BUSINESS PLAN PREPARATION

Table of Contents

Included in the table of contents is a list of the sections, any appendices, and any other information and the pages on which they can be found.

I. Executive Summary

The first section in the body of the business plan is usually an executive summary. This summary is usually short and concise (one or two pages). The summary articulates what the opportunity conditions are and why they exist, who will execute the opportunity and why they are capable of doing so, how the firm will gain entry and market penetration, and so on. Essentially, the summary for your venture needs to reframe the criteria shown in Exhibit 3.6 and the Venture Opportunity Screening Guide.

The summary is usually prepared after the other sections of the business plan are completed. It is therefore helpful, as the other sections are drafted, to note one or two key sentences, and some key facts and numbers from each.

The summary is important for those ventures trying to raise or borrow money. Many investors, bankers, managers, and other readers use the summary to determine quickly whether the venture the plan describes is of interest. Therefore, unless the summary is appealing and compelling, it may be the only section read, and you may never get the chance to make a presentation or discuss your business in person.

Therefore, leave plenty of time to prepare the summary. (Successful public speakers have been known to spend an hour of preparation for one minute of their speech.)

The executive summary usually contains a paragraph or two covering each of the following:

A. Description of the business concept and the business.

Describe the business concept for the business you are or will be in. For example, Outdoor Scene, Inc., wanted to produce tents, but the concept was "to become a leader in providing quality, service, and on-time delivery in outdoor leisure products." Be sure the description of your concept explains how your product or service will fundamentally change the way customers currently do the certain things. For example, Arthur Rock, the lead investor in Apple Computer and Intel, has stated that he focused on concepts that will change the way people live and/or work. You need to identify when the company was formed, what it will do, what is special or proprietary about its product, service, technology, and so forth. Include summary information about any proprietary technology, trade secrets, or unique capabilities that give you an edge in the marketplace. If the company has existed for a few years, a brief summary of its size and progress is adequate. Try to make your description succinct; 250 words or less, and mention the specific product or service.

B. The opportunity and strategy.

Summarize what the opportunity is, why it is compelling, and the entry strategy planned to exploit it. This information may be pre-

II. The Industry and the Company

and Its Product(s) or Service(s)

A major area of consideration is the company, its concept for its product(s) and service(s), and its interface with the industry in which it will be competing. This is the context into which the marketing information, for example, fits. Information needs to include a description of the industry, a description of the concept, a description of your company, and a description of the product(s) or service(s) you will of-
The proprietary position of these product(s) or service(s), their potential advantages, and entry and growth strategy for the product(s) or service(s).

A. The Industry
- Present the current status and prospects for the industry in which the proposed business will operate. Be sure to consider industry structure.
- Discuss briefly market size, growth trends, and competitors.
- Discuss any new products or developments, new markets and customers, new requirements, new entrants and exits, and any other national or economic trends and factors that could affect the venture’s business positively or negatively.

B. The Company and the Concept
- Describe generally the concept of the business what business your company is in or intends to enter, what product(s) or service(s) it will offer, and who are or will be its principal customers.
- By way of background, give the date your venture was incorporated and describe the identification and development of its products and the involvement of the company’s principal in that development.
- If your company has been in business for several years and is seeking expansion financing, review its history and cite its prior sales and profit performance, and if your company has had setbacks or losses in prior years, discuss these and emphasize current and future efforts to prevent a recurrence of these difficulties and to improve your company’s performance.

C. The Product(s) or Service(s)
- Describe in some detail each product or service to be sold.
- Discuss the application of the product or service and describe the primary end use as well as any significant secondary applications.
- Emphasize any unique features of the product or service and how those will create or add significant value; also, highlight any differences between what is currently on the market and what you will offer that will account for your market penetration. Be sure to describe how your product will be priced and the payback period to the customer—that is, discuss how many months it will take for the customer to cover the initial purchase price of the product or service as a result of its time, cost, or productivity improvements.
- Include a description of any possible drawbacks (including problems with obsolescence) of the product or service.
- Define the present state of development of the product or service and how much time and money will be required to fully develop, test, and introduce the product or service. Provide a summary of the functional specifications and photographs, if available, of the product.
- Discuss any head start you might have that would enable you to achieve a favored or entrenched position in the industry.

