The Three-Part Business Plan

by Sophia

WHAT'S COVERED

When was the last time you had a big event or party that you hosted? When you were getting ready for it, did you improvise or did you have a plan? Or, have you done both? Chances are if you had a plan and a goal in mind, the process went a lot smoother. This tutorial will cover the topic of the three-part business plan. Our discussion breaks down as follows:

1. Overview of the Business Plan

A **business plan** is simply defined as a document that outlines the plan for a business. Simple enough, right?

The business plan is a very valuable tool for any business in three key areas:

- Communication: Communicates to its investors what the business is going to do with the money that they've invested.
- Management: Helps set up monitoring and tracking of different goals and objectives that the business may have, and provides the key indicators if they're succeeding or failing.
- Planning: Provides timelines and milestones, and allows the business to compare the growth of different projects throughout their lifespan.

TERM TO KNOW

Business Plan
A document that outlines the plan for a business.

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2. Three Main Parts of the Business Plan

A business plan has three main parts:

- Goals and Objectives
- Sales Forecast
- Financial Plan

Now, it may include other information, such as the product description or product differentiation, to give the people you're communicating to--the investors--a better idea of what it is that you're doing, and these can be critically important.

2a. Goals and Objectives

Goals and objectives can differ greatly, depending on if it's a larger company or a smaller company. Goals are the long-term targets that a company wants to hit. Objectives are the shorter term targets. Most of the time, objectives will simply be ways or steps to achieve the goals that we want to accomplish.

Now, goals should be SMART:

Specific
Measurable
Achievable
Relevant
Timely

IN CONTEXT
Suppose you have a broad goal of wanting to grow your business. How can you turn this into a SMART goal?

Specific: Acquire three new clients
M: Measure how many clients that are acquired while maintaining client base
Achievable: Ask clients for referrals, launch social media campaign, or network with local businesses
Relevant: Grows business and increases revenue
Timely: Within two months

SMART Goal: I will acquire three new clients for my business within two months by asking for client referrals, launching a social media campaign, and networking with local businesses, which will allow me to grow my business and increase my revenue.

It's specific. It's measurable. It's achievable. It's relevant to your business, and it's timely.

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2b. Sales Forecast

Sales forecasts are split up into:

- Sales category
- Number of units
- Unit price of the product
- Total sales
- Monthly and annual totals

This allows you to track your sales throughout the year. A sales forecast is also based on a lot of research. Businesses will look at the current market and try to understand the financial strengths and weaknesses of their own business and predict how their business is going to compete within the marketplace.
Let's take a look at a template for a sales forecast.

Bikes & More Company

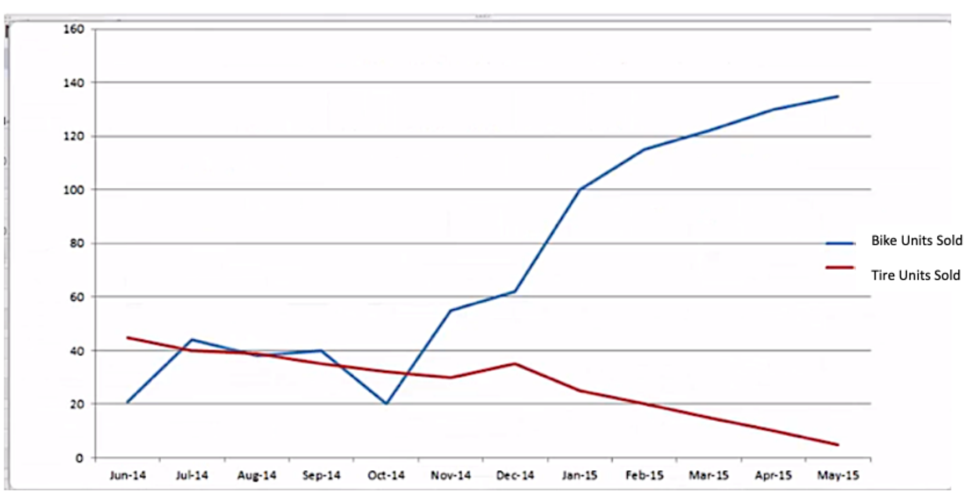
Fiscal Year Begins: June 2014

		12-Month Sales Forecast													Sales History			
		June-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Annual Totals	Current Month Ending mm/yy	2013	2012	2011
Bikes	Unit Sold																	
	Sale Price Per Unit																	
	Total Sales																	
Tires	Unit Sold																	
	Sale Price Per Unit																	
	Total Sales																	

As you can see, it is split up among the different months, but it also covers the entire year to see how the business is performing overall throughout the year, and for each individual product or product category.

In addition to the monthly totals, it shows the end of year totals, to compare to prior years. You can use this information to make long-term forecasting for the years that follow.

Below you can see what a graph might look like, using the data from the sales forecast.



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Starting in June of 2014, bikes (blue line) is at 20. It moves up and holds steady, then around October, it takes a dip back down to 20 or so. This could indicate a seasonal issue with the product. Various factors may be involved that will determine how to increase sales or output, and ultimately, growth.

For tires (red line), it's a slightly different story. You can see that it starts off at around 35 and moves steadily downward all the way to the end of the year. Now, the reason someone might chart this is because you may be discontinuing that product by the end of the year.

2c. Financial Plan

A financial plan is a summary of what investments are needed. It also takes a look at the break-even analysis. How much product do you have to sell at a particular price to break even to cover all of your costs? As you can imagine, this is critical for individual business.

It also contains revenue projections, which are based, at least in part, on sales projections or forecasts. Therefore, the better job you do forecasting your sales, the better you can accurately predict your revenue for the following months and years.

Venture capitalists will want to see this particular document. Venture capitalists are high-risk investors who provide funding for startups and small businesses, but they are not just going to hand businesses money without a sound financial plan and business plan.

They are absolutely critical to startups, as startups typically have low access to capital, yet they have high costs from the beginning. Therefore, they need a lot of money to get started and to keep going. Venture capitalists provide the capital needed for those startups to cover those high costs, because they are willing to make riskier investments than traditional lending institutions, like banks.

> **IN CONTEXT**
> Small business investment companies were created by Congress in 1958. These are privately owned and managed, and they primarily serve as a source of venture capital for small business. In this manner, they can help fuel growth for the business. They are licensed by the Small Business Administration to provide long-term loans with maturities of at least five years. They do not provide short-term loans. These small business investment companies are a great resource for small businesses to fund their expansions and startups.

SUMMARY

Today we covered an **overview of the business plan**. We learned about the **three main parts of the business plan**: goals and objective, sales forecast, and financial plan.

We learned that **goals and objectives** should be specific, measurable, achievable, relevant, and timely (SMART). We learned why a **sales forecast** is important, and the different categories that are involved within a sales forecast. Lastly, we learned about the ever-important **financial plan**. If you want to be in

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business and you want to generate capital besides sales to start the business and cover unexpected costs, you're going to need to have a solid financial plan that venture capitalists or banks can review before they make a decision to invest money in your business.

Good luck!

Source: ADAPTED FROM SOPHIA INSTRUCTOR JAMES HOWARD

TERMS TO KNOW

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