demonstrate an ability to "connect the dots."

Assigning Part 1: Introduction

Assignment Overview

The first section of the business plan requires that the student generate an idea for a new business. Students will usually fall into one of two categories. The first are those students who may never have thought about starting their own business, and may be terrified at the prospect of creating this type of comprehensive document. These students often need the most help in generating an idea for their starting point. For students who need a helpful nudge, you may wish to suggest starting a business that the student finds familiar. This could be a business in which they are currently employed, for example. The familiarity will lessen their anxiety about the project, and makes the first step a positive one. The second type of student is the learner who already has a dream of owning a business. This project is especially rewarding for these students, but they still may be concerned about completing a document of this size and therefore may also appreciate some intermittent guidance.

Files to Provide Students

Because this is the first part of the business plan, provide students with a copy of the **Business Plan Student FAQs**. It is located in this chapter of the Instructor's Manual (see following pages) as well as on www.mybizlab.com. Give students ample explanation of the project, your expectations for how it should be completed, and due dates.

For this part of the project, students will be asked to complete **Part 1: Introduction** of the **Business Plan Project Appendix**.

Estimated At-Home Completion Time

Completion time will vary based on what students bring to the class. Students who already have a business idea will have a head start on those who do not. During the early stages of the project, it's a good idea to devote adequate classroom time for feedback.

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Homework Assignment Deliverable from Students

Each business plan is a unique document, so some variance in response length is expected. For example, a student who demonstrates higher-level thinking may write 20 to 25 pages during this project, whereas other students may produce 10 to 15 pages. The length will also be affected by the business chosen. As a result, you may wish to designate a range of pages for this assignment rather than a set minimum length. For Part 1, expect a range of 1 to 3 pages.

Assigning Part 2: The Company and Management Team

Assignment Overview

This section is quite comprehensive and features several challenging tasks that require students to examine internal and external aspects of a business. The first task involves creating a mission statement, which includes establishing the business's position with respect to ethics and social responsibility. Next, the student is asked to describe the industry and sector in which the company operates and to outline potential opportunities and threats presented by external factors such as macroeconomic matters, technological changes, legislation, and the like. This is often quite challenging for many students because it requires them to think with a broader viewpoint. Be prepared to offer feedback and encouragement. Then, looking internally, students are asked to define the company profile and business strategy by establishing goals and then evaluating the company's strengths and weaknesses. Lastly, the student describes the key players in the organization and creates an organizational chart.

Files to Provide Students

For this part of the project, students will be asked to complete **Part 2: The Company and Management Team** of the **Business Plan Project Appendix.**

Estimated At-Home Completion Time

If done thoughtfully, this part of the plan will require a minimum of 4 to 6 hours to complete. Students may struggle with completing the industry analysis, especially identifying the external threats and opportunities. You may wish to use class time during each section to respond to questions.

Homework Assignment Deliverable from Students

The length of student response in this section will again vary depending on the complexity and size of the proposed business. For Part 2, expect a range of 4 to 6 pages.

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Assigning Part 3: Marketing

Assignment Overview

This part of the project asks students to create a marketing plan, identifying their target market and their competitors, discussing their product, and explaining how they will attempt to attract the target market. Because they use their creativity, students often enjoy completing this part of the business plan.

Files to Provide Students

For this part of the project, students will be asked to complete **Part 3: Marketing** of the **Business Plan Project Appendix.**

Estimated At-Home Completion Time

A well-constructed explanation of the Marketing section will require 3 to 5 hours. Instructor feedback will improve the quality of responses so you may wish to use class time during each section.

Homework Assignment Deliverable from Students

The length of student response will range from 4 to 6 pages, but could be as many as 8 to 10 pages.

Assigning Part 4: The Financials

Assignment Overview

In this section, students will begin to determine if their business is truly viable. The student's responses to questions about the costs of doing business will be used as a starting point for the financial reports. Remind students that all of their submitted values are *estimates*, and there is no sure-fire method for accurately measuring how a business may perform. Many students will have trouble estimating their costs. Some assistance is shown on the student template, and you may want to create a class list of resources that students would find helpful.

The business plan provides Excel templates for students to use in this section. **These Excel spreadsheet templates include built-in formulas so that calculations are automatic based on student input—the student only has to "drop in" his or her numbers**. **The Excel templates are located on** www.mybizlab.com**. If your students cannot access these Excel documents, there are free templates available through SCORE's website at** www.score.org/template_gallery.html**.**

The section concludes by asking students to evaluate all of the costs that are necessary to get the business off the ground. Once students are aware of those costs, they must determine how to get funding for their business.

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Files to Provide Students

For this part of the project, students will be asked to complete **Part 4: The Financials** of the **Business Plan Project Appendix.**

Estimated At-Home Completion Time

A well-constructed explanation of this section will require a minimum of 4 to 6 hours. Instructor feedback is absolutely critical in this section, as most students will need some direction in gathering information that will help answer the questions related to costs.

Homework Assignment Deliverable from Students

Expect some uniformity of response length in this area, because students will be filling in their templates. Most students will complete 4 to 5 pages within this section, including the templates.

