

CITY OF HOUSTON GUIDE TO CREATING A BUSINESS PLAN



CITY OF HOUSTON
OFFICE
of
BUSINESS OPPORTUNITY



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MISSION STATEMENT

The Office of Business Opportunity is committed to creating a competitive and diverse business environment in the City of Houston by promoting the growth and success of local small businesses, with special emphasis on historically underutilized groups by ensuring their meaningful participation in the government procurement process.



EXECUTIVE SUMMARY

Below are several key points that your executive summary should include based on the stage of your business. Quick notes:

WRITE THIS SECTION LAST.

- Two pages or fewer.
- Include everything that you would cover in a five-minute interview.

IF YOU ARE AN ESTABLISHED BUSINESS

If you are an established business, be sure to include the following information:

- **THE MISSION STATEMENT** – This explains what your business is all about. It should be at least a few sentences and no more than a paragraph.
- **COMPANY INFORMATION** – Include a short statement that covers when your business was formed, the names of the founders and their roles, your number of employees, and your business location(s).
- **GROWTH HIGHLIGHTS** – Include examples of company growth, such as financial or market highlights (for example, “XYZ Firm increased profit margins and market share year-over-year since its foundation). Graphs and charts can be helpful in this section.
- **YOUR PRODUCTS/SERVICES** -- Briefly describe the products or services you provide.
- **FINANCIAL INFORMATION** – If you are seeking financing, include any information about your current bank and investors.
- **SUMMARIZE FUTURE PLANS** – Explain where you would like to take your business.

IF YOU ARE A STARTUP OR NEW BUSINESS

If you are just starting a business, you won't have as much information as an established company. Instead, focus on your experience and background as well as the decisions that led you to start this particular enterprise. Explain the fundamentals of the proposed business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?

If applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment. Demonstrate that you have conducted a thorough market analysis. Include information about a need or gap in your target market, and how your particular solutions can fill it. Convince the reader that you can succeed in your target market, and then address your future plans

With the exception of the mission statement, all of the information in the executive summary should be covered in a concise fashion and kept to one page. The executive summary is the first part of your business plan many people will see, so each word should count. Remember, your Executive Summary will be the last thing you write. So the first section of the business plan that you will tackle is the **Business Description** section.

BUSINESS DESCRIPTION

This section of your business plan provides a high-level review of the different elements of your business. This is similar to an extended elevator pitch and can help readers and potential investors quickly understand the goal of your business and its unique proposition.

WHAT TO INCLUDE IN YOUR BUSINESS DESCRIPTION

- Describe the nature of your business and list the marketplace needs that you are trying to satisfy.
- Explain how your products and services meet these needs.
- List the specific consumers, organizations or businesses that your company serves or will serve.
- Explain the competitive advantages that you believe will make your business a success such as your location, expert personnel, efficient operations, or ability to bring value to your customers.
- What business will you be in? What will you do?
-

MISSION STATEMENT

Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:

COMPANY GOALS AND OBJECTIVES

Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a leader in customer service and that has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.

BUSINESS PHILOSOPHY:

What is important to you in business?

To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them?

Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

LEGAL FORM OF OWNERSHIP

Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?





MANAGEMENT AND ORGANIZATION

Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What special or distinctive competencies? Is there a plan for continuation of the business if this person is lost or incapacitated?

If you'll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Include position descriptions for key employees. If you are seeking loans or investors, include resumes of owners and key employees.

PROFESSIONAL AND ADVISORY SUPPORT

List the following:

- Board of directors
- Management advisory board
- Attorney
- Accountant
- Insurance agent
- Banker
- Consultant or consultants
- Mentors and key advisors

This section should include: your company's organizational structure, details about the ownership of your company, profiles of your management team, and the qualifications of your board of directors.

Who does what in your business? What is their background and why are you bringing them into the business as board members or employees? What are they responsible for? These may seem like unnecessary questions to answer in a one- or two-person organization, but the people reading your business plan want to know who's in charge, so tell them. Give a detailed description of each division or department and its function. This section should include who's on the board (if you have an advisory board) and how you intend to keep them there. What kind of salary and benefits package do you have for your people? What incentives are you offering? How about promotions? Reassure your reader that the people you have on staff are more than just names on a letterhead.

ORGANIZATIONAL STRUCTURE

A simple but effective way to lay out the structure of your company is to create an organizational chart with a narrative description. This will prove that you're leaving nothing to chance, you've thought out exactly who is doing what, and there is someone in charge of every function of your company. Nothing will fall through the cracks, and nothing will be done three or four times over. To a potential investor or employee, that is very important.

OWNERSHIP INFORMATION

This section should also include the legal structure of your business along with the subsequent ownership information it relates to. Have you incorporated your business? If so, is it a C or S corporation? Or perhaps you have formed a partnership with someone. If so, is it a general or limited partnership? Or maybe you are a sole proprietor.

OPERATIONAL PLAN

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.