- Describe any features of the product or service that give it an “unfair” advantage over the competitors.
- Describe any patents, trade secrets, or other proprietary features of the product or service.
- Discuss any opportunities for the expansion of the product line or the development of related products or services. (Emphasize opportunities and explain how you will take advantage of them.)

D. Entry and Growth Strategy
- Indicate key success variables in your marketing plan (e.g., an innovative product, timing advantage, or marketing approach) and your pricing, distribution, advertising, and promotion plans.
- Summarize how fast you intend to grow and to what size during the first five years and your plans for growth beyond your initial product or service.
- Show how the entry and growth strategy is derived from the opportunity and value added or other competitive advantages, such as the weakness of competitors.

III. Market Research and Analysis
Because of the importance of market research and the critical dependence of other parts of the plan on this information, you are advised to prepare this section of the business plan before any other. Take enough time to do this section very well and to check alternative sources of data.

Information in this section needs to support the assertion that the venture can capture a substantial market in a growing industry in the face of competition.

This section of the business plan is one of the most difficult to prepare, yet it is one of the most important. Other sections of the business plan depend on the market research and analysis presented here. For example, the predicted sales levels directly influence such factors as the size of the manufacturing operation, the marketing plan, and the amount of debt and equity capital you will require. Yet most entrepreneurs seem to have great difficulty preparing and presenting market research and analyses that show that their ventures’ sales estimates are sound and attainable.

A. Customers
- Discuss who the customers for the product(s) or service(s) are or will be. Note that potential customers need to be classified by relatively homogeneous groups having common, identifiable characteristics (e.g., by major market segment). For example, an automotive part might be sold to manufacturers and to parts distributors supplying the replacement market, so the discussion needs to reflect two market segments.
- Show who and where the major purchasers for the product(s) or service(s) are in each market segment include regional and foreign countries, as appropriate.
- Indicate whether customers are easily reached and receptive, how customers buy (wholesale, through
manufacturers' representatives, etc.), where in their organizations such buying decisions are made, and how long such decisions take. Describe customers' purchasing processes, including the bases on which they make purchase decisions (e.g., price, quality, timing, delivery, training, service, personal contacts, or political pressures) and why they might change current purchasing decisions.

List any orders, contracts, or letters of commitment that you have in hand. These are far and away the most powerful date you can provide. List also any potential customers who have expressed an interest in the product(s) or service(s) and indicate why, also list any potential customers who have shown no interest in the proposed product or service and explain why they are not interested and explain what you will do to overcome negative customer reaction. Indicate how fast you believe your product or service will be accepted in the market.

If you have an existing business, list your principal customer customers and discuss the trends in your sales to them.

D. Market size and trends:

Show for five years the size of the current total market and the share you will have, by market segment and/or by region and/or country, for the product or service you will offer, in units, dollars, and potential profitability.

Describe also the potential annual growth for at least three years of the total market for your product(s) or service(s) for each major customer group, region, or country, as appropriate.

Discuss the major factors affecting market growth (e.g., industry trends, economic trends, government policy, and population shifts) and review previous trends in the market. Any differences between past and projected annual growth rates need to be explained.

E. Competition and competitive edges:

Make a realistic assessment of the strengths and weaknesses of competitors. Assess the substitute and/or alternative products and services and list the companies that supply them, both domestic and foreign, as appropriate.

Compare competing and substitute products or services on the basis of market share, quality, price, performance, delivery, training, service, warranties, and other pertinent features.

Compare the fundamental value that is added or created by your product or service, in terms of economic benefits to the customer and to your competitors.

Discuss the current advantages and disadvantages of these products and services and say why they are not meeting customer needs.

Explain whether competitors are simply sluggish or nonresponsive or are asleep at the switch.

Review the strengths and weaknesses of the competing companies and determine and discuss the share of the market of each competitor, its sales, its distribution methods, and its production capabilities.

Review also the financial position, resources, costs, and profitability of the competition and their profit trend. Note that you can utilize Robert Morris Associates data for comparison (see Appendix I on this book's Web site).

Indicate who are the service, pricing, performance, cost, and quality leaders. Discuss why any companies have entered or dropped out of the market in recent years.

Discuss the three or four key competitors and why customers buy from them, and determine and discuss why customers leave them.