Assigning Part 5: The Finishing Touches

Assignment Overview

In this final section, students create an executive summary, summarizing the key aspects of the entire plan, which they then insert in the front of the plan. Encourage students to be concise, as an investor would look at the executive summary before reading the details of the plan. Finally, the student is expected to create a table of contents and cover sheet for the business plan.

Files to Provide Students

For this part of the project, students will be asked to complete **Part 5: The Finishing Touches** of the **Business Plan Project Appendix.**

Estimated At-Home Completion Time

Although this section asks students to restate what they have already thought through and written, it can be the most difficult part of the business plan to do right. Most students can complete this section in 1 to 3 hours, depending on their writing skills.

Homework Assignment Deliverable from Students

Expect some uniformity, as most of the work will take the form of a 1- to 2-page executive summary and 1 page each for the cover sheet and table of contents. Encourage brevity in the summary, but emphasize that this is what you'll be reading first—and it must capture your attention to entice you to read further.

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Business Plan Project *Sample Syllabus*

Overview

The business plan project is divided into parts that roughly coordinate with the parts and chapters in the text. Therefore, you can assign the project in parts after students complete each section of the book. Alternatively, you may wish to assign this project as a capstone project at the end of the semester. Although the project is designed to be completed individually, you might also consider grouping students together to provide additional support and to exchange ideas as they complete their projects. If this project is being assigned in an online course, it might be best to have one discussion forum dedicated to students' questions for this project, so that everyone can ask and respond to one another's questions.

Part 1: Introduction

This part of the business plan asks students to come up with an idea for their business, creating an *identity* and forming a concrete notion of what the business will do as well as to identify what makes their product or service *unique*. The first part of the plan also asks students to identify the *type of ownership* the business will take and briefly describe who the firm's *ideal customers* are.

Assign this part of the business plan after completing Chapters 1 through 6.

Suggested 12-week quarter due date:	End of week four
Suggested 16-week semester due date:	End of week six

Part 2: The Company and Management Team

This part of the plan first asks students to create a *mission statement* and look at how the business will interact with the community and demonstrate *social responsibility.* Students are also asked to think about *goals* of their business, to describe the *industry* in which the business will operate, and determine some *internal and external factors* affecting the business. Finally, students will examine the *organizational structure* of the business. As part of the assignment, students will also create an *organizational chart* to show the framework of the business.

Assign this part of the business plan after completing Chapters 7 through 11.

Suggested 12-week quarter due date:	End of week seven
Suggested 16-week semester due date:	End of week nine

Part 3: Marketing

This part of the business plan asks students to think about marketing's "Four Ps"—*product*, *price*, *place (distribution)*, and *promotion*—and how they apply to their business. Students will list features and benefits as well as the points of difference for their product or service. After describing the product, students must connect those described features and benefits to a targeted buyer. Once the targeted buyer has been named, students will describe advertising and promotional efforts to get the buyer's attention.

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Assign this part of the business plan after completing Chapters 12 through 14.

Suggested 12-week quarter due date:	End of week ten
Suggested 16-week semester due date:	End of week eleven

Part 4: The Financials

This part of the business plan asks students to think about their business in terms of *financial needs* and *costs*. Students are asked to decide how much of their product they expect to sell and to identify the costs of doing business. Students will complete a balance sheet and income statement for their businesses.

> **NOTE:** To keep things simple, we have addressed only fees associated with broadband access. (There is a line in the P&L sheet for telephone/Internet expense.) Depending on the business the student is planning, they can put in website development and maintenance in the "other" category or add a separate line, if necessary.

Finally, students will need to identify how much funding they will need to start up their business and to identify source(s) of that funding.

Assign this part of the business plan after completing Chapters 15 and 16.

Suggested 12-week quarter due date:	End of week eleven
Suggested 16-week semester due date:	End of week thirteen

Part 5: The Finishing Touches

This part of the business plan asks students to create an executive summary, table of contents, and cover sheet for their plan.

Assign this part of the business plan approximately one week before the due date.

Suggested 12-week quarter due date:	End of week twelve
Suggested 16-week semester due date:	End of week fifteen

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Student FAQs for the Business Plan Project

1. Where do I begin?

This project will challenge you to think about all of the parts that are necessary for a business to succeed. You should start by thinking of a business that you would like to begin. Do not use a product that already exists, such as Coca-Cola, but rather choose a business that is fairly simple in concept such as an ice cream shop or a bookstore. It would be best if you also choose a business that is of interest to you. Learning comes through the process of using your own ideas. Each section of the business plan connects with the information that is discussed in class and in the textbook.

2. What should my business plan look like?

First, you will need the **Business Plan Project Appendix** found at the back of the book or online at www.mybizlab.com. Answer the questions in the order that they are shown. Note that the project includes hints that will help you answer each question.

Note that the business plan project is also fully explained in the **Student Instructions** (see following pages).

You may also use the **Sample Business Plan** as a guide (see following pages). Note that your plan does not have to look exactly like the sample, but you need to show good organizational skills.

