A BUSINESS PLAN IS NOT REQUIRED FOR PM's YOUTH BUSINESS LOAN SCHEME. HOWEVER, SMEDA RECOMMENDS ALL POTENTIAL ENTREPRENEURS TO PREPARE IT TO UNDERSTAND THE PROFIT POTENTIAL OF ANY PROJECT.

Business Plan – Template

Why have a Business Plan?

The real value of your business plan is to empower you in a systematic way to comprehend the dynamics of your business. It enables you to review your business in a systematic as well as critical way. It may seem rather frivolous at the beginning, but it definitely avoids costly, perhaps detrimental mistakes later.

Your plan is by far the most important marketing tool for soliciting any kind of business development or financial support through effective presentation to investors, bankers or any business collaborators. Your business potential is often judged by appearance of your plan and the strength of your ideas.

How to write a Business Plan for a Startup Business?

A business plan consists of a narrative and a few financial worksheets, all edited into a smooth-flowing document. Use experts' assistance, particularly for financial workings, if possible.

All businesses have peculiarities; therefore *choose and emphasize* on areas of importance depending upon your type of business (manufacturing, trading, services, etc.), see the attached guidelines for different types.

To *Start Writing* your Business Plan and to structure your report, start with establishing a table of content; Use a standard format, for instance the following:

I. Table of Contents

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II. Brief Description of Project

This is an introductory description of project, which is normally a statement of facility to be established with concise description of product or service at a defined location, details of which will come later in the Business Plan. Please use the same as you would do in your 'Banks application form'. An example would be:

'Pretty Garments', a Garments design, stitching and marketing facility, with a workshop and showroom, producing two pairs of embroidered ladies suits per day. The workshop and showroom, in two separate rented premises, at Kot Lakhpat and Model Town, with a total area of approximately 750 sq ft.

III. Marketing Plan

Investors consider this as the most important aspect of your plan, allowing them to assess your entrepreneurial strengths. You are advised to think through and present it preferably as follows:

Product

Describe your products and services by features and narrate benefits from your customer's point of view, that is, what will the product do for the customer?

For example, a 'designer garment' is made with certain materials and has a certain design; those are its features. Its benefits include being fashionable, pride in its exclusivity and / or inclusion in a fraternity or sisterhood. You build features into your product so that you can sell the benefits.

What Product support or after-sale services will you give? Some examples are delivery, warranty, alteration services, product follow-up, and refund policy.

Customers

Identify your targeted customers, their characteristics, and then, for major customer groups, construct a strategy, to attract and retain. Classify them by:

Age, Gender, Location, Income Level, Social Class and Occupation, Education, Other (specific to your industry)

Distribution Channels

For some businesses this could be the most critical aspect of business. In some cases, Sales Forecasts may merely be a factor of distribution efficiency, or highly dependent upon it.

Mention how do you sell your products or services? Retail, Direct (mail order, Web, catalog), Wholesale, your own Sales force, Agent, Independent representatives, Bid on Institutional contracts etc.

Proposed Location

Probably you do not have a precise location picked out yet and many startups can be started and run successfully from home for a while. However, this is the time to think about what you want and need in a location.

You will describe your physical needs later, in the *Operational Plan* section. Here, analyze your location criteria as it will affect your customers. Is your location important to your customers? If yes, how?

If customers come to your place of business: Is it convenient? Parking? Interior spaces? Not out of the way? Where is the competition located? Is it better for you to be near them (like a Designer Mall, car dealers or fast-food restaurants) or distant (like convenience-food stores).

Pricing

Explain your method or methods of setting prices. For most small businesses, having the lowest price is not a good policy. It robs you of needed profit margin; customers may not care as much about price as you think, and large competitors can under price you anyway. Usually you will do better to have average prices and compete on quality and service.

How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?

Promotion and Advertising

Now you have outlined a marketing strategy. In addition to advertising and promotion, what plans do you have for things like logo design, cards and letterhead, brochures, signage, layout and interior design (if customers come to your place of business). How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

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IV. Operational Plan

Explain the operations of the business, its location, equipment, people, processes, and physical environment.

Production

How and where your products or services are produced? Explain your methods of Production (process flow), techniques and costs along with Quality Control Systems and Standards.

Location

What characteristics and facilities do you need in your location? Describe the type of location you'll have in terms of Physical requirements like Amount of Space, Type of Building, Zoning, Power and other utilities.

Similarly, describe Access; is it important that your location be convenient to transportation or to suppliers? Do you need easy walk-in access? What are your requirements for parking and proximity to road etc?