From what you know about the competitors' operations, explain why you think that they are vulnerable and you can capture a share of their business. Discuss what makes you think it will be easy or difficult to compete with them. Discuss, in particular, your competitive advantages gained through such an unfair advantage as patents.

F. Ongoing market evaluation:

Explain how you will continue to evaluate your target markets so as to assess customer needs and service and to guide product-improvement programs and new-product programs, plans for expansions of your production facility, and guide product/service pricing.
IV. The Economics of the Business

The economic and financial characteristics, including the apparent magnitude and durability of margins and profits generated, need to support the fundamental attractiveness of the opportunity. The underlying operating and cash conversion cycle of the business, the value chain, and so forth, need to make sense in terms of the opportunity and strategies planned.

A. Gross and operating margins:
- Describe the magnitude of the gross margins (i.e., selling price less variable costs) and the operating margins for each of the product(s) and service(s) you are selling in the market niche(s) you plan to attack. Include results of your contribution analysis.

B. Profit potential and durability:
- Describe the magnitude and expected durability of the profit stream the business will generate—before and after taxes—and reference appropriate industry benchmarks, other competitive intelligence, or your own relevant experience.
- Address the issue of how perishable or durable the profit stream appears to be. Provide reasons why your profit stream is perishable or durable, such as barriers to entry you can create, your technological and market lead time, and so on.

C. Fixed, variable, and semi-variable costs:
- Provide a detailed summary of fixed, variable, and semi-variable costs, in dollars and as percentages of total cost as appropriate, for the product or service you offer and the volume of purchases and sales upon which these are based.
- Show relevant industry benchmarks.

D. Months to breakeven:
- Given your entry strategy, marketing plan, and proposed financing, show how long it will take to reach a unit breakeven sales level.
- Note any significant stepwise changes in your breakeven that will occur as you grow and add substantial capacity.

E. Months to reach positive cash flow:
- Given the above strategy and assumptions, show when the venture will attain a positive cash flow.
- Show if and when you will run out of cash. Note where the detailed assumptions can be found.
- Note any significant stepwise changes in cash flow that will occur as you grow and add capacity.

V. Marketing Plan

The marketing plan describes how the sales projections will be attained. The marketing plan needs to detail the overall marketing strategy that will exploit the opportunity and your competitive advantages. Include a discussion of sales and service policies; pricing, distribution, promotion, and advertising strategies; and sales projections. The marketing plan needs to describe what is to be done, how it will be done, when it will be done, and who will do it.

A. Sales and marketing strategy:
- Describe the specific marketing philosophy and strategy of the company, given the value chain and channels of distribution in the market niche(s) you are pursuing. Include, for example, a discussion of the kinds of customer groups that you already have orders from or that will be targeted for initial intensive selling effort and those targeted for later selling efforts; how specific potential customers in these groups will be identified and how they will be contacted; what features of the product or service, such as service, quality, price, delivery, warranty, or training, will be emphasized to generate sales; if any innovative or unusual marketing concepts will enhance customer acceptance, such as leading where only sales were previously attempted; and so forth.
- Indicate whether the product(s) or service(s) will initially be introduced internationally, nationally, or regionally, explain why, and if appropriate, indicate any plans for expanding sales at a later date.
- Discuss any seasonal trends that underlie the cash conversion cycle in the industry and what can be done to promote sales out of season.
- Discuss any plans to obtain government contracts as a means of supporting product development costs and overhead.

B. Pricing:
- Discuss pricing strategy, including the prices to be charged for your product and service, and compare your pricing policy with those of your major competitors, including a brief discussion of payback (in months) to the customer.
- Discuss the gross profit margin between manufacturing and ultimate sales costs and indicate whether this margin is large enough to allow for distribution and sales, warranty, training, service, amortization of development and equipment costs, price competition, and so forth—and still allow a profit.
- Explain how the prices you set will enable you (1) to get the product or service accepted, (2) to maintain and increase your market share in the face of competition, and (3) to produce profits.
- Justify your pricing strategy and differences between your prices and those for competitive or substitute products or services in terms of economic payback to the customer and value added through warranty, quality, reliability, service, cost savings, efficiency, and the like.
- If your product is to be priced lower than those of the competition, explain how you will do this and maintain profitability (e.g., through greater value added through effectiveness in manufacturing and distribution, lower labor costs, lower material costs, lower overhead, or other component of cost).
- Discuss your pricing policy, including an analysis of the relationship of price, market share, and prof...
For example, a higher price may reduce volume but result in a higher gross profit.

