



Business Plan Guideline

The Indiana Venture Center, Inc is seeking to make your business plan preparations easier with this comprehensive document that will help you become successful and raise the capital necessary to get your business started. This business plan guide is geared towards companies that are trying to attract investors. It emphasizes sections that investors are most interested in and structures the business plan in a logical and accessible way. It includes sections such as “Critical Risks” and “Exit Strategies”, which are left off most business plan guidelines but are essential to any investor. The guideline that follows will help a funding source to more adequately evaluate your business idea.

The Indiana Venture Center, Inc. offers business plan evaluation as a free service to all Indiana companies. We use this guideline as an evaluating tool. To evaluate each section, we examine thoroughness, clarity, and level of detail and score it on a scale of 1-5 (1=poor, 5=excellent). Each section is weighted from 1-4 to emphasize the most important sections and give a more accurate analysis of the quality of your business plan. The section score is multiplied by the section weight to get that section’s total score. The total scores of all sections are then added up to obtain the final score, on a 165 point scale. For example, the executive summary is extremely important, and its score of 1-5 is then multiplied by 4. The appendix is more supplementary, and its section score is only multiplied by 1. The weights for each section are noted at the beginning of each section. Below is a link to our official evaluation form, which uses the information from this guideline, so you can grade your plan and ensure it is a quality document that is both thorough and complete.

www.indianaventurecenter.org/evaluationsheet.pdf

What is a business plan?

A business plan is a written document describing the current activities of a business, setting out its future aims and objectives and how they are to be achieved over a set time period.

Why create a business plan?

When it comes to success in business, there is no substitute for intimate knowledge of the market you serve! If you need money, you need a formal business plan; this is the entry ticket to the game. If you don’t need any outside capital, you should still want to collect as much knowledge as possible about your market and industry, and a business plan is a great way to formalize this process.

Business Plan Outline

- I. Cover Page
- II. Table of Contents
- III. Executive Summary
- IV. Management
- V. Business Description
- VI. Research, Design, and Development
- VII. Marketing
- VIII. Operations
- IX. Critical Risks
- X. Exit Strategies
- XI. Milestones
- XII. Financial
- XIII. Appendix

I. Cover Page

The Cover Page provides an easy reference that conveys some very basic but important information. This information is imperative when the plan will be used to obtain external financing.

Company Name
Address
Contact Person
Title of Contact Person
Phone Number
Fax Number
Email Address
Plan Date: Month & Year

- You might also consider adding a space on the Cover Page for the plan copy number to keep some control over the distribution (Copy #: _____)
- You also might want to consider some disclaimer language on the Cover Page that indicates that the Business Plan is neither an Offer to Sell securities nor a Solicitation to Invest in the company. Federal and State Securities Laws govern investments in private companies. (Consult with your attorney about this issue.)

II. Table of Contents

The Table of Contents is a tool to help the reader locate specific headings that follow in the plan. Every reader of the plan will have a hot button that appeals to them. Therefore, make it easy for them to find what they are looking for.

- Each bold or underlined subheading in the plan should be identified in the Table of Contents.
- The entire plan should be paginated, and the page numbers should appear in the Table of Contents.
- Under the Appendices heading, list the specific items you are including in this section. For a good example of an Appendix outline, reference the Appendix section of this guideline.

III. Executive Summary

Weight=4

This is the most crucial part of the plan, because it must capture the reader's interest and convince the reader the business will succeed. If you are trying to secure equity, you cannot spend enough time on the executive summary of your business plan. This is the first thing, if not the only thing, that gets read by an equity investor.

- **Should be 2 pages, absolute maximum 3 pages**
- The executive summary must be able to stand on its own - not just an introduction
- Complete this part after the other parts of the business plan are finished
- The opening statement should grab attention! Start with a key differentiating feature of your company, its products and/or services.
- The language should be simple and demonstrate clarity of management objectives. Above all, the summary should show opportunity and a plan to meet the opportunity!

