BUSINESS PLAN

QUESTIONS

- 1. Investment project’ profitability: future value of investment
- 2. Business plan

1. Investment project' profitability: future value of investment

What Is the Time Value of Money?

The time value of money means your dollar today is worth more than your dollar tomorrow because of inflation. Inflation increases prices over time and decreases your dollar's spending power.

So the investors and producers need to forecast the future value of investments. It is a process that helps in planning the investment projects of an organization in long run. Every investments project' analysis is connected with:

- Payback period
- Discounted payback period
- Net present value
- Accounting rate of return

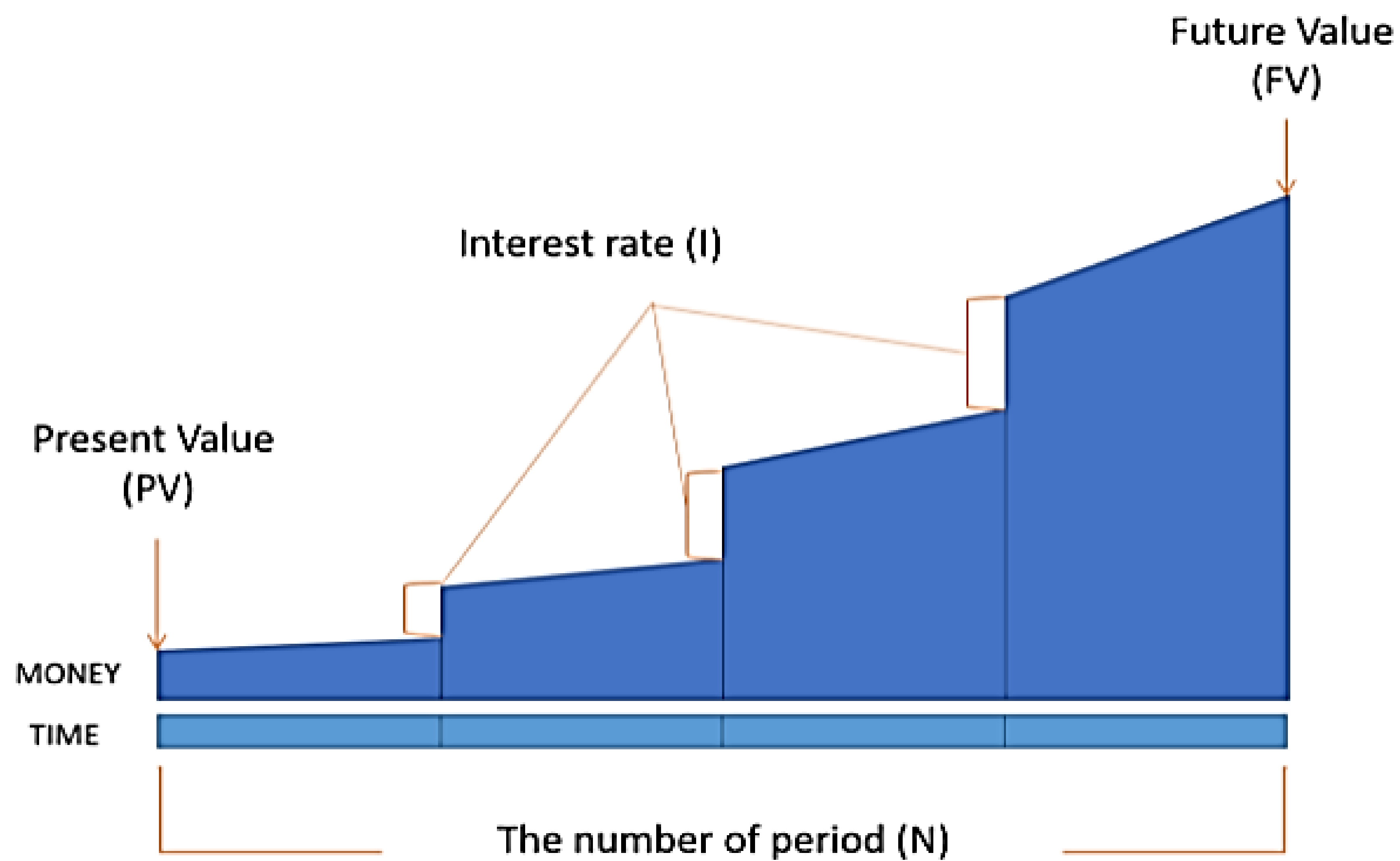
1. Investment project' profitability: future value of investment

