



## SBA RECOMMENDED BUSINESS PLANS & LENGTH

This is one of the most common questions asked by new entrepreneurs. The answer is: **"It depends."**

Most business experts and counselors say it should be 30 to 50 pages, as a minimum, while others may say even less or more than this depending on their own personal perspective.

Nothing can be farther from the truth as Business Plans are written to a specific audience and can have other factors that impact how long it will be.

From SBA's point of view, **a business plan needs to be whatever length is required to excite the financing source, prove that management truly understands the market, and detail the execution strategy.** From various surveys done by many different organizations, it has been stated that 25 to 100 pages of information is the minimum length in which to accomplish this, depending on various factors. These include targeted markets (1 to 2 pages), difficult assumptions or non-industry data (1 to 3 pages), industry risk (1 page), poor credit factors that require additional explanation or documentation (2 to 4 pages), and financing source (1/2 to 1 page). Using the SBA model below on page two, a business plan can range in size from 38 to 50 pages for a basic plan to as high as 80 to 100 pages for complex plans.

Why does SBA care? We are concerned that any less than this may cause the capital source to think the business model has not been fully thought through, or they simply did not have enough information to make a good credit decision.

A "start-up" business plan should be a realistic view of the expectations and long-term objectives for the new venture. It should provide the framework within which it must operate and, ultimately, succeed or fail. For entrepreneurs seeking external support such as financing, the plan is the most important sales document that they are ever likely to produce, as it could be the key to raising funds. Preparation of a business plan will not guarantee success in obtaining a loan or mobilizing support, but the lack of a sound plan that cannot tell the story will undoubtedly fail.

Please do not get a business plan confused with a **"loan proposal"** or an **"Executive Summary."** A loan proposal is usually a business plan summary (generally less than 10 pages) used by established businesses that are seeking financing for a specific need. These are businesses in business for at least five plus years.

The Executive Summary is the most important section of your business plan. It provides a concise overview of the entire plan along with a history of your company. This section tells your reader where your company is and where you want to take it. It's the first thing your readers see; therefore it is the thing that will either grab their interest and make them want to keep reading or make them want to put it down and forget about it. More than anything else, this section is important because it tells the reader why you think your business idea will be successful.

The executive summary should be the last section you write. After you've worked out all the details of your plan, you'll be in a better position to summarize it - and it should be a summary of no more than 4 pages. We would suggest 1 to 2 pages should be sufficient.

### Contents of the Executive Summary

- The Mission Statement - The mission statement briefly explains the thrust of your business. It could be two words, two sentences, a paragraph, or even a single image. It should be as direct and focused as possible, and it should leave the reader with a clear picture of what your business is all about.
- Date business began
- Names of founders and the functions they perform

- Number of employees and location of business including branches or subsidiaries
- Description of plant or facilities
- Products manufactured/services rendered
- Banking relationships and information regarding current investors
- Summary of company growth including financial or market highlights (e.g. your company doubled its worth in 12-month period; you became the first company in your industry to provide a certain service)
- Summary of management's future plans - With the exception of the mission statement, all of the information in the Executive Summary should be highlighted in a brief, even bulleted, fashion. Remember, these facts are laid out in-depth further along in the plan.

If you're just starting a business, you won't have a lot of information to plug into the areas mentioned above. Instead, focus on your experience and background as well as the decisions that led you to start this particular enterprise. Include information about the problems your target market has and what solutions you provide. Show how the expertise you have will allow you to make significant inroads into the market. Convince your reader what you're going to do differently or better and there is a real need for your service or product.

To assist the reader in locating specific sections in your business plan, include a table of contents directly following your executive summary. Make sure that the content titles are very broad; in other words, avoid detailed descriptions in your table of contents.

Some people feel that a multi-page plan is too complex to describe in 25 to 50 pages, especially when the business model is very simple such as a one-person landscaping business. While this is sometimes true, the business plan is meant to tell the whole story. However, the entrepreneur must "boil down" the plan into its essential elements. Remember this: business plans, like all correspondence are written to the targeted audience. And in many cases, the SBA lender WILL require complete information to decide whether they want to fund the new business.