Should include:

- Business Summary
 - Type of business
 - Products/services offered
 - Uniqueness, key strengths in this business, and how your business will succeed
 - How your business solves a significant unmet need or problem or addresses a major opportunity
 - Current status / stage of development
 - Vision for 3-5 years and plans for growth
 - Legal form of organization
 - Major near-term objectives along with a timeline
 - Long- range growth and development goals along with a timeline
 - Financial model for the business, including gross and operating margins, expected profitability, time to break even, key financial projections, return on investment, etc.
- Market
 - Target market and projected share
 - Plan and strategy for penetrating the market
 - Distribution strategy including any relationships you have with manufacturers / suppliers
 - Processes involved in producing your product and getting it to market, including subcontracting or licensing production
- Management Team
 - Description of management
 - Qualifications of management team highlighting distinctive qualities
- The Deal
 - Investment outline - how much money has gone into the company and where it came from
 - Financing needed to accomplish your goals - current and future - and how it will be used
 - Terms of the deal you are offering
 - Description of how the investor will achieve the desired rate of return

Common errors in preparing the Executive Summary include:

- Not hitting the plan highlights in a succinct manner
- Not conveying the unique opportunity

- Not describing what the company does
- Not defining the financial opportunity
- Not outlining the deal

IV. Business Description

Weight=3

The purpose of this section is to provide a general description of the business. It also should outline the competitive environment and describe how the business fits into it.

Should include:

- Name and type of business
- Industry background with history of the company (if any)
- Description of product/service
 - Explain what the product/service does - make certain the reader has a strong mental picture of what you do
 - Describe its applications, how it works, its special features, its capabilities and the benefits (economic, social, environmental, leisure)
 - If possible, provide pictures or photographs
- Competitive advantages
 - What is unique and proprietary about your product/service?
 - How is it differentiated from similar offerings from competitors?
 - Discuss any patents, copyrights, trademarks or other legal protections of your product/service that serve as an impediment or barrier to entry by the competition
- Specific mission the firm is trying to achieve
- Potential of the new venture - growth potential
- Any uniqueness or distinctive feature of this venture should be clearly defined
- Specific short-term and long-term objectives must be defined
- Sales, market share, and profitability objectives the business should achieve should be clearly stated

V. Management

Weight=4

After reading the executive summary and making the decision to read on, equity investors look to one section of the plan more than the rest: the management team. Savvy investors know that an experienced and well-rounded management team can make all the difference when it comes to success of the business. Your management team section should be very comprehensive.

Should include:

- For each member of management:
 - Name and position
 - Background
 - Education
 - Experience
 - Unique qualifications
 - Skill-set
 - Responsibilities
 - Resumes in the appendix!
- Reference to all of the outside professionals that you will utilize, such as your attorney, accountant, management consultants, etc.
- Board of Directors and each member's contribution

- Compensation Plan
 - Salaries
 - Employment agreements
 - Stock purchase plans
 - Levels of ownership
 - Other considerations
- Legal structure and legal and regulatory issues facing the firm

VI. Research, Design, and Development

Weight=3

This section should provide a detailed overview of your product/service and its unique characteristics. Make sure to outline the product's past, present, and future development.

Should include:

- Concept Development
 - How this product/service originated (emphasizing uniqueness)
 - Detail of your targeted applications / market opportunities
 - Description of ownership issues relative to the product/service
- Identification of any intellectual property
- Cost, time, and special testing involving research, design, and development
 - Developmental budget that shows costs associated with labor, materials consulting, research, design, etc.
- Current status of R&D efforts, including status of prototypes, lab tests, and scheduling delays
- Detailed discussion of technical aspects of product/service
- Blueprint, sketches, drawings, and models (any additional support should be in appendix)
- Milestones and achievement during R&D
- Design or development work that still needs to be done
 - When it will be ready for mass production / distribution
 - Any spin-off products you plan to develop in the future
- Possible difficulties or risks that may delay or alter the project

VII. Marketing

Weight=4

The purpose of this section is to understand specifically how the market will be entered and penetrated, market share maintained, and the stated market objectives achieved.