3. What do I do with my assignment?

Your instructor will give you instructions as to how he or she would like you to submit the plan. You will most likely be given a chance to make improvements to your plan throughout the grading period.

4. How will I know if I'm doing the plan correctly?

Your instructor will provide feedback to you about your plan. Students who successfully complete the plan have these two qualities in common:

> ***They do not procrastinate***. A well-written business plan cannot be written overnight, as they require a good deal of thought and creativity.
>
> ***They ask a lot of questions***. If a term is used in the business plan template that confuses you, check in your textbook or ask your instructor for an explanation.

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The Business Plan Project: Student Instructions

Completing Part 1: Introduction

In Chapter 5 and in the Business Plan Mini Chapter, we discuss how the starting point for virtually every new business is a *business plan*. Business plans describe the business strategy for any new business and explain how that strategy will be implemented. One important benefit of a business plan is that in the act of preparing it, would-be entrepreneurs must develop their business idea on paper and firm up their thinking about how to launch and run their business before investing precious time and money. In this exercise, you'll get started on creating your own business plan by completing Part 1 of the Business Plan.

Exercise Background: Part 1 of the Business Plan

Before you even begin your business plan, you need to have a "great idea" for a business. This might be a business that you've already considered setting up or something you decide on now. What are some businesses that you come into contact with on a regular basis? Restaurants, childcare services, and specialty retail stores are just a few examples to consider. You may also wish to create a business connected to a talent or interest you have, such as cooking or car repair. It's important that for the purposes of the plan, you create a company from "scratch" rather than using a company that already exists. You'll learn more if you use your own ideas.

Once you have your business idea, your next step is to create an "identity" for your business. This includes determining a business name and an idea of what your business will do. It also includes identifying the type of ownership your business will take, topics we discuss in Chapters 5 and 6. The first part of the business plan also briefly looks at who your ideal customers are.

After you have completed Part 1, take a quick look through the rest of the business plan project to get a feel for the type of information you will need as you complete the plan.

Your Assignment

Step 1

To complete this assignment, go to the **Business Plan Project Appendix** in the back of your textbook or online at www.mybizlab.com. For this assignment, you will answer the questions in **Part 1** of the plan.

Step 2

Once you have the **Business Plan Project Appendix**, answer the questions in **Part 1. Introduction.** *Note: Include the question heading for each answer, so your business plan looks more professional. See the Sample Business Plan for examples. Once you have answered the questions, be sure to save your Word document—you'll be adding your answers from each following part to the same Word document to create your final Business Plan.*

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Completing Part 2: The Company and Management Team

In Part 1 of the Business Plan project, you formulated the story of your business. Part 2 of the Business Plan project asks you to think about goals of your business, some internal and external factors affecting the business, as well as the organizational structure of the business.

Exercise Background: Part 2 of the Business Plan

As you learned in Chapter 7, every business sets *goals* (accomplishments that it hopes and plans to achieve) and *objectives*—the short-term targets that are designed to achieve these goals. Businesses then make decisions about what actions will help them to achieve these goals. In effect, goals and objectives are the means by which businesses measure their success or failure. In this part of the plan, you'll define some of the goals for your business. But first, you'll be asked to articulate your company's mission statement. A mission statement spells out what you ultimately envision your business to be with respect to growth and sometimes includes a snapshot of your strategy to achieve such growth. In addition, a mission statement reflects the overall values of the company and its owners, and the company's intended contributions to society.

Part 2 of the Business Plan also asks you to analyze the internal and external factors that affect your business. These external and internal factors are the fundamental parts of a traditional SWOT analysis. As you'll recall from Chapter 7, a SWOT analysis looks at the business's *strengths*, *weaknesses*, *opportunities*, and *threats*.

To begin, you will analyze the industry in which your company will operate, and articulate the external opportunities and threats that face your company. The opportunities and threats are generally external factors that affect the business:

Sociocultural forces	Will changes in population or culture help your business?
Economic forces	Will changes in the economy help your business, or hurt it?
Technological forces	Will changes in technology help your business, or hurt it?
Competitive forces	Does your business face much competition, or very little?
Political-legal forces	Will changes in laws help your business, or hurt it?

A positive change in one of these forces is considered an *opportunity*. A change that hurts the business is considered a *threat*. Each of these forces will affect different businesses in different ways, and some of these may not apply to your business at all. In some situations, an opportunity for one business may be a threat for another.

You will also be asked to look internally, and identify the strengths and weaknesses of your business, including global, quality, and technology issues. The strengths and weaknesses are internal factors—things that the business can control. What does the business do well (what are its strengths)? What may the business NOT do so well (what are its potential weaknesses)?

Additionally, you will be asked to outline any challenges you anticipate encountering as well as the ways in which you plan to respond to those challenges. It is important to have a plan in place for those unwanted, but sometimes unavoidable, situations.

Part 2 of the plan also asks you to determine how the business is to be run. Part of this will require you to briefly describe your managers and what contribution they will bring

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to the organization. In addition, you will create an organizational chart to get you thinking about the different tasks needed for a successful business. You'll also examine various factors relating to operating your business.