What Is the Time Value of Money?

The time value of money means your dollar today is worth more than your dollar tomorrow because of inflation. Inflation increases prices over time and decreases your dollar's spending power.

There are five (5) variables that you need to know:

1. **Present value (PV)** - This is your current starting amount. It is the money you have in your hand at the present time, your initial investment for your future.
2. **Future value (FV)** - This is your ending amount at a point in time in the future. It should be worth more than the present value, provided it is earning interest and growing over time.
3. **The number of periods (N)** - This is the timeline for your investment (or debts). It is usually measured in years, but it could be any scale of time such as quarterly, monthly, or even daily.
4. **Interest rate (I)** - This is the growth rate of your money over the lifetime of the investment. It is stated in a percentage value, such as 8% or .08.
5. **Payment amount (PMT)** - These are a series of equal, evenly-spaced cash flows.


Future Value
(FV)
Interest rate (I)
Present Value
(PV)
MONEY
TIME
The number of period (N)

DEFINITION OF PAYBACK PERIOD METHOD

Payback Period (PBP) is one of the simplest capital budgeting

techniques. It calculates the number of years a project takes in recovering the initial investment based on the future expected cash inflows.

The calculation of payback period is very simple and its interpretation too. The advantage is its simplicity whereas there is two major disadvantage of this method. It does not consider cash flows after the payback period it also ignores the time value of money.

All that is needed for calculation of payback period is simply nothing more than preparing a table and then applying a simple formula / equation.

Let us understand the steps for finding the payback period with the help of an example.

DEFINITION OF DISCOUNTED PAYBACK PERIOD

Discounted payback period is a capital budgeting method used to calculate the time period a project will take to break even and recover the initial investments. The calculation is done after considering the time value of money and discounting the future cash flows.

FORMULA FOR CALCULATING DISCOUNTED PAYBACK PERIOD

To calculate the discounted payback period, firstly we need to calculate the discounted cash inflow for each period using the following formula:

Discounted Cash Inflow = Actual cash inflow / (1 + i) n,

where i - the discount rate, n - the period for which the cash inflow relates

In the next step, we calculate the discounted payback period using the following formula:

Discounted Payback Period = A + B / C,

where A - the last period having negative discounted cash flow, B - the value of discounted cumulative cash flow at the end of period A, C - the discounted cash flow after the period A

DEFINITION OF PAYBACK PERIOD METHOD (EXAMPLE)

Suppose a project with initial cash investment of $1,000,000 with a cash flow pattern from 1 to 5 years – 120,000.00, 150,000.00, 300,000.00, 500,000.00 and 500,000.00.

We will first arrange the data in a table with year-wise cash flows with an additional column of cumulative cash flows as shown in the below table. From the table, we can make out that the payback period is greater than 3 but less than 4 years since the cumulative value of cash flow is crossing the initial investment amount in the year 4.

To find out the exact payback period, we can use the following formula / equation:

Payback Period = W + (X – Y) / Z where,

3 + (1000000 – 570000) / 500000

=> 3 + 430000 / 500000

= 3 + 0.86 = 3.86 Years

Year	Cash Flow	Cumulative Cash Flows
0	(X) -1,000,000.00	
1	120,000.00	120,000.00
2	1,50,000.00	270,000.00
3 (W)	300,000.00	(Y) 570,000.00
4	(Z) 500,000.00	1,070,000.00
5	500,000.00	1,570,000.00

W is the year before which the investment value is crossed in cumulative cash flows i.e. 3 in our case.