- Describe any discount allowance for prompt payment or volume purchases.

C. Sales Tactics

- Describe the methods (e.g., own sales force, sales representatives, ready-made manufacturers' sales organizations, direct mail, or distributors) that will be used to make sales and distribute the product or service and both the initial plans and longer-range plans for a sales force. Include a discussion of any special requirements (e.g., refrigeration).

- Discuss the value chain and the resulting margins to be given to retailers, distributors, wholesalers, and salespeople and any special policies regarding discounts, exclusive distribution rights, and so on, given to distributors or sales representatives and compare these to those given by your competition. (See the Venture Opportunity Screening Guide.)

- Describe how distribution or sales representatives, if they are used, will be selected, will start to represent you, the areas they will cover and the build-up (no head count) of dealers and representatives by month, and the expected sales to be made by each.

- If a direct sales force is to be used, indicate how it will be structured and at what rate (a head count) it will be built up; indicate if it is to replace a dealer or representative organization and, if so, when and how.

- If direct mail, magazine, newspaper, or other media, telemarketing, or catalog sales are to be used, indicate the specific channels or vehicles, costs (per 1,000), and expected response rates and yield (as percentage) from the various media, and so on, used. Discuss how these will be built up.

- Show the sales expected per salesperson per year and what commission, incentive, and/or salary they are slated to receive, and compare these figures to the average for your industry.

- Present a selling schedule and a sales budget that includes selling, advertising, promotion and sales force costs.

D. Service and warranty policies:

- If your company will offer a product that will require service, warranties, or training, indicate the importance of these to the customers' purchasing decisions and discuss your method of handling service problems.

- Describe the kind and form of any warranties to be offered, whether service will be handled by company personnel, agencies, dealers and distributors, or returns to the factory.

- Indicate the proposed charge for service calls and whether service will be a profitable or break-even operation.

- Compare your service, warranty, and customer training policies and practices to those of your principal competitors.

E. Advertising and promotion

- Describe the approaches the company will use to bring its product or service to the attention of prospective purchasers.

- For original equipment manufacturers and for manufacturers of industrial products, indicate the plans for trade show participation, trade magazine advertisements, direct mailings, the preparation of product sheets and promotional literature, and use of advertising agencies.

- For consumer products, indicate what kind of advertising and promotional campaign is contemplated to introduce the product and what kind of sales aids will be provided to dealers, what trade shows, and so forth, are required.

- Present a schedule and approximate costs of promotion and advertising (direct mail, telemarketing, catalog, etc.), and discuss how these costs will be incurred.

F. Distribution

- Describe the methods and channels of distribution you will employ.

- Indicate how sensitive shipping cost is as a percent of the selling price.

- Note any special issues or problems that need to be resolved, or present potential vulnerabilities.

- If international sales are involved, note how these sales will be handled, including distribution, shipping, insurance, credit, and collections.

VI. Design and Development Plans

The nature and extent of any design and development work and the time and money required before a product or service is marketable need to be considered in detail. (Note that design and development costs are often underestimated.) Such design and development might be the engineering work necessary to convert a laboratory prototype to a finished product; the design of special tooling; the work of an industrial designer to make a product more attractive and saleable; or the identification and organization of employees, equipment, and special techniques, such as the equipment, raw computer software, and skills required for computerized credit checking, to implement a service business.

A. Development status and tasks

- Describe the present status of each product or service and explain what remains to be done to make it marketable.

- Describe briefly the competence or expertise that your company has or will require to complete this development.

- List any customers or end users who are participating in the development, design, and/or testing of the product or service. Indicate results to date or when results are expected.
B. Difficulties and risks:
- Identify any major anticipated design and development problems and approaches to their solution.
- Discuss the possible effect on the cost of design and development, the time to market introduction, and so forth, of such problems.