Should include:

- Research and Analysis
 - Explain who buys the product or service - identify the target markets and prioritize them
 - The product/service's appeal
 - Why do people buy it?
 - What is special or unique about the product/service "package"?
 - Will you have name identification and brand loyalty?
 - How will you expand it?
 - Measure out the firm's market size and trends
 - Estimate the firm's market share
 - Make realistic and credible sales projections
 - Include supporting information!!!

- Describe competitors in detail, identifying strengths and weaknesses
- Explain how the firm will be better than its competitors – competitive advantages
- Marketing Plan – including the marketing strategy, sales and distribution, pricing, advertising, and promotion
 - Marketing strategy
 - Prioritize segments and applications
 - Market penetration strategy, including timetable
 - Sales strategy
 - Any special relationships with distributors
 - Any distribution or licensing agreements that are in force or that you are seeking
 - Methods of sales and retailing such as in-house salesmen, manufacturer representatives, etc.
 - Necessary intensity of selling effort
 - Average size of customer's order- in dollars and units
 - Frequency of customer purchases including how often could they be enticed to buy
 - Service arrangements, product support, warranty terms and customer orientation of these programs
 - How do these policies help make you competitive?
 - How they will affect profits?
 - Discuss the procedures for implementing these policies
 - Expected "sales cycle" for the product/service
 - Yearly sales milestones for the next 3-5 years
 - Distribution strategy
 - Distribution of your product/service
 - Description of the geographical area you will cover
 - Advertising, public relations, and promotional approaches including costs
 - How the company's name or the product/service name may contribute to market identity
 - Description of your overall approach and strategy for introducing your product/service and gaining market familiarity and acceptance
 - How you will evaluate the effectiveness of your advertising / promotions
 - Promotional strategies, such as trade shows, demos, etc.
 - Type of media you will use as well as professional services needed to implement your plans
 - Pricing strategy and justification
 - Prove your pricing decision is based on the market
 - How your pricing strategy will result in a profit
 - Basis on which prices are set - Margins?
 - How competition, discounts, cost of good, market forces and other factors will affect price
 - How pricing policies will change over time
 - Description of discount policy and dealer pricing program
 - How your competition might respond to your strategies including marketing and pricing

VIII. Operations

Weight=3

The purpose of this section is to understand how the company will be organized and managed to accomplish your goals. It should describe how you will manage resources to produce and deliver

products/services efficiently and effectively, as well as outline how the company will be organized to accomplish goals. It should discuss personnel needs and provide an organizational chart and job descriptions for key personnel.

Should include:

- Operations
 - Description of the actual operations of the firm
 - Plans to produce the product/service
 - How much of the production will be done internally and/or through subcontracts?
 - Sources of supply for components of the product, including backup or alternative suppliers and the lead times
 - Direct and indirect costs of production and a means to track and control these costs
 - Analysis of all operational activities
 - Where are your most significant costs? How volatile are they?
 - Could you make these significant costs more controllable?
 - Outline of the advantages of the operations
- Facilities and Equipment
 - Discussion of short and long-term plans for facilities and locations
 - Facility plans in dollars, units, and expansion capacity
 - Will you lease, purchase, other?
 - Advantages or disadvantages of your location / facilities along with how you will compensate for the disadvantages
 - Any other issues such as zoning, tax considerations, access to transportation, and proximity to supplies
 - Potential environmental impact of your processes
- Organizational Plan
 - Organizational structure (chart)
 - Job description for key personnel
- Human Resources
 - Planned personnel makeup in number of employees and their skills (projected personnel chart for the next 3-5 years is a good idea)
 - Short-term and long-term staffing needs
 - Costs (in dollars) of your administration and staffing
 - Discuss wage rates of available labor
 - Productivity goals

IX. Critical Risks

Weight=2

Of course, investors in growing companies understand risk is part of the equation, but they want to see evidence that an entrepreneur recognizes the risk factors facing the business and has taken steps to control them. That means addressing questions about market risk, financial risk, and technological risk - stressing not the dazzling upside but the return investors can reasonably expect weighed against a limited and carefully chosen defined set of risks. Show that the firm can anticipate trouble and control risks to a reasonable extent. Counteract the downside by describing how you plan to avoid, minimize, or turn around the major problems and risks.