X is the initial investment or the initial cash outlay

Y is the cumulative cash flow just before the investment value is crossed in cumulative cash flows

Z is the cash flow of the year in which the investment value is crossed in the cumulative cash flows

DEFINITION OF DISCOUNTED PAYBACK PERIOD (EXAMPLE)

Initial investment = \$ 70000, Years (n) = 5, Rate (i) = 12%, Cash Flow = \$ 20000

Calculate what is Discounted Payback Period?

Solution

A - the last period having negative discounted cash flow = 4

B - the value of discounted cumulative cash flow at the end of period A = 9253.03

C - the discounted cash flow after the period A = 11348.54

Formula for calculating,

Discounted Payback Period = A + B / C

= 4 + 9253.03 / 11348.54 = 4.81 years

Year (n)	Cash Flow (CF)	Present Value Factor PV = 1 / (1+i) n	Discounted Cash Flow (CF x PV)	Cumulative Discounted Cash Flow (CCF)
0	70000	1	70000	70000.00
1	20000	0.89	17857.14	52142.86
2	20000	0.79	15943.87	36198.99
3	20000	0.71	14235.60	21963.39
4	20000	0.64	12710.36	9253.03
5	20000	0.57	11348.54	-2095.51

Discounted Payback Period

Like Simple PBP, it is a method to calculate break even time / investment recovery time.

In Simple PBP, absolute value of cash flows are taken, whereas in Discounted PBP, discounted value of cash flows are considered.

ADVANTAGES

1. It considers time value of money while calculating PBP.
2. It determines the actual risk involved in a project.

DISADVANTAGES

1. Fails to determine whether the investment will increase the firm's value or not.
2. Calculation for Discounted PBP can get complex if there are multiple negative cash flows.

INTERNAL RATE OF RETURN (IRR) DEFINITION

The internal rate of return is a discounting cash flow technique which gives a rate of return that is earned by a project. We can define the internal rate of return as the discounting rate which makes a total of initial cash outlay and discounted cash inflows equal to zero. In other words, it is that discounting rate at which the net present value is equal to zero.

CALCULATION OF INTERNAL RATE OF RETURN USING A FORMULA / EQUATION

Initial Cash Outlay + Present Value of all Future Cash Inflows = 0

Or, using another logics,

To calculate IRR using the formula,

one would set NPV equal to zero and solve

for the discount rate (r), which is the IRR.

Because of the nature of the formula, however,

IRR cannot be calculated analytically and must

instead be calculated either through trial-and-error

or using software programmed to calculate IRR.

$$0 = \text{NPV} = \sum_{t=1}^{T} \frac{C_t}{(1+IRR)^t} - C_0$$

where:

C_t = Net cash inflow during the period t

C_0 = Total initial investment costs

IRR = The internal rate of return

t = The number of time periods

DEFINITION OF INTERNAL RATE OF RETURN (IRR) (EXAMPLE)

Suppose a company is investing in a simple project which will fetch 5000 dollars in the next 3 years and the initial investment in project is 10000 dollars. The internal rate of return (IRR) is 23.38%. It makes the decision making very simple. We just need to compare these percentage returns to the one which we can get by investing somewhere.

We have stated the IRR of 23.38% above in our example. We will understand the calculation using the same example and find out the stated IRR. Formula / Equation of IRR is stated below:

Initial Cash Outlay + Present Value of all Future Cash Inflows = 0

$-10{,}000 + 5000 / (1 + IRR)^1 + 5000 / (1 + IRR)^2 + 5000 / (1 + IRR)^3 = 0$

Finding out the IRR from above equation is not a simple equation solving exercise. We need to use either trial and error method or interpolation method to find out the required IRR which makes equation equal to zero. Trial and error is a method in which you keep trying arbitrary values to equate the equation whereas interpolation method is more scientific. We find two extreme values which give value of equation greater than zero and less than zero. See below.