C. Product improvement and new products:
- In addition to describing the development of the initial products, discuss any ongoing design and development work that is planned to keep product(s) or service(s) competitive and to develop new related product(s) or service(s) that can be sold to the same group of customers. Discuss customers who have participated in these efforts and their reactions, and include any evidence that you may have.

D. Costs:
- Present and discuss the design and development budget, including costs of labor, materials, consulting fees, and so on.
- Discuss the impact on cash flow projections of underestimating this budget, including the impact of a 15 to 30 percent contingency.

E. Proprietary issues:
- Describe any patent, trademark, copyright, or intellectual property rights you own or are seeking.
- Describe any contractual rights or agreements that give you exclusivity or proprietary rights.
- Discuss the impact of any unresolved issues or existing or possible actions pending, such as disputed rights of ownership, relating to proprietary rights on timing and on any competitive edge you have assumed.

VII. Manufacturing and Operations Plan
The manufacturing and operations plan needs to include such factors as plant location, the type of facilities needed, space requirements, capital equipment requirements, and labor force (both full- and part-time) requirements. For a manufacturing business, the manufacturing and operations plan needs to include policies on inventory control, purchasing, production control, and which parts of the product will be purchased and which operations will be performed by your workforce (called make-or-buy decisions). A service business may require particular attention to location (proximity to customers is generally almost as important as minimizing overhead, and obtaining competitive productivity from your labor force).

D. Strategy and plans:
- Describe the manufacturing processes involved in production of your product(s) and any decisions with respect to subcontracting of component parts, rather than complete in-house manufacture.
- Justify your proposed make-or-buy policy in terms of inventory financing, available labor skills, and other nontechnical questions, as well as production, cost, and capability issues.
- Discuss the potential subcontractors and suppliers that are likely to be and any information about them, and the accuracy of these subcontractors and suppliers.
- Present a production plan that shows costs/alternative information at various sales levels of operations with breakdowns at applicable material, labor, purchased components, and factory overhead, and that shows the inventory required at various sales levels.
- Describe your approach to quality control, production control, inventory control, and explain what quality control and inspection procedures the company will use to minimize service problems and customer dissatisfaction.
E. Regulatory and legal issues

- Discuss here any relevant state, federal, or foreign regulatory requirements unique to your product, process, or service, such as laws or other regulatory compliance unique to your business and any licenses, zoning permits, health permits, environmental approvals, and the like, necessary to begin operation.
- Note any pending regulatory changes that can affect the nature of your opportunity and its timing.
- Discuss any legal or contractual obligations that are pertinent as well.

VIII. Management Team

This section of the business plan includes a description of the functions that will need to be filled, a description of the key management personnel and their primary duties, an outline of the organizational structure for the venture, a description of the board of directors, a description of the ownership position of any other investors, and so forth. You need to present indications of commitment, such as the willingness of team members to initially accept modest salaries, and of the existence of the proper balance of technical, managerial, and business skills and experience in doing what is proposed.

A. Organization

- Present the key management roles in the company and the individuals who will fill each position. (If the company is established and of sufficient size, an organization chart needs to be appended.)
- If it is not possible to fill each executive role with a full-time person without adding excessive overhead, indicate how those functions will be performed (e.g., using part-time specialists or consultants to perform some functions), who will perform them, and when they will be replaced by a full-time staff member.
- If any key individuals will not be on board at the start of the venture, indicate when they will join the company.
- Discuss any current or past situations where key management people have worked together that could indicate how their skills complement each other and result in an effective management team.

B. Key management background

- For each key person, describe in detail career highlights, particularly relevant know-how, skills, and track record of accomplishments, that demonstrate his or her ability to perform the assigned role. Include in your description sales and profitability achievements (budget sizes, numbers of subordinates, new product introductions, etc.) and other prior entrepreneurial or general management responsibilities.
- Describe the exact duties and responsibilities of each of the key members of the management team.
- Complete resumes for each key management member need to be included here or as an exhibit and need to stress relevant training, experience, and concrete accomplishments, such as profit and sales improvement, labor management successes, manufacturing or technical achievements, and meeting of budgets and schedules.

C. Management compensation and ownership

- State the salary to be paid, the stock ownership planned, and the amount of their equity investment, if any, of each key member of the management team.
- Compare the compensation of each key member to the salary he or she received at his or her last independent job.