Even well-put together plans can fall short because of the failure to appreciate the crucial difference between entrepreneurs and investors. Entrepreneurs focus on the potential of an idea; investors focus on its risks. The key to raising capital is therefore lowering risk, not hyping the

upside. The entrepreneurs who show how they plan to reduce risk are the ones who get the capital.

Should include:

- Discussion of potential risks before they happen
 - Price cutting by competitors
 - Potentially unfavorable industry-wide trends
 - Design or manufacturing costs that could exceed estimates
 - Sales projections that are not achieved
 - Technological changes
 - Regulatory changes
 - Legal liability
 - Insurance problems
- Plans to avoid these problems or manage them such as to minimize their impact

X. Exit Strategies

Weight=3

Your business plan should indicate some exit strategies for the investor. An exit strategy is how the investor will get their original money back and convert their ownership back into the business. Exit strategies are heavily used by investors when deciding their interest in your company.

Should include:

- All reasonable exit strategies possible, including:
 - Converting equity to debt by getting a loan to pay back the investor
 - Selling the business
 - Buying out the investor
 - Bringing in other investors to take their place
 - Initial Public Offering (IPO)

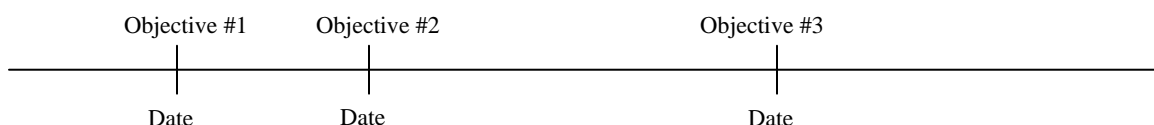
NOTE- If your company is not looking to raise capital, you might consider substituting a Harvest Strategy Section, also known as a succession plan. This ensures the survival of the venture beyond the founder's tenure and discusses preparation for orderly transfer of power to successors.

XI. Milestones

Weight=2

This is an important segment of the business plan because it requires you to determine what tasks you need to accomplish in order to achieve your objectives. Milestones and deadlines should be established and monitored on an on-going basis. All milestones should be related to comprise a timely representation (via timeline and tables) of how your objectives are to be accomplished. In addition to a timeline, each objective should be broken down further into specific milestones. It is a good idea to include a table describing for each milestones who is responsible for that step (if applicable), date started (or projected start date), date ended (or projected completion date), and costs associated with each step.

Example:



Objective #1:

Milestones	Responsibility	Start Date	End Date	Cost
Milestone 1				
Milestone 2				

XII. Financial Data and Projections

Weight=4

If an investor likes what they see in the management team section, they will usually proceed to the financial projections. Obviously, one of the most important things an investor wants to see is the potential return weighed against the clearly defined risks. For this, they turn to the projected profits of the business. While your business plan does not need to discuss the amount of ownership you are willing to give up (that will be negotiated later), it should give the investor some idea of what returns they might receive from their investment in your business.

Your projections must be based on realistic expectations. Be prepared to support data for a 5-year period. In as much as possible, you should draw upon data based on your own past performance and/or on financial data drawn from comparable businesses.

Should include:

- Current Financial Status
 - Current financial status and projections
 - Stage of finance that the firm is in to determine expected financing sources (both debt and equity)
 - Amount already invested, by whom, and ownership distribution
 - Systems you (will) use to monitor costs and manage cash
 - Future financing plans, i.e. eventual public offering
 - Operational expenses recap (from Operations section)
- Funding Needs
 - State the amount and type of funding being sought
 - Types of funding available to you
 - Makeup of your capital structure, including debt and equity, as well as how it affects issues such as cash flow, flexibility, control, etc.
 - Description of the intended use of the funds
 - Start-up, research, and development costs
 - Analysis of cost alternatives, including subcontracting and shared services
 - Detailed list of overall figures for categories of items (rather than simply "guesstimating")
 - Breakdown of how the money will be applied
 - Effect the capital will have on the business in terms of growth and profitability
 - Justify your market entry plans by the projected sales, profits, and, most importantly, cash flow
 - Specification of when the money will be needed
 - Graph, table or other figure showing the amount and timing of the funds
 - Future funding expectations and when it will be needed
- Terms of Investment
 - Description of the terms of investment
 - Ownership distribution and rationale for it
 - Payback period and potential return on investment
 - Include timeline