DEFINITION OF INTERNAL RATE OF RETURN (IRR) (EXAMPLE)

Year	Cash Flows	At 18%	At 25%
0	-10000	-10000	-10000
1	5000	4237.29	4000
2	5000	3590.92	3200
3	5000	3043.15	2560
Total		871.36	-240

At 25% calculation is nearer to 0. To find a percentage of IRR which makes it zero we will do the following calculation.

IRR = 25 – (25-18) * 240 / (871.36 + 240) Or,

IRR = 18 + (25-18) * 871.36 / (871.36 + 240)

They will give an answer of 23.49% which almost same as 23.38%. We can find quite exact percentage by using a formula in Microsoft Excel. The formula used is “IRR”.

INTERNAL RATE OF RETURN

The **INTERNAL RATE OF RETURN** is a discounting cash flow technique which gives a rate of return that is earned by a project.
This technique is used for evaluation of big projects and investment proposals.

INTERPRETATION

- It makes decision making fast and simple.
- A project that is not able to get its investment back, this method will give a negative percentage. (Negative IRR)

PROS AND CONS

- ✓ ADVANTAGE : It simply tells what the project under concern will return in terms of percentage. We do not need to decide a hurdle rate in advance.
- ✓ DISADVANTAGE : It does not consider the dollar value.

PROFITABILITY INDEX DEFINITION

Profitability Index is a ratio of discounted cash inflow to the discounted cash outflow. Discounted cash inflow is our benefit in the project and the initial investment is our cost, which is why we also call it benefit to cost ratio.

The method used for arriving at profitability index of a proposed project is explained stepwise below:

a) Find the expected cash inflows of the project

b) Find the cash outflows of the project (Initial Investment + any other cash outflow)

c) Decide an appropriate discount rate

d) Discount the expected cash inflows using the discount rate

e) Discount the future cash outflows and add to initial investment

f) Divide step (d) by step (e)

HOW TO CALCULATE THE PROFITABILITY INDEX

The calculation of PI is easily possible once we have the cash inflows and outflows with appropriate discount rate are in place.

PROFITABILITY INDEX FORMULA

The formula indicates the benefits in the numerator and costs in the denominator. The formula for calculating Profitability Index is as follows:

Profitability Index = Present Value of Future Cash Flows / Initial Investment in the Project.

PROFITABILITY INDEX DEFINITION (EXAMPLE)

Let's assume the cash flows of a project as mentioned year wise in the 2nd column of the below table. The negative cash flows are the costs and positive ones are the benefits. In the 3rd column, they are discounted at 10% rate. All the discounted benefits are added to make $ 16,832 and discounted costs to make $15,450.

The benefit to cost ratio or the PI

can be found out by dividing benefits

by costs (16832/15450 = 1.382)

Year	Cash Flows (CF)	Discounted CF @ 10%	Benefits	Costs
0	-10000	-10000		10000
1	5000	4545	4545	
2	5000	4132	4132	
3	-5000	-3757		3757
4	4000	2732	2732	
5	4000	2484	2484	
6	-3000	-1693		1693
7	3000	1539	1539	
8	3000	1400	1400	
Total		1382	16832	15450
NPV			**16832/15450= 1.09**	
			Profitability Index	

PROFITABILITY INDEX

- Profitability Index (PI) is a capital budgeting technique to evaluate the investment projects for their viability or profitability.
- Profitability Index is a ratio of discounted cash inflow to the discounted cash outflow.

STEPS TO CALCULATE PI

Find the expected Cash Inflow → Find the cash outflow → Decide upon the Discount Rate → Discount the expected cash inflows using the discount rate → Discount the future cash outflows and add to initial investment →Divide step (d) by step (e)

PROS AND CONS

ADVANTAGES : It considers time value of money concept. It also allows two investment comparison.