Your Assignment
Step 1
Open the saved **Business Plan** file you began working on in Part 1. You will continue to work from the same file you started working on in Part 1.

Step 2
For the purposes of this assignment, you will answer the questions in **Part 2: The Company and Management Team.** *Note: Once you have answered the questions, be sure to save your Word document. You'll be answering additional questions in the next part.*

Completing Part 3: Marketing

So far, your business has an identity, you've described the factors that will affect your business, and you've examined your management team and how it will be organized. Part 3 of the Business Plan project asks you to consider your marketing plan.

Exercise Background: Part 3 of the Business Plan

In Part 1, you briefly described what your business will do and who your ideal customer would be. In this part of the plan, you'll describe your ideal buyer, or target market, in more detail, listing their income level, educational level, lifestyle, age, and so forth. You'll also describe your main competitors and your plans to respond to their market presence.

In addition, this part of the plan asks you to describe more fully the product you are planning to sell. Once you create a clear picture of the product, you'll describe how it will stand out in the marketplace—that is, how it will differentiate itself. This part of the project also asks you to discuss the price of your product.

Finally, you'll examine how your business will get the attention and interest of the buyer through its *promotional mix*—advertising, personal selling, sales promotions, and publicity and public relations.

This part of the business plan encourages you to be creative. Have fun! Provide as many details as you possibly can, as this reflects an understanding of your product and buyer. Marketing is all about finding a need and filling it. Does your product do this?

Your Assignment
Step 1
Open the **Business Plan** file you began working on in Parts 1 and 2.

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Step 2
For the purposes of this assignment, you will answer the questions in **Part 3: Market Analysis**. *Note: Once you have answered the questions, be sure to save your Word document. You'll be answering additional questions in the next part.*

Completing Part 4: The Financials

Now that you've had fun with your marketing ideas, it's time to think about the financial needs of your business.

Exercise Background: Part 4 of the Business Plan

This part of the business plan asks you to consider the costs of doing business, such as salaries, rent, and utilities. You'll also complete the following financial statements:

- **The Balance Sheet:** The balance sheet is a foundation for financial reporting. This report identifies the valued items of the business (its *assets*) as well as the debts that it owes (its *liabilities*). This information gives the owner and potential investors a "snapshot" into the health of the business.

- **The Income Statement:** This is the focus of the financial plan. This document will show you what it takes to be profitable and successful as a business owner for your first year.

After you have identified the costs of doing business, as well as how much revenue that you expect to earn in one year, you will articulate how much you will need to get the business started, what kind of funding you will be seeking, and how you will use the funds.

Your Assignment

Step 1
Open the **Business Plan** file you began working on in Parts 1–3.

Step 2
For the purposes of this assignment, you will answer the questions in **Part 4: The Financials.** *Note: Once you have answered the questions, be sure to save your Word document. You'll be answering additional questions in the next part.*

Completing Part 5: The Finishing Touches

It's now time to add some finishing touches to your plan.

Exercise Background: Part 5 of the Business Plan

Before you turn in your plan, you need to create a cover sheet and table of contents for your plan. You'll then conclude the project by creating an *executive summary*. The purpose of the executive summary is to give the reader a quick snapshot into your

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proposed business. If written well, it will encourage the reader to continue to read the rest of the business plan. Although this exercise comes at the end of the project, once you're done writing it, you'll place the cover sheet, table of contents, and executive summary at the *beginning* of your completed business plan.

Your Assignment

Step 1

Open the **Business Plan** file you began working on in Parts 1–4.

Step 2

For the purposes of this assignment, you will answer the questions in **Part 5: The Finishing Touches**.

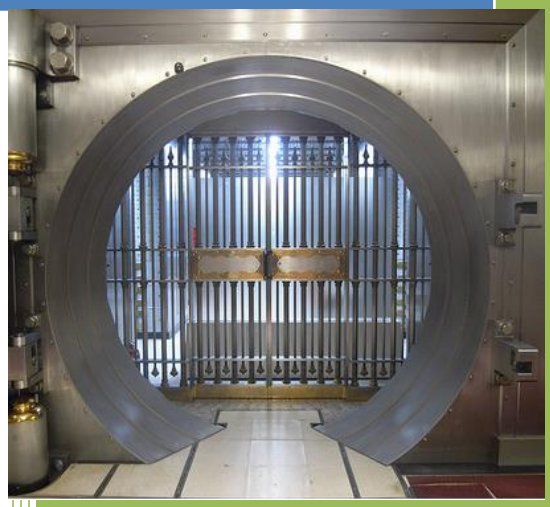
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Sample Business Plan
By Roger Miller
Prepared September 2012

The Vault Grill

135 High Street ❖ Mainland, PA 12345



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Executive Summary

The Vault Grill will be located in the town of Mainland, Pennsylvania, a city of approximately 20,000 people. The restaurant will offer a friendly casual dining atmosphere for people of all ages. We will serve a large variety of meals and desserts, but our specialty will be our grilled of fish, steaks, and burgers.

The mission of The Vault Grill is to provide a quality product at a quality price served by quality people. We will demonstrate our devotion to the community through customer service and community relations.