Many new entrepreneurs think the bank president or BDO will actually read the plan. You will find that most do not and provide a cursory review or "pre-qualify assessment" and will focus on the plan's Executive Summary while passing the complete business plan on to an Underwriter. These people are your "targeted audiences" as they analyze the details of the plan – and they DO require detail to make an informed recommendation.

While the body of the business plan may be up to 50 or more pages (and even more for complex structures or needs), the use of an Appendix is invaluable for supplemental information. The Appendix should include a full set of financial projections, and as appropriate, technical and/or operational drawings, partnership and/or customer agreements, expanded competitor reviews, and lists of key customers among others. Need more info? Visit <http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/index.html>

## Elements of a Good Business Plan from SBA

### Part 1: Introduction (3 to 5 pages)

- Quality binder to hold the information
- Attractive Cover Page to Grab Attention (1 page)
- Executive Summary to Entice Interest (1 to 2 pages)
- Table of Contents to make it Simple (1 page)
- Use page numbers and dividers to navigate easily through the plan

### Part 2: Market Analysis (9 to 22 pages)

The market analysis section should illustrate your knowledge about your particular industry. It should also present general highlights and conclusions of any marketing research data you have collected; however, the specific details of your marketing research studies should be moved to the appendix section of your business plan.

- Industry Description and Outlook (1 to 2 pages)
- Identifying Your Target Market (2 to 8 pages)
  - Distinguishing characteristics.
  - Size of the primary target market.
  - Market research.

- Your pricing and gross margin targets.
- Media you will use to reach your target audience.
- Purchasing cycle of your potential customers.
- Trends and potential changes that may affect your primary target market.
- Industry risks (1 to 2 pages)
- Competitive Analysis (1 to 3)
  - Strength assessment including:
    1. An ability to satisfy customer needs and current upward economic conditions
    2. A large share of the market and the consumer awareness that comes with it
    3. A good track record and reputation
    4. Solid financial resources and the subsequent staying power which that provides
    5. Key personnel
  - 1. Weaknesses assessment including:
    1. A high investment cost
    2. The time it takes to set up your business and current downward economic conditions
    3. Changing technology
    4. The lack of quality personnel
    5. Customer resistance (i.e., long-standing relationships, brand loyalty)
    6. Existing patents and trademarks that you can not infringe upon
- Key personnel with résumés that details your ability to manage a business and what specialized small business training you have recently completed (1 to 4 pages)
- Regulatory Restrictions, Licensing or Special Permitting (1 page)
- 5-Year Projected revenue levels, based on market data, and assumptions (1 to 2 pages)

### Part 3: Company Description (1 to 2 pages)

Without going into detail, this section should include a high-level look at how all of the different elements of your business fit together. The company description section should include information about the nature of your business as well as list the primary factors that you believe will make your business a success.

### Part 4: Organization & Management (3 to 5 pages)

This section should include your company's organizational structure, details about the ownership of your company, profiles of your management team, and the qualifications of your board of directors.

- Organizational Structure (Organizational Chart) (1 page)
- Ownership Information including: (1 page)
  - Names of owners
  - Percentage ownership
  - Extent of involvement with the company
  - Forms of ownership (i.e., common stock, preferred stock, general partner, limited partner)
  - Outstanding equity equivalents (i.e., options, warrants, convertible debt)
  - Common stock (i.e., authorized or issued)
- Management Resumes including compensation basis and levels (1/2 to 1 page)
- Board of Directors' Qualifications Summary, if needed (1/2 to 1 page)

### Part 5: Marketing & Sales Strategies (4 to 6 pages)

Marketing is the process of creating customers, and customers are the lifeblood of your business. In this section, the first thing you want to do is define your marketing strategy. There is no single way to approach a marketing strategy; your strategy should be part of an ongoing self-evaluation process and unique to your company. However, there are steps you can follow which will help you think through the strategy you would like to use.