DISADVANTAGES : Two projects having the vast difference in investment and dollar return can have the same PI. In such situation, the NPV method works.

RETURN OF INVESTMENT

Return on investment (ROI) is a financial ratio used to calculate the benefit an investor will receive in relation to their investment cost. It is often measured as Net income divided by the Original capital cost of the investment. The higher the ratio, the greater the benefit earned.

ROI Formula

There are several versions of the ROI formula. The two most commonly used are shown below:

ROI = Net Income / Cost of Investment or

ROI = Investment Gain / Investment Base

The first version of the ROI formula (net income divided by the cost of an investment) is the most commonly used ratio.

The simplest way to think about the ROI formula is taking some type of “benefit” and dividing it by the “cost”. When someone says something has a good or bad ROI, it’s important to ask them to clarify exactly how they measure it.

Risks of investment projects

The risk of investment projects can be divided into several criteria.
According to the phase of the investment risk can be:

- preparation phase risk,
- risks associated with the acquisition and selection of appropriate financing of the project,
- risk of project implementation,
- risk of exploitation,
- risk of liquidation.

Other risks are:

- risk of the sponsor,
- risk of funding sources,
- risk of expenditure overruns.

2. Business plan

A business plan is a written document that describes in detail how a business—usually *a startup*—defines its objectives and how it is to go about achieving its goals. A business plan lays out a written roadmap for the firm from marketing, financial, and operational standpoints.

Business plans are important documents used to attract investment before a company has established a proven track record. They are also a good way for companies to keep themselves on target going forward.

Although they're especially useful for new businesses, every company should have a business plan. Ideally, the plan is reviewed and updated periodically to see if goals have been met or have changed and evolved. Sometimes, a new business plan is created for an established business that has decided to move in a new direction.

TYPES OF BUSINESS PLANS

Business plans help companies identify their objectives and remain on track. They can help companies start and manage themselves, and to help grow after they're up and running. They also act as a means to get people to work with and invest in the business.

Although there are no right or wrong business plans, they can fall into two different categories—***traditional*** or ***lean startup***.

According to the Small Business Administration, the ***traditional business plan*** is the most common. They are standard, with much more detail in each section. These tend to be much longer and require a lot more work.

Lean startup business plans, on the other hand, use a standard structure even though they aren't as common in the business world. These business plans are short—as short as one page—and have very little detail. If a company uses this kind of plan, they should expect to provide more detail if an investor or lender requests it.

1. Traditional business plan: Startup businesses

The most classic business planning scenario is for a startup, for which the plan helps the founders break uncertainty down into meaningful pieces, like the sales projection, expense budget, milestones, and tasks.

The need becomes obvious as soon as you recognize that you don't know how much money you need, and when you need it, without laying out projected sales, costs, expenses, and timing of payments. And that's for all startups, whether or not they need to convince investors, banks, or friends and family to part with their money and fund the new venture.

In this case, the business plan is focused on explaining what the new company is going to do, how it is going to accomplish its goals, and—most importantly—why the founders are the right people to do the job. A startup business plan also details the amount of money needed to get the business off the ground, and through the initial growth phases that will lead (hopefully!) to profitability.

2. Traditional business plan: Existing businesses

Not all business plans are for startups that are launching the next big thing. Existing businesses use business plans to strategically manage and steer the business, not just to address changes in their markets and to take advantage of new opportunities. They use a plan to reinforce strategy, establish metrics, manage responsibilities and goals, track results, and manage and plan resources including critical cash flow. And of course, they use a plan to set the schedule for regular review and revision.

Business plans can be a critical driver of growth for existing businesses. Did you know that businesses that write plans and use them to manage their business grow 30 percent faster than businesses that take a “seat of the pants” approach? A study by Professor Andrew Burke, the founding Director of the Bettany Centre for Entrepreneurial Performance and Economics at Cranfield School of Management, discovered exactly this.