Our ideal customers are those who are looking for a fun and casual place to have a great and affordable meal. We will be located in the downtown area, in a renovated bank building, so we plan to cater to business men and women during the lunch hour and in the after-work hours. Additionally, because there is a small college nearby, we also expect many of our customers will be students and faculty members.

Customers will visit us for several reasons. First are our grilled entrees. They will be the main appeal for their flavor because Joe Mesland, the grill master, has several special rubs and sauces that offer a unique flavor to any meat or fish entree. Customers can select how they would like their entrée prepared by selecting a dry rub or sauce of varying spiciness. Second, we offer a fun and casual atmosphere that encourages people to relax and enjoy their time spent at the restaurant.

The Vault Grill is also part of the local history. It is located toward the end of town in the former National Bank building. The original bank offers a unique atmosphere with vaulted ceilings, marble floors, and unique windows in the upper areas. We are planning on keeping the original vault and some of the other fittings to preserve the historical nature of the building.

Our business will be a limited liability company. We have structured the business as a LLC for personal protection because we will also be serving liquor.

All partners are well qualified to run this restaurant. Steven Samulson has a degree in Hospitality Management. He has managed several successful restaurants, including Henry's Meat House and The Funky Kitchen. Roger Miller has a degree in business management, and in addition to a strong background in financial management, was recently a partner in a local steak house franchise. Joe Mesland, our grill master, was the head chef at the Cajun Grill for the last ten years and won the prestigious 2007 Silver Spoon award.

Our business will thrive for a number of reasons. First, the city of Mainland has a stable population, with a number of healthy industries and a neighboring college. Second, the local population is upstream middle class. We believe that this segment of the population will have the desire and income to eat out on a regular basis.

Our skills and knowledge in food service, combined with our connections to the community, will make this business a sound investment.

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PART 1. INTRODUCTION

BUSINESS NAME
The Vault Grill

DESCRIPTION OF BUSINESS
The Vault Grill will be located in the town of Mainland. The restaurant will offer a friendly casual dining atmosphere for people of all ages. We will serve a large variety of great meals and desserts, but our specialty will be our grilled of fish, steaks, and burgers.

FORM OF BUSINESS OWNERSHIP
The business will be a limited liability corporation with three primary partners. Each partner has special skills that they bring to the business.

IDEAL CUSTOMER
Our ideal customers are those who are looking for a fun and casual place to have a great and affordable meal. We plan to cater to business men and women during the lunch hour and in the after-work hours as well as to the students and faculty of the nearby college. We will have special promotions focused on each of these two groups that will be discussed later.

COMPANY ADVANTAGES
Our grilled entrees will define our customer's experience and persuade them to choose The Vault Grill over the other restaurant choices in the area. The main appeal of the grilled entrees is the flavor, because Joe Mesland, the grill master, has several special rubs and sauces that offer a unique taste to any meat or fish entrée. Customers can select how they would like their entrée prepared by selecting a dry rub or sauce of varying spiciness. Second, we offer a fun and casual atmosphere that encourages people to relax and enjoy their time spent at the restaurant.

The Vault Grill is also part of the local history. It is located toward the end of town in the former National Bank building. The original bank offers a unique atmosphere with vaulted ceilings, marble floors, and unique windows in the upper areas. We are planning to make the original vault a visible part of the decoration and will be restructuring the original teller area as the bar. Finally, we will preserve as many of the other fittings as possible to maintain the historical nature of the building.

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PART 2. THE COMPANY AND MANAGEMENT TEAM

THE MISSION STATEMENT

MISSION STATEMENT

Our company aims:

- to sell delicious and remarkable food and drinks that meet the highest standards of quality, freshness, and seasonality and that combine both modern-creative and traditional grilled styles of cooking,
- to consistently provide our customers with impeccable service by demonstrating warmth, graciousness, efficiency, knowledge, professionalism, and integrity in our work,
- to have every customer who comes through our doors leave impressed by The Vault Grill and excited to come back again,
- to create and maintain a restaurant that is comprehensive and exceptional in its attention to every detail of operation,
- to provide all who work with us a friendly, cooperative, and rewarding environment, which encourages long-term, satisfying employment, and
- to be a giving member of the Mainland community and to use our restaurant to improve the quality of life in the area.

ETHICAL ISSUES

Our integrity means more than profit; service, quality, and sanitation mean more than volume; and honesty is the basis of sales and service. Therefore, our code of ethics is as follows.

We will:

- ensure that our food and drink meet the highest standards of quality and freshness before and after they are prepared,
- ensure our pricing and performance are done with honesty and integrity,
- ensure our business practices meet the highest standards of service, quality, and sanitation, and
- ensure our employees are treated fairly at all times.

SOCIAL RESPONSIBILITY

The Vault Grill, as an integral part of the Mainland community, will donate any edible and unused foods to the local food bank and will donate meals to needy families throughout the year, especially at holidays. We recognize that our responsibility to society goes beyond food; therefore, we will also have a strong environmental policy and recycle whatever we can, and sponsor events to promote healthy lifestyles.