D. Other investors

- Describe here any other investors in your venture, the number and percentage of outstanding shares they own, when they were acquired, and at what price.

E. Employment and other agreements and stock option and bonus plans

- Describe any existing or contemplated employment or other agreements with key members.
- Indicate any restrictions on stock and vesting that affect ownership and disposition of stock.
- Describe any performance-dependent stock option or bonus plans that are contemplated.
- Summarize any incentive stock option or other stock ownership plans planned or in effect for key people and employees.

F. Board of directors

- Discuss the company's philosophy about the size and composition of the board.
- Identify any proposed board members and include a one- or two-sentence statement of the member's background that shows what he or she can bring to the company.

G. Other shareholders, rights, and restrictions

- Indicate any other shareholders in your company and any rights and restrictions or obligations, such as options or guarantees, associated with these. (If there are none, simply note that there are none.)

H. Supporting professional advisors and services

- Indicate the supporting services that will be required.
- Indicate the names and affiliations of the legal, accounting, advertising, consulting, and banking advisors selected for your venture and the services each will provide.

IX. Overall Schedule

A schedule that shows the timing and interrelationship of the major events necessary to launch the venture and realize its objectives is an essential part of a business plan. The underlying cash conversion and operating cycle of the business will provide key inputs for the schedule. In ad
X. Critical Risks, Problems, and Assumptions

The development of a business is risky and fraught with challenges. The business plan inevitably contains some implicit assumptions about the venture. You need to include a description of the risks and the consequences of adverse outcomes relating to your industry, your company, and its personnel, the product's market appeal, and the timing and financing of your startup. Be sure to discuss assumptions concerning sales projections, customer orders, and so forth. If the venture is anything that could be considered a major risk, discuss why it is not. The discovery of any unstated negative factors by potential investors can undermine the credibility of the venture and endanger its financing. Be aware that most investors will read the section describing the management team first and then this section.

XII. The Financial Plan

The financial plan is basic to the evaluation of an investment opportunity and needs to represent your best estimates of financial requirements. The purpose of the financial plan is to indicate the venture's potential and to present a timetable for financial viability. It also can serve as an operating plan for financial management using financial benchmarks. In preparing the financial plan, you need to look creatively at your venture and consider alternative ways of launching or financing it.
As part of the financial plan, financial exhibits need to be prepared. To estimate cash flow needs, use cash-based, rather than an accrual-based, accounting (i.e., use a real-time cash flow analysis of expected receipts and disbursements). This analysis needs to cover three years. Include an initial and prior-year income statements and balance sheets, if applicable; profit and loss forecasts for three years; pro forma income statements and balance sheets; and a break-even chart. On the appropriate exhibits, or in an attachment, assumptions behind such items as sales levels and growth, collections and payables, periods, inventory requirements, cash balances, cost of goods, and so forth, need to be specified. Your analysis of the operating and cash conversion cycle in the business will enable you to identify these critical assumptions.

Pro forma income statements are the plan for profit part of financial management and can indicate the potential financial feasibility of a new venture. Since usually the level of profits, particularly during the start-up years of a venture, will not be sufficient to finance operating asset needs, and since actual cash inflows do not always match the actual cash outflows on a short-term basis, a cash flow forecast that will indicate these conditions and enable management to plan cash needs is recommended. Further, pro forma balance sheets are used to detail the assets required to support the projected level of operations and, through liabilities, to show how these assets are to be financed. The projected balance sheets can indicate if debt-to-equity ratios, working capital, current ratios, inventory turnover, and the like are within the acceptable limits required to justify future financings that are projected for the venture. Finally, a break-even chart showing the level of sales and production that will cover all costs, including those costs that vary with production level and those that do not, is very useful.

A. Actual income statements and balance sheets: For an existing business, prepare income statements and balance sheets for the current year and for the prior two years.

B. Pro forma income statements:
- Using sales forecasts and the accompanying production or operations costs, prepare pro forma income statements for at least the first three years.
- Fully discuss assumptions (e.g., the amount allowed for bad debts and discounts, or any assumptions made with respect to sales expenses or general and administrative costs being a fixed percentage of costs or sales) made in preparing the pro forma income statement and document them.
- Draw on Section X of the business plan and highlight any major risks, such as the effect of a 20 percent reduction in sales from those projected or the adverse impact of having to climb a learning curve on the level of productivity over time, that could prevent the venture's sales and profit goals from being attained, plus the sensitivity of profits to these risks.