For existing businesses, a robust business planning process can be a competitive advantage that drives faster growth and greater innovation. Instead of a static document, business plans in existing businesses become dynamic tools that are used to track growth and spot potential problems before they derail the business.

3. Lean business plan: One-page business plan

A one-page business plan is exactly what it sounds like: a quick summary of your business delivered on a single page. No, this doesn't mean a very small font size and cramming tons of information onto a single page—it means that the business is described in very concise language that is direct and to-the-point.

A one-page business plan can serve two purposes. First, it can be a great tool to introduce the business to outsiders, such as potential investors. Since investors have very little time to read detailed business plans, a simple one-page plan is often a better approach to get that first meeting. Later in the process, a more detailed plan will be needed, but the one-page plan is great for getting in the door.

This simple plan format is also great for early-stage companies that just want to sketch out their idea in broad strokes. Think of the one-page business plan as an expanded version of jotting your idea down on a napkin. Keeping the business idea on one page makes it easy to see the entire concept at a glance and quickly refine concepts as new ideas come up

4. Lean business plan: Lean plan

A Lean Plan is more detailed than a one-page plan and includes more financial information, but it’s not as long as a traditional business plan. Lean Plans are more likely to be used internally as tools for strategic planning and growth.

The Lean Business Plan dispenses with the formalities that are needed when presenting a plan externally for a loan or investment and focuses almost exclusively on business strategy, tactics, milestones, metrics, budgets, and forecasts.

The simplest lean business plan uses bullet points to define strategy, tactics, concrete specific dates and tasks, and essential numbers including projected sales, spending, and cash flow. It’s just five to 10 pages when printed. And few Lean Plans need printing. Leave them on the computer. Review and revise them at least once a month. The first Lean Plan takes just a few hours to do (or less), and a monthly review and revision can take only an hour or two per month.

Lean business plans are management tools used to guide the growth of both startups and existing businesses. They help business owners think through strategic decisions and measure progress towards goals.

5. External business plan

External business plans, the formal business plan documents, are designed to be read by outsiders to provide information about a business. The most common use of a full business plan is to convince investors to fund a business, and the second most common is to support a loan application. Occasionally this type of business plan is also used to recruit or train or absorb key employees, but that is much less common.

A formal business plan document is an extension of the internal business plan or the Lean Plan. It's mostly a snapshot of the internal plan as it existed at a certain time. But while an internal plan is short on polish and formality, a formal business plan document should be very well-presented, with more attention to detail in the language and format. See example business plans in our sample plan library to give you an idea of what the finished product might look like.

In addition, an external plan details how potential funds are going to be used. Investors don't just hand over cash with no strings attached—they want to understand how their funds will be used and what the expected return on their investment is.

Finally, external plans put a strong emphasis on the team that is building the company. Investors invest in people rather than ideas, so it's critical to include biographies of key team members and how their background and experience is going to help grow the company.

ELEMENTS OF A BUSINESS PLAN

The length of the business plan varies greatly from business-to-business. All of the information should fit into a 15- to 20-page document. If there are crucial elements of the business plan that take up a lot of space — such as applications for patents — they should be referenced in the main plan and included as appendices.

As mentioned above, no two business plans are the same. But they all have the same elements. Below are some of the common and key parts of a business plan.

ELEMENTS OF A BUSINESS PLAN

Executive summary: This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.

Products and services: Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Any information about research and development (R&D) can also be included here.

Market analysis: A firm needs a good handle of the industry as well as its target market. It will outline who the competition is and how it factors in the industry, along with its strengths and weaknesses. It will also describe the expected consumer demand for what the businesses is selling and how easy or difficult it may be to grab market share from incumbents.