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INDUSTRY PROFILE

INDUSTRY DESCRIPTION

The Restaurant sector is in the Services industry. There are many types of restaurants fighting for the same potential customer base. Fast food giants, smaller take-out places, to more sophisticated high-end restaurants are all part of the Restaurant sector. Additionally, cafes, tearooms, and restaurants with ethnic themes such as Italian, Mexican, Chinese, and Thai are all potential threats to our customer base. The Vault Grill sees itself positioned in the middle—offering quality meals in a sit-down environment at an affordable price. There are very few restaurants in the local region that fall into this type of category.

OPPORTUNITIES AND THREATS

Mainland is a vibrant community that has attracted a variety of businesses, and is also the home of Newburg College. Although a declining economy may deter some individuals from spending money eating out, because The Vault Grill charges reasonable prices and caters to businesses, the potential negative impact of a bad economy is reduced. The opportunity exists to expand our current customer base beyond the business and college crowd in Mainland.

In addition to economic strains, other possible threats include severe weather in areas that supply the produce, which could affect the availability or price of produce. Similarly, an issue affecting the quality or availability of meat, fish, or poultry (such as mad-cow disease and mercury in fish) is another possible threat. Non-smoking restrictions have been put in place for all restaurants in the county. Because this restriction has been made prior to our opening, we do not believe this will have any impact on our business.

COMPANY PROFILE AND STRATEGY

BUSINESS GOALS

First-year business goals:

1. To break even
2. To build a strong customer base
3. To minimize employee turnover

Intermediate to long-term business goals:

1. To begin a carry-out and catering service within three years
2. To earn net profits of $500,000 within five years

COMPANY STRENGTHS

Foremost, we have a highly motivated management team with expertise in the restaurant business from a management and business perspective. In addition, the chef is an award-winning specialist who has been responsible for grilled food preparation for over 15 years. Our business is community-oriented and intends to ensure that we meet the dining and entertainment needs of our customers.

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RAW MATERIALS AND SUPPLIES

The Vault Grill will need the following initial inventory. Prices listed reflect new equipment and furniture. We are looking for used equipment and furniture to help reduce overall costs.

15 Tables @ $350 each	$5,250
60 Chairs @ $100 each	6,000
15 Barstools @ $150 each	2,250
2 Cash Registers @ $225 each	450
Squirrel POS System	1,500
Char-Grill Oven Unit	1,000
Viking 8-Burner Stove	3,500
3 Microwave Ovens @ $150 each	450
Deep Fryer	2,500
Refrigeration Unit	2,000
Freezer	4,000
Ice Maker	1,000
Dishwashing Unit	2,000
3 Prep-Tables @ $200 each	600
Table Linens and Napkins	500
100 Small Glasses @ $1.00 each	100
100 Large Glasses @ $1.25 each	125
60 Wine tumblers @ $2.00 each	1,200
100 Sets Plates, Bowls, Mugs @ $10.00 each	1,000
100 Sets Silverware @ $12 per set	1,200
Miscellaneous Kitchen and Bar Supplies	2,000
Table and Restaurant Decorations	1,375
Total	**$40,000**

In addition to the above, we anticipate renovation costs of approximately **$200,000** to convert the existing bank to a restaurant and kitchen facility. We will need to stock our bar with liquor, wine, and beer and our pantry with basic cooking staples such as canned products, spices, and condiments. We anticipate initial bar and food stocking costs to be approximately **$8,000**. Most of our bread and dessert offerings will be made fresh on site. All other food items will be purchased from local distributors on a weekly basis. Local in-season produce will be used as much as possible.

Our inventories will not be significantly affected by change in seasons or holidays.

We plan to be open from 11 a.m. to 10 p.m., Monday through Thursday, 11 a.m. to midnight Friday and Saturday. We will be closed on Sundays, Thanksgiving, Christmas, and New Year's.

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ANTICIPATED CHALLENGES AND PLANNED RESPONSES

ANTICIPATED CHALLENGES

We have two major anticipated challenges:

1. We must obtain sufficient funds to start the venture.
2. There is a rumored opening of a steakhouse chain restaurant in a new mall opening up just outside the Mainland border.

PLANNED RESPONSES

We plan to respond to these two major anticipated challenges as follows:

1. The three initial partners are planning to personally contribute nearly half the anticipated funds needed to start the venture. In addition, we have made contact with a restaurant that is upgrading its furnishings and equipment. We anticipate that we can purchase many of the furnishings and kitchen equipment that they are replacing, thus driving down the level of our initial funding requirements.
2. Although the rumored opening of the steakhouse chain may initially hurt us, we are confident that we can win over customers with our signature grilled-preparation, customer-focused service, reasonably priced menu, and proximity to local businesses and the college.