C. Pro forma balance sheets: Prepare pro forma balance sheets semiannually in the first year and at the end of each of the first three years of operation.

D. Pro forma cash flow analysis:
- Project cash flows monthly for the first year of operation and quarterly for at least the next two years, detailing the amount and timing of expected cash inflows and outflows; determine the need for and timing of additional financing and indicate cash requirements for working capital, and indicate how needed additional financing is to be obtained, such as through the equity financing, through bank loans, or through short-term lines of credit from banks, on what terms, and how it is to be repaid. Remember they are based on cash, not accrual, accounting.
- Discuss assumptions, such as those made on the timing of collection of receivables, trade discounts given, terms of payments to vendors, planned salary and wage increases, anticipated increases in any operating expenses, seasonally characteristics of the business as it affect inventory requirements, inventory turnover per month, capital equipment purchases, and so forth. Again, these are real-time (i.e., cash), not accrual.
- Discuss cash flow sensitivity to a variety of assumptions about business factors (e.g., possible changes in such crucial assumptions as an increase in the receivable collection period or a sales level lower than that forecasted).

E. Break-even chart:
- Calculate break-even and prepare a chart that shows when break-even will be reached and any stepwise changes in break-even which may occur.
- Discuss the break-even shown for your venture and whether it will be easy or difficult to attain break-even, including a discussion of the size of break-even sales volume relative to projected total sales, the size of gross margins and price sensitivity, and how the break-even point might be lowered or if the venture falls short of sales projections.

F. Cost control: Describe how you will obtain information about report costs and how often, who will be responsible for the control of various cost elements, and how you will take action on budget overruns.

G. Highlights:
- Highlight the important conclusions, such as what the maximum amount of cash required is and when it will be required, the amount of debt and equity needed, how fast any debts can be repaid, etc., that can be drawn.

XII. Proposed Company Offering

The purpose of this section of the plan is to indicate the amount of any money that is being sought, the nature and amount of the securities offered to the investor, a brief description of the uses that will be made of the capital raised, and a summary of how the investor is expected to achieve its targeted rate of return. It is recommended that you read the discussion about financing in Part IV.
It is important to realize the terms for financing your company that you propose here are the first step in the negotiation process with those interested in investing, and it is very possible that your financing will involve different kinds of securities than originally proposed.

A. Desired financing. Based on your real-time cash flow projections and your estimate of how much money is required over the next three years to carry out the development and/or expansion of your business as described, indicate how much of this capital requirement will be obtained by this offering and how much will be obtained via term loans and lines of credit.

B. Offering:
- Describe the type (e.g., common stock, convertible debentures, debt with warrants, debt plus stock), unit price, and total amount of securities to be sold in this offering. If securities are not just common stock, indicate by type, interest, maturity, and conversion conditions.
- Show the percentage of the company that the investors of this offering will hold after it is completed or after exercise of any stock conversion or purchase rights in the case of convertible debentures or warrants.
- Securities sold through a private placement and that therefore are exempt from SEC registration should include the following statement in this part of the plan.

The shares being sold pursuant to this offering are restricted securities and may not be resold readily. The prospective investor should recognize that such securities might be restricted as to resale for an indefinite period of time. Each purchaser will be required to execute a Non-Distribution Agreement satisfactory to corporate counsel.

C. Capitalization:
- Present in tabular form the current and proposed (postoffering) number of outstanding shares of common stock. Indicate any shares offered by key management people and show the number of shares that they will hold after completion of the proposed financing.
- Indicate how many shares of your company's common stock will remain authorized but unissued after the offering and how many of these will be reserved for stock options for future key employees.

D. Use of funds. Investors like to know how their money is going to be spent. Provide a brief description of how the capital raised will be used. Summarize as specifically as possible what amount will be used for such things as product design and development, capital equipment, marketing, and general working capital needs.

E. Investors' return. Indicate how your valuation and proposed ownership shares will result in the desired rate of return for the investors you have targeted and what the likely harvest or exit mechanisms (IPO, outright sale, merger, MBO, etc.) will be.