ELEMENTS OF A BUSINESS PLAN

Marketing strategy: This area describes how the company will attract and keep its customer base and how it intends to reach the consumer. This means a clear distribution channel must be outlined. It will also spell out advertising and marketing campaign plans and through what types of media those campaigns will exist on.

Financial planning: In order to attract the party reading the business plan, the company should include its financial planning and future projections. Financial statements, balance sheets, and other financial information may be included for already-established businesses. New businesses will instead include targets and estimates for the first few years of the business and any potential investors.

Budget: Any good company needs to have a budget in place. This includes costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

How to organize your business plan

There’s no real established order to business plans, aside from keeping the Executive Summary at the top. As long as you have all of the main business plan components, then the order should reflect your goals.

If this is meant solely for your personal use, lay it out as a roadmap with similar sections grouped together for easy reference. If you’re pitching this to potential investors, lead with the stronger sections to emphasize the pitch. Or if you’re unsure of the order altogether, what’s presented in this article is the sequence of business plan elements that I suggest for a standard business plan.

Should you include tables and charts in your business plan?

I believe that every business plan should include bar charts and pie charts to illustrate the numbers. It’s a simple way for you, your team, and investors to visualize and digest complex financial information.

Cash flow is the single most important numerical analysis in a business plan, and a standard cash flow statement or table should never be missing. Most standard business plans also include a sales forecast and income statement (also called profit and loss), and a balance sheet.

I believe they should also have projected business ratios, and market analysis tables, as well as personnel listings.

You may not need a full business plan

Every business owner should have an ongoing planning process to help them run their business, but not every business owner needs a complete, formal business plan. If you plan to pitch or seek out funding from a potential investor, bank, or venture capital contest, then a traditional business plan will likely be necessary.

So don’t include outline points just because they are on this list. Size your business plan to fit your business. Remember that your business plan should be only as big as what you need to run your business.

Start with a Lean Plan

Instead of jumping right into a full business plan, it may be better to start with a Lean Plan. It’s a faster and easier method that can be completed in under an hour and is simple enough to review and revise on a regular basis. And you can always take your initial Lean Plan and expand it into a traditional business plan when necessary.

Lean Planning turns what could be just a static document into an active management tool for your business. This methodology is baked into LivePlan and is perfect for planning, starting, managing, and growing.

HOW TO CONSTRUCT BUSINESS PLAN

Don't make common mistakes like avoiding planning around cash flow, establishing vague goals, or projecting unrealistic growth. Avoiding these, and other common business planning errors will put you far ahead of the curve. Keep in mind that you don't need to be perfect when writing your plan. Just do your best to be thorough and be willing to make changes if you realize something won't pan out like expected.

Now let's learn the simple instruction what problems you need to reflect and solve within constructing the successful business plan

1.0 Executive Summary

1.1 Problem

A summary of the problem you are solving and an identifiable need in the market you are filling.

1.2 Solution

A description of the product or service you will provide to solve the problem.

1.3 Target Market

A defined customer base who will most likely purchase the product or service. For info on how to define your target market, check out our guide on the subject.

1.4 Competition

The current alternatives or substitutes in the market that you and your business will be competing against.

1.5 Financial Summary

Key highlights of your financial plan that covers costs, sales, and profitability.

1.6 Funding Requirements

A brief outline of the amount of money you will need to start your business. Include this if you plan on pitching to investors.

1.7 Milestones and Traction

A roadmap of where you currently are and specific milestones you plan to hit.

2.0 Opportunity

2.1 Problem Worth Solving

A thorough description of the problem or pain point you intend to solve for your customer base.

2.2 Our Solution

A thorough description of your proposed product or service that alleviates the problem of your customer base.

2.3 Validation of Problem and Solution

Any data or relative information that supports your solution. If you've already run tests that verify your idea, this is the place to include your results.

2.4 Roadmap/Future Plans

A list of steps taken so far, along with an outline of steps you plan to take in establishing or growing your business.