THE MANAGEMENT TEAM

MANAGEMENT

There is one level of management in the restaurant, with three different types of managers as follows:

- Floor Manager
- Grill Manager
- Accounting Manager

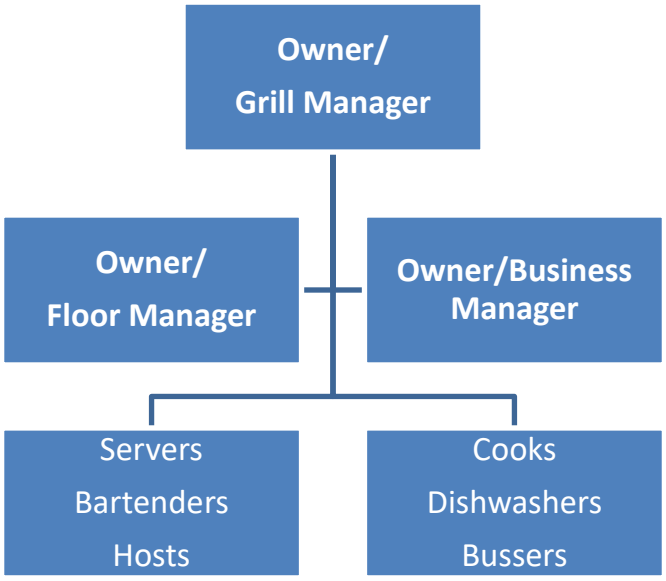
All managers are also co-owners.

ORGANIZATIONAL CHART

The organizational chart for The Vault Bar and Grill Cafe is quite simple given that it contains only one level of management. As the business grows, further levels of management and more employees may need to be added.

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PART 3. MARKETING

MARKET ANALYSIS

MARKET RESEARCH

The Vault Grill will have two markets.

The first target market is the business men and women who work in Mainland and surrounding areas. These individuals are college educated, in their 30s, 40s, 50s, and 60s, middle class, and will be looking for quick, reasonably priced lunches in a nice atmosphere in which to entertain business associates and clients. We also anticipate that younger professionals in their 20s and early 30s will be looking for a fun, casual, and reasonable place to meet after work for dinner or a few drinks.

The second target market is the college community. Although we do not expect that many of our regular customers will be students, we do anticipate that faculty members, administrators, parents of students, and some students on special occasions will frequent The Vault Grill. The demographics of this second target market vary quite widely but are held together by their connection to the college. The second target market will be more seasonal in nature, as the college year runs primarily from September through May.

ASSESSMENT OF THE COMPETITION

Several competitors exist in the area, ranging from the fast food giants of McDonalds and Burger King to other smaller take-out convenience places to more sophisticated high-end restaurants. There are also a handful of cafes and tearooms, and a few ethnic restaurants. The Vault Grill sees itself positioned in the middle—offering quality meals in a sit-down environment at an affordable price. There are very few restaurants in the local region that fall into this type of category. Specifically, there is the Mainland Diner, Winston's, and The Country Restaurant.

THE PRODUCT OR SERVICE

PRODUCT FEATURES AND BENEFITS

The Vault Grill's featured menu item will be its grilled entrées. Our grill master has several special rubs and sauces that offer a unique flavor to any meat or fish entrée. Customers can select how they would like their entrée prepared by selecting a dry rub or sauce of varying spiciness. For those who are not fans of grilled meat, poultry, and fish, we will offer other methods of preparation, pasta dishes, and meal-portioned salads. Another signature product will be our warm breads and creamy flavored butters placed at each table after diners are seated. We will strive to present a total product offer that includes warm and friendly service, a delicious, reasonably priced meal, and a relaxing ambience.

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Product Differentiation

People have many choices when it comes to dining out. We know that we have to offer a product that stands out from the competition. We will have two major differences from our local competitors. The first is the grilled preparation of our food as well as the fresh, high-quality produce and bakery goods. Diners will place the highest importance on the meal itself, and so will we. However, the food is only part of the dining experience. We will pay close attention to ensure our wait staff is well trained, customer focused, clean, and friendly. The details of customer service from attire and grooming to efficiency and friendliness will constantly be monitored. Finally, because a significant part of our business will be coming from serving business lunches, we will strive to ensure our customers with time constraints receive extra quick and attentive service.

Pricing

Our pricing strategy is fairly simple. We plan to position our menu offerings and their prices to reflect our quality products but not too high to give the impression that we are a higher-end restaurant. Although we will have opening week specials, we will not pursue penetration pricing or price skimming as we do not wish to cause discontent among customers when we inevitably raise our prices to secure a profit later.

Sales and Promotion

Place (Distribution) Issues

Mainland, with its business and collegiate communities, offers the type of customer base we are seeking. We foresee no distribution issues. In the future, we hope to expand The Vault Grill services to offer catering and take-out.

Advertising

Although we have two target markets, we will have primarily one advertising approach to attract both business and collegiate customers initially, but will rely on word-of-mouth recommendations as our best ongoing advertising strategy.

Initially, we plan to distribute brochures with sample menus to all local businesses and to college faculty and administration. These advertisements will include coupons for discounts on our lunch menu. Coupons will also allow us to track the success of the advertising.

We will also be listed in the local phone book and will have a small site on the Internet.

In opening week, we will run ads in the local newspaper and college newspaper to advertise our presence.

These ideas are fairly inexpensive ways to get our message out to our target markets.

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PROMOTION

We will have several opening week and ongoing promotions.