PRODUCTION

How and where are your products or services produced? Explain your methods of:

- Production techniques and costs
- Quality control
- Customer service
- Inventory control
- Product development

LOCATION

What qualities do you need in a location? Describe the type of location you'll have. Physical requirements:

- Amount of space
- Type of building
- Zoning
- Power and other utilities

ACCESS:

Is it important that your location be convenient to transportation or to suppliers? Do you need easy walk-in access? What are your requirements for parking and proximity to freeway, airports, railroads, and shipping centers?

MARKETING PLAN

MARKET RESEARCH - WHY?

No matter how good your product and your service, the venture cannot succeed without effective marketing. And this begins with careful, systematic research. It is very dangerous to assume that you already know about your intended market. You need to do market research to make sure you're on track. Use the business planning process as your opportunity to uncover data and to question your marketing efforts. Your time will be well spent.

MARKET RESEARCH - HOW?

There are two kinds of market research: primary and secondary.

- **SECONDARY RESEARCH** means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available in public libraries, industry associations, chambers of commerce, from vendors who sell to your industry, and from government agencies. Start with your local library. Most librarians are pleased to guide you through their business data collection. You will be amazed at what is there. There are more online sources than you could possibly use. Your chamber of commerce has good information on the local area. Trade associations and trade publications often have excellent industry-specific data.
- **PRIMARY RESEARCH** means gathering your own data. For example, you could do your own traffic count at a proposed location, use the yellow pages to identify competitors, and do surveys or focus-group interviews to learn about consumer preferences. Professional market research can be very costly, but there are many books that show small business owners how to do effective research themselves.

In your marketing plan, be as specific as possible; give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important sales projection.





ECONOMICS

Facts about your industry:

- What is the total size of your market?
- What percent share of the market will you have? (This is important only if you think you will be a major factor in the market.)
- Current demand in target market
- Trends in target market—growth trends, trends in consumer preferences, and trends in product development.
- Growth potential and opportunity for a business of your size.
- What barriers to entry do you face in entering this market with your new company?
- Some typical barriers are:
 - High capital costs
 - High production costs
 - High marketing costs
 - Consumer acceptance and brand recognition
 - Training and skills
 - Unique technology and patents
 - Unions
 - Shipping costs
 - Tariff barriers and quotas
- And of course, how will you overcome the barriers?
- How could the following affect your company?
 - Change in technology
 - Change in government regulations
 - Change in the economy
 - Change in your industry

PRODUCT

In the *Products and Services* section, you described your products and services as you see them. Now describe them from your customers' point of view.

FEATURES AND BENEFITS

List all of your major products or services. For each product or service:

- Describe the most important features. What is special about it?
- Describe the benefits. That is, what will the product do for the customer?

Note the difference between features and benefits, and think about them. For example, a house that gives shelter and lasts a long time is made with certain materials and to a certain design; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so that you can sell the benefits.

What after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

CUSTOMERS

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.

The description will be completely different depending on whether you plan to sell to other businesses or directly to consumers. If you sell a consumer product, but sell it through a channel of distributors, wholesalers, and retailers, you must carefully analyze both the end consumer and the middleman businesses to which you sell.



MARKETING COMPARISON MATRIX

MARKETING COMPARISON MATRIX

Now analyze each major competitor. In a few words, state how you think they compare. In the final column, estimate the importance of each competitive factor to the customer.
1 = critical; 5 = not very important.

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Products						
Price						
Quality						
Selection						
Service						
Reliability						
Stability						
Expertise						
Company						
Reputation						
Location						
Appearance						
Sales Method						
Credit Policies						
Advertising						
Image						

Now, write a short paragraph stating your competitive advantages and disadvantages

NICHE

Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world. In one short paragraph, define your niche, your unique corner of the market.

STRATEGY

Now outline a marketing strategy that is consistent with your niche.

PROMOTION

- How will you get the word out to customers?
- Advertising: What media, why, and how often? Why this mix and not some other? Have you identified low-cost methods to get the most out of your promotional budget?
- Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?
- What image do you want to project? How do you want customers to see you?
- In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures, signage, and interior design (if customers come to your place of business).
- Should you have a system to identify repeat customers and then systematically contact them?
-

PROMOTIONAL BUDGET

- How much will you spend on the items listed above?
- Before startup? (These numbers will go into your startup budget.)
- Ongoing? (These numbers will go into your operating plan budget.)

PRICING

- Explain your method or methods of setting prices. For most small businesses, having the lowest price is not a good policy. It robs you of needed profit margin; customers may not care as much about price as you think; and large competitors can under price you anyway. Usually you will do better to have average prices and compete on quality and service.
- Does your pricing strategy fit with what was revealed in your competitive analysis? Compare your prices with those of the competition. Are they higher, lower, the same? Why?
- How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?
- What will be your customer service and credit policies?

PROPOSED LOCATION

- Probably you do not have a precise location picked out yet. This is the time to think about what you want and need in a location. Many startups run successfully from home for a while.
- You will describe your physical needs later, in the Operational Plan section. Here, analyze your location criteria as they will affect your customers.
- Is your location important to your customers? If yes, how?
- If customers come to your place of business:
- Is it convenient? Parking? Interior spaces? Not out of the way? Is it consistent with your image?
- Is it what customers want and expect?
- Where is the competition located? Is it better for you to be near them (like car dealers or fast food restaurants) or distant (like convenience food stores)?