- Any provisions made for investor liquidity
- Attractiveness of investment in your venture and how it compares to other investments
- Provisions for owner liquidity and when and how investors can expect to recover their initial investment
- Financial Projections
 - Discussion of the three key (pro forma) statements: balance sheets, income statements, and cash-flow statements
 - Have you fully differentiated between fixed and variable costs?
 - What are the costs to produce your product(s) or offer your services?
 - What are your margins? Gross? Operating? After fixed costs? After financing? Net?
 - Have you translated your forecasts into physical goods requirements?
 - Provide projections for the following: (summaries in this section, detailed reports in the appendix)
 1. Projected income by month (years one and two)
 2. Projected income by quarter or year (years three-five)
 3. Projected cash flows by month (years one and two)
 - How many months before you reach positive cash flow?
 4. Projected cash flows by quarter or year (years three-five)
 5. Projected balance sheet for five years (year-end)
 6. Break-even analysis
 - Level of sales required to cover all costs
 - Break-even in units and dollars
 - Break-even date for each of your sales scenarios
 - Compare your projections to industry norms explaining the rationale for any substantial deviations from industry averages
- Assumptions

Assumptions are the basis for predicting the future, especially when it applies to economics, markets, and financial projections. Your projections are only as good as the assumptions on which they are based.

 - Offer reasonable assumptions that the reader will see as valid
 - Rationale for why you think these assumptions are valid
 - Alternatives you will pursue if they don't materialize

NOTE: Are the end results of financing in line with your stated goals and objectives?
Does it allow for control and flexibility? Does it provide the needed resources?

XIII. Appendix

Weight=1

When using the plan as a management tool, the appendices provide you with an excellent source of stored information for all to see and use. Moreover, for the potential investor, they demonstrate that you have done your homework in all areas of the venture. Make sure the supporting documents can be easily read and understood. Although this section only has a weight of 1, its contents can enhance other sections grades.

Should include:

- Detailed financial statements
- Resumes of key personnel
- Background information that was not included in other sections

- Provide drawings and other documents, licensing agreements, and other materials that support the plan

Here is a good example of an appendix outline:

- A. Company and Product(s)/Services Support Materials
 1. Photos of the product(s), equipment, facilities
 2. Patents, trademarks, service marks, or copyright documents
 3. Bibliography of research, testing, and studies
 4. List of your equipment and other capital expenditures, with a description and the cost of each
 5. Graph of the amount of money and timing of the funds to be infused
 6. Developed budgets for key products and markets
- B. Legal Support Materials
 1. Ownership agreements and/or contracts
 2. Marketing agreements and/or contracts
 3. Employment agreements and/or contracts
 4. Financial agreements and/or contracts
- C. Market Support Materials
 1. Magazine, newspaper, trade journal articles
 2. Brochures, drawings, mailings, and materials
 3. Market share chart
 4. Competitive comparison of strengths and weaknesses
 5. A chart that details competitors' share and sales over a 3-5 year period
 6. Customer contacts and status
 7. Letters of interest or intent
 8. Samples of your planned advertising materials
- D. Management/Ownership Support Materials
 1. Resumes of key people, references, recommendations
 2. Resumes and personal references from potential customers, suppliers, bankers, former employers, etc. on each of the principals
 3. Timeline chart depicting significant milestones and time frames
- E. Administrative and Personnel Support
 1. Organizational chart
 2. Role descriptions for key personnel
- F. Financial/Investment Support
 1. Break-even analysis
 2. Principal's financial statements
 3. Equipment and capital expenditure listing
 4. Additional financial statements

This guideline is not a proprietary work. It is a compilation of material previously published including the following:

1. Business Plan Guide by Robert Hill and Elizabeth Gatewood.
2. A Working Guide to Business Plan Development prepared by the Indiana Business Plan Forum.