- Market penetration strategy (1/2 to 1 page)
- Channels of distribution strategy (1/2 to 1 page)
- Communication strategy (1/2 to 1 page)

- Overall Sales Strategy (1 page)
- Sales force strategy (1/2 page)
- Sales activities (1 to 2 pages)

#### Part 6: Product or Service (4 to 10 pages)

What are you selling? What is your service? In this section, describe your service or product, emphasizing the benefits to potential and current customers. Focus on the areas where you have a distinct advantage. Identify the problem in your target market for which your service or product provides a solution. Give the reader hard evidence that people are, or will be, willing to pay for your solution.

- Detailed description of your product or service (1 to 3 pages)
- Product/Service specific benefits (1/2 to 1 page)
- Product or service life cycle (1/2 to 1 page)
- Copyright, patent, and relevant trade secret information (1/2 to 2 pages)
- Exiting, if any, legal agreements, nondisclosure or non-compete agreements (1/2 to 1 page)
- Research and development activities – Yours and Industry (1 to 2 pages)

#### Part 7: Equity Investment & Funding Request (2 to 4 pages)

In this section, you will identify how much you plan or have already invested in the business. Identify exact (no estimates!) amount of funding you will need to start and make sure it ties specifically to your Financial Plan. If necessary, you can include different funding scenarios, such as a best and worst case scenarios, but remember that later, in the financial section, you must be able to back up these requests and scenarios with corresponding financial statements and projections

Make sure that you include any strategic information related to your business that may have an impact on your financial situation in the future, such as: going public with your company, having a leveraged buyout, being acquired by another company, the method with which you will service your debt, or whether or not you plan to sell your business in the future. Each of these are extremely important to a SBA lender, since they will directly impact your ability to repay your loan(s).

#### Part 8: Financial Information (12 to 25 pages)

**THIS SECTION IS CONSIDERED THE MOST IMPORTANT PART OF YOUR BUSINESS PLAN AND REQUIRES SIGNIFICANT EFFORT. MAKE SURE YOUR FINANCIAL INFORMATION IS REVIEWED BY A PROFESSIONAL SUCH AS YOUR ACCOUNTANT.**

The financials should be developed after you've analyzed the market and set clear objectives. That's when you can allocate resources efficiently. The following is a list of the critical financial information to include in your business plan packet.

- Current Financial Data of the Owners – Personal financial statements signed and dated in ink. (1 to 5 pages)
- Historical financial data (existing businesses) that covers a 3 fiscal years (Balance Sheets, P & L Statements, Notes, Source/Use of Cash, and Net Worth Reconciliation) prepared under generally accepted accounting principles. (6 pages)
- A list of debt owed to date that includes the creditors name, amount due, terms, collateral, and current status (1 page)
- Forecasted 5-Year Financial Projection of Income and Expenses starting with monthly or quarterly then switch to annual in the 3<sup>rd</sup> through 5<sup>th</sup> Years (1 page)
- 24-Month cash flow budget using a beginning and ending cash balance (1 to 2 pages)
- Financial Assumptions and Footnotes to financial information ( 1 to 4 pages)
- Short analysis of your financial information that includes a ratio and trend analysis for all of your financial information (1/2 to 1 page)
- Charts and Graphs – since pictures speak louder than words, add graphs of your trend analysis (1 to 3 pages)
- Certification letter or Review letter by a 3<sup>rd</sup>-Party financial advisor indicating the information complies with GAAP (1 to 2 pages)

Make sure that your projections match your funding requests as all possible credit sources will be on the lookout for inconsistencies and few, if any, will allow you to correct problems they have uncovered. It's much better if you catch mistakes before they do and can mean the difference between approval and decline. Make sure your assumptions for the projections provide sufficient detail and source information to stand-alone. This means the lender can easily identify the income or expense source, why this amount was generated, what is the basis for the item, and NOT leave the reader guessing what you mean. Often the banks guess is significantly different from yours and could cause them to decline the loan.