DISTRIBUTION CHANNELS

- How do you sell your products or services? Retail
- Direct (mail order, Web, catalog) Wholesale
- Your own sales force
- Agents
- Independent representatives
- Bid on contracts



SALES FORECAST

Now that you have described your products, services, customers, markets, and marketing plans in detail, it's time to attach some numbers to your plan. Use a sales forecast spreadsheet to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.

You may want to do two forecasts:

- 1) a "best guess", which is what you really expect, and
- 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

PERSONAL FINANCE

Include personal financial statements for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the business, and these statements will show what is available. Bankers and investors usually want this information as well.

STARTUP EXPENSES AND CAPITALIZATION

You will have many startup expenses before you even begin operating your business. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them.

Even with the best of research, however, opening a new business has a way of costing more than you anticipate. There are two ways to make allowances for surprise expenses. The first is to add a little "padding" to each item in the budget. The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item, called contingencies, to account for the unforeseeable. This is the approach we recommend.

Talk to others who have started similar businesses to get a good idea of how much to allow for contingencies. If you cannot get good information, we recommend a rule of thumb that contingencies should equal at least 20 percent of the total of all other start-up expenses.

Explain your research and how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also explain in detail how much will be contributed by each investor and what percent ownership each will have.

If you are seeking funding for your business venture, use this section to outline your requirements.

Your funding request should include the following information:

- Your current funding requirement
- Any future funding requirements over the next five years
- How you intend to use the funds you receive: Is the funding request for capital expenditures? Working capital? Debt retirement? Acquisitions? Whatever it is, be sure to list it in this section.
- Any strategic financial situational plans for the future, such as: a buyout, being acquired, debt repayment plan, or selling your business. These areas are extremely important to a future creditor, since they will directly impact your ability to repay your loan(s).

When you are outlining your funding requirements, include the amount you want now and the amount you want in the future. Also include the time period that each request will cover, the type of funding you would like to have (e.g., equity, debt), and the terms that you would like to have applied.

You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class and occupation
- Education
- Other (specific to your industry)
- Other (specific to your industry)

For business customers, the demographic factors might be:

- Industry (or portion of an industry)
- Location
- Size of firm
- Quality, technology, and price preferences
- Other (specific to your industry)
- Other (specific to your industry)

COMPETITION

What products and companies will compete with you? List your major competitors :(Names and addresses)

Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?

Will you have important indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)

How will your products or services compare with the competition?

Use the Competitive Analysis table below to compare your company with your two most important competitors. In the first column are key competitive factors. Since these vary from one industry to another, you may want to customize the list of factors.

In the column labeled me, state how you honestly think you will stack up in customers' minds. Then check whether you think this factor will be a strength or a weakness for you.

Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, trying to be causes many business failures because efforts become scattered and diluted. You want an honest assessment of your firm's strong and weak points.



FINANCIAL PLAN

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

12-MONTH PROFIT AND LOSS PROJECTION

Many business owners think of the 12-month profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your sales projections will come from a sales forecast in which you forecast sales, cost of goods sold, expenses, and profit month-by-month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it's time to revise your plan.

THREE-YEAR PROFIT PROJECTION (OPTIONAL)

The 12-month projection is the heart of your financial plan. **The Three-Year Profit projection** is for those who want to carry their forecasts beyond the first year.

Of course, keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.

PROJECTED CASH FLOW

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn't be taken by surprise.

There is no great trick to preparing it: The cash-flow projection is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases.

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan. Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When? Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal inventory buildup, that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them. And of course, depreciation does not appear in the cash flow at all because you never write a check for it.





OPENING DAY BALANCE SHEET

A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal to investors.

BREAK-EVEN ANALYSIS

A **BREAK-EVEN ANALYSIS** predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break-even is:

$$\text{Break Even Sales} = \frac{\text{Fixed Costs}}{1 - \text{Variable Costs}}$$

APPENDIX

The Appendix should be provided to readers on an as-needed basis. In other words, it should not be included with the main body of your business plan. Your plan is your communication tool; as such, it will be seen by a lot of people. Some of the information in the business section you will not want everyone to see, but specific individuals (such as creditors) may want access to this information to make lending decisions. Therefore, it is important to have the appendix within easy reach.

THE APPENDIX WOULD INCLUDE:

- Credit history (personal & business)
- Resumes of key managers
- Product pictures
- Letters of reference
- Details of market studies
- Relevant magazine articles or book references
- Licenses, permits or patents
- Legal documents
- Copies of leases
- Building permits
- Contracts
- List of business consultants, including attorney and accountant

Any copies of your business plan should be controlled; keep a distribution record. This will allow you to update and maintain your business plan on an as-needed basis. Remember, too, that you should include a private placement disclaimer with your business plan if you plan to use it to raise capital.



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