

Ten Critical Elements of a Winning Business Plan

The financial experts agree: the business plan is the most crucial element of a loan application. Regardless of what type of investor you approach — a traditional bank lender, venture capitalist, angel, or any of the many others — before they even consider your loan request, they will want to review your business plan. In this article from Entrepreneurial Edge Magazine, Tom Canfield, president of the Enterprise Corporation of Pittsburgh, says these ten questions should be answered in your business plan.

1. Is Your Plan Organized So Key-Concepts Leap Out at the Reader?

Those key concepts should include an executive summary, a description of your product or service, an assessment of the market, and a description of the management team, as well as financial projections and capital requirements. Be sure to footnote your sources of information and provide your resume in the appendix.

2. Is Your Product or Service and Business Mission Clear and Easy to Understand?

Who are you and who are your associates. Explain your management expertise, and experience in the industry. Explain why you are starting this business and what goals you hope to achieve and when. Use measurable quantities such as: 1) sales in terms of quantities sold; 2) profits in dollar amounts; 3) number of clients or accounts served by a fixed date in the future, etc. Be able to explain the benefit or problem solution your product or service offers the client.

3. Are You Focused on All Phases of Your Business — Idea, Feasibility, Verification, Demonstration and Commercialization?

Concentrate on explaining tasks and use of your resources to increase your chances for success. Also, make sure you specify where you are currently in product development. Do you have a really good idea, blue prints and a working model, or is your product out in the market making money?

4. Who is Your Customer?

Mention the customer group, size, growth and ways to reach them (advertising). Also, include your projected market share vs. the competition's share. This information is usually available from trade associations, trade journals, mentors, the US census and market analysis reference books. Be sure to footnote your sources.

5. How Much Better is Your Product or Service than the Competition's?

If possible, provide customer references or testimonials. Be sure to stress the benefits and problem solutions you offer. This is why the customer initially buys and comes back for

more. This is how and why you achieve repeat sales and lasting customer relationships.

6. Do You Have an Unfair Advantage? Is Your Product or Service Unique? Patented? Proprietary? Defensible?

If so, make sure you mention this. If you hold trademarks, copyrights and patents, be sure to provide pictures, blueprints and photocopies in the appendix. These are important barriers that keep the competition at bay.

7. Do You Have a Favorable Cost Structure?

Provide the proper gross margins, dynamics of price, volume and variable and fixed costs. If you are manufacturing a product, you will have to do some cost analysis to determine the variable cost of a product. This includes: 1) direct material cost, 2) direct labor and 3) apportioned overhead expense. This calculation leads you to a breakeven analysis—a necessary part of your financial analysis.

8. Can the Management Team Build a Business

What assets do they bring to the business? How much money, real estate, equipment and industry connections does each contribute? Be sure to include relevant industry experience, degrees, licenses, proven track records and start-up experience. If you realize that you will need additional management personnel, be up front about it. Who are the key workers you must hire and what would be their ideal qualifications?

9. Financial Analysis: How Much Money Do You Need, When and What For?

Provide potential investors with cash flow statements, income statements and balance sheets. Provide these monthly for the first year, quarterly for the next two years, then annually until the end of the fifth year.

10. How Will Your Investors Get a Cash Return?

With the answers to these questions, you'll be able to create a document to distribute to potential investors. But, not all investors are the same. Some prefer a one-page summary while others want to read a three- to five-page profile, and still others demand a thick, highly detailed business plan. To meet the expectations of all potential investors, prepare all three types of communication packages. Before making your presentation, find out how many people will attend and make enough copies of each package for everyone.