3.0 Market Analysis Summary

3.1 Market Segmentation

Potential groups of customers separated by specific characteristics.

3.2 Target market segment strategy

Your ideal customer who would most likely benefit from your business.

3.2.1 Market needs

A description of how your target market is not effectively served and how your business fulfills a need.

3.2.2 Market trends

How consumers in your target market tend to act including purchasing habits, financial trends, and any other relevant factors.

3.2.3 Market growth

The perceived potential increase or decrease in the size of your target market.

3.3 Key customers

Your ideal customer archetype who will be the main advocate for your business.

3.4 Future markets

A snapshot of the potential market based on the last few sections and how your business strategy works within it.

3.5 Competition

A list of potential competitors. Identifying the competition isn't always obvious and it may take some digging on your part.

3.5.1 Competitors and alternatives

A list of potential indirect competitors that provide products or services that are alternatives to your business.

3.5.2 Competitive advantage

The strategic advantage(s) that makes your target market more likely to choose you over the competition.

4.0 Execution

4.1 Marketing plan

An outline of your marketing and advertising strategy including costs, advertising channels, and goals.

4.2 Sales plan

An estimate of the number of sales you anticipate based on market conditions, capacity, pricing strategy, and other factors.

4.3 Location and facilities

Details of your physical business location (if necessary) including location and costs of operation.

4.4 Technology

An explanation of any new technology that defines your business.

4.5 Equipment and tools

Any required production equipment or tools and the cost associated with purchasing or renting them.

4.6 Milestones

A detailed roadmap of specific goals and objectives you plan to achieve that will help you manage and steer your business.

4.7 Key metrics

Performance measurements that help you gauge the overall performance and health of your business.

5.0 Company and management summary

5.1 Organizational structure

An overview of the structure of your business including roles and responsibilities of specific employees and the flow of information between levels of the organization.

5.2 Management team

A list of potential candidates you anticipate taking on high-level management roles within your company.

5.3 Management team gaps

Any positions or areas of expertise that you currently do not have candidates ready to fill those roles.

5.4 Personnel plan

A list of potential positions that you expect to require in order to run your business effectively.

5.5 Company history and ownership

A summary of your company's history and how it relates to planning your business.

4.0 Execution

6.0 Financial plan

6.1 Revenue and sales forecast

Expected revenue and sales for the next 1-3 years, broken down into month-by-month increments for at least the first year.

6.2 Expenses

6.3 Projected profit and loss

6.4 Projected cash flow

6.5 Projected balance sheet

6.7 Business ratios

Standard statistical indicators that showcase the current and projected health of your business.

7.0 Appendix

A repository for any additional information, including charts and graphs, to support your business plan.

Identification of need

Strategic analysis

Core processes

Support processes

Action plan & budget

Finalization

Implemen-
tation

TIPS TO EXTRACT THE MOST VALUE FROM YOUR PLAN IN THE LEAST AMOUNT OF TIME

1. **Use your one-page business plan to quickly outline your strategy**. Use this document to periodically review your high-level strategy. Are you still solving the same problem for your customers? Has your target market changed?
2. **Use a Lean Plan to document processes that work**. Share this document with new employees to give them a clear picture of your overall strategy.
3. **Set milestones for what you plan to accomplish** in the next 30 days. Assign these tasks to team members, set dates, and allocate part of your budget if necessary.
4. **Keep your sales forecast and expense budget current**. As you learn more about customer buying patterns, revise your forecast.
5. **Compare your planned budgets and forecasts with your actual results** at least monthly. Make adjustments to your plan based on the results.
6. The final, most important aspect of leveraging your business plan as a growth engine is to **schedule a monthly review**. The review doesn't have to take longer than an hour, but it needs to be a regular recurring meeting on your calendar. In your monthly review, go over your key numbers compared to your plan, review the milestones you planned to accomplish, set new milestones, and do a quick review of your overall strategy.