During opening week, we will feature buy one get one free lunches and a free appetizer with purchase of two entrées after 6 pm. These specials will last only opening week and will seek to generate initial foot traffic in the restaurant.

We will also have several ongoing promotions. At lunchtime, when many customers are under pressure to return to their office within an hour, we will guarantee meals will be served within 20 minutes of ordering or customers get their lunch free. Similarly, to entice those who might stop in for a drink after work to stay for dinner, we will be offering discounts on meals ordered prior to 6:00. Finally, for college students who might need an evening break, we will offer half-priced appetizers after 9 pm on Monday through Thursday nights.

We will also have promotions during the fall, when Mainland has its street festival. This festival attracts visitors from outside our community. These promotions will build attention (and word of mouth) from those who live in Mainland, as well as nearby towns.

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PART 4: THE FINANCIALS

EXPECTED REVENUE

We believe that we can average 100 customers per day, with approximately 65 at the lunch hour and 35 at dinner.

We believe that the average lunch bill will be approximately $8.50 per customer, and that the average dinner bill will be approximately $17.50 per customer.

This will provide our restaurant with revenues of approximately $550 at lunch and $600 at dinner for total average daily revenue of $1,150.

Although The Vault Grill will experience different traffic and therefore revenues for each day of the week, this will lead to yearly food revenues of approximately $345,000.

Additionally, we believe we will average 50 customers a day at the bar, Monday through Thursday, with an average bar bill of approximately $4 per person.

On Fridays and Saturdays, we expect more bar customers who will also stay longer at the bar. Therefore, we expect about 100 bar customers a day on Fridays with an average bar bill of approximately $10 per person, and 75 bar customers a day on Saturdays with an average bar bill of approximately $10 per person.

We anticipate bar revenues of approximately $122,400.

Total bar and food revenue is anticipated to be approximately $467,400 per year.

We plan to be closed on Sundays, Christmas, New Years, and Thanksgiving.

COST OF DOING BUSINESS

Expenses	Expected Monthly Cost	Expected Yearly Cost
Rent	1,500	18,000
Salaries and Wages	10,000	120,000
Supplies	500	6,000
Advertising and Other Promotions	250	3,000
Utilities: Heat, Electricity, etc.	800	9,600
Utilities: Telephone and Internet	100	1,200
Insurance	1,650	7800
Total	**14,800**	**165,600**

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STARTUP COSTS

We anticipate needing $200,000 for building renovation, $35,000 for decorations, furnishings, and equipment and supplies for the kitchen and bar, and $8,000 for initial stocking costs bringing our startup costs to total $243,000.

FINANCING

The three managers will each put a total of $25,000 into the startup of this business. The remaining $168,000 is the amount that we are requesting for bank financing.

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12-Month Income Statement
The Vault Grill
2012

	January	February	March	April	May	June	July	August	September	October	November	December	YEARLY
Revenue (Sales)													
Food Sales	28,750	28,750	28,750	28,750	28,750	28,750	28,750	28,750	28,750	28,750	28,750	28,750	345,000
Bar Sales	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	122,400
Total Revenue (Sales)	38,950	38,950	38,950	38,950	38,950	38,950	38,950	38,950	38,950	38,950	38,950	38,950	467,400
Cost of Goods Sold													
Food Purchases	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000
Alcohol Purchases	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Total Cost of Goods Sold	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Gross Profit	28,950	28,950	28,950	28,950	28,950	28,950	28,950	28,950	28,950	28,950	28,950	28,950	347,400
Operating Expenses													
Rent Expense	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Salary/Wage Expense	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Supplies Expense	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Advertising Expense	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Utilities Expense	800	800	800	800	800	800	800	800	800	800	800	800	9,600
Telephone/Internet Expense	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Insurance Expense	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	19,800
Interest from Loans (if applicable)	1050	1050	1050	1050	1050	1050	1050	1050	1050	1050	1050	1050	12,600

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Breakage Replacement	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Total Expenses	15,950	15,950	15,950	15,950	15,950	15,950	15,950	15,950	15,950	15,950	15,950	15,950	191,400
Net Profit	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	156,000

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Balance Sheet	
As of June 2012	
Assets	
Current Assets	
Cash in Bank	$100,000
Inventory	$8,000
Prepaid Expenses (6-mo. insurance)	$8,600
Total Current Assets	**$116,600**
Fixed Assets	
Machinery & Equipment	$19,000
Furniture & Fixtures	$21,000
Real Estate / Buildings	
Total Fixed Assets	**$40,000**
Total Assets	**$156,600**
Liabilities & Net Worth	
Current Liabilities	
Accounts Payable	$3,000
Taxes Payable	$10,000
Notes Payable (due within 12 months)	$1,000
Total Current Liabilities	**$14,000**
Long-Term Liabilities	
Bank Loans Payable (greater than 12 months)	$125,000
Less: Short-Term Portion	
Total Long-Term Liabilities	**$125,000**
Total Liabilities	**$139,000**
Owners' Equity (Net Worth)	**$17,600**
Total Liabilities & Net Worth	**$156,600**

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