Include a drawing or layout of your proposed facility if it is important, as it might be for a manufacturer.

Cost: Estimate your occupation expenses, including rent, but also include maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.

Inventory/suppliers

What kind of inventory will you keep: raw materials, supplies, finished goods? Identify key suppliers. Should you have more than one supplier for critical items (as a backup)?

Cost of Average value in stock (i.e., what is your inventory investment) go into your start-up costs.

Credit Policies/ Trade debtors

Some businesses find it necessary to sell on credit. Do you really need to sell on credit? Is it customary in your industry and expected by your clientele? Managing Your Accounts Receivables should be a priority, therefore draw up a credit aging schedule.

Managing Your Accounts Payable

You should also age your accounts payable, what you owe to your suppliers. This helps you plan whom to pay and when. Paying too early depletes your cash, but paying late can cost you valuable discounts and can damage your credit. (*Hint: If you know you will be late making a payment, call the creditor before the due date.*)

V. Management and Organization

Investors want to know, who will manage the business on a day-to -day basis? What experience does that person bring to the business? Describe your most important strengths and core competencies. What factors will make the business succeed? What do you think your major competitive strengths are? What background experience, skills, and strengths do you personally bring to this new venture?

Describe Legal form of ownership; Sole proprietor, Partnership. Mention why you selected this form?

If you'll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Professional and Advisory Support

If you have access to any of the following advisory services, they can be of immense help and therefore list them;

Technical Expert, Legal Attorney, Accountant, Consultant or Advisor, Mentors and Key Advisors

VI. Startup Expenses and Capitalization

You will have many expenses and capital expenditure before you begin to operate your business. Many good business ideas have floundered due to inadequate planning or underestimation. Talk to others who have started similar businesses and keep notes to get a good idea on how to estimate your expenses and plan. This is a critical aspect; the more thorough your research is, the less chance that you will underestimate them.

Even with the best of estimation, however, opening a new business has a way of costing more than you anticipate. We recommend adding a separate line item, called contingencies, to account for the unforeseeable. As a rule of thumb, contingencies should equal at least 20 percent of the total of the working capital.

Mention how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also explain in detail how much will be contributed by each investor and what percent ownership each will have, if you have partners.

VII. Financial Plan

A normal financial plan consists of three types of statements: a 12-month profit and loss projection, a cash-flow projection, a projected balance sheet, in addition to a break-even calculation, a 8-year profit and loss projection (optional). Together they constitute a reasonable estimate of your company's financial

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future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company. While you can prepare your financial projections with help of financial calculators available on SMEDA website and consult the examples from any relevant prefeasibility prepared for this purpose, you are strongly recommended to engage accountants or proficient commerce graduates to assist or review the financial statements, lest you make an inadvertent mistake and get confused.

Following example will illustrate it better;

12-Month Profit and Loss Projection

Many business owners think of the 12-month profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your projections will come from a sales forecast in which you forecast sales, cost of goods sold, expenses, and profit, month-by-month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it's time to revise your plan

Please see the example given below:

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Income Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	8,500,800	10,380,832	11,448,730	12,593,603	13,852,963	15,238,259	16,762,085	18,438,294	20,282,123	22,310,335
Cost of sales										
Cost of goods sold 1	2,040,192	2,491,400	2,747,695	3,022,465	3,324,711	3,657,182	4,022,900	4,425,190	4,867,709	5,354,480
Operation costs 1 (direct labor)	1,966,500	2,245,922	2,471,023	2,711,605	2,975,611	3,265,320	3,583,236	3,932,105	4,314,941	4,735,049
Operating costs 2 (machinery maintenance)	32,200	39,321	43,366	47,703	52,473	57,721	63,493	69,842	76,826	84,509
Operating costs 3 (direct electricity)	139,801	170,720	188,282	207,110	227,821	250,603	275,664	303,230	333,553	366,909
Total cost of sales	4,178,693	4,947,362	5,450,366	5,988,883	6,580,616	7,230,827	7,945,293	8,730,368	9,593,030	10,540,947
Gross Profit	4,322,107	5,433,470	5,998,363	6,604,720	7,272,346	8,007,433	8,816,792	9,707,925	10,689,093	11,769,388
General administration & selling expenses										
Administration expense	1,530,000	1,678,963	1,842,429	2,021,811	2,218,657	2,434,669	2,671,711	2,931,833	3,217,280	3,530,519
Administration benefits expense	45,900	50,369	55,273	60,654	66,560	73,040	80,151	87,955	96,518	105,916
Building rental expense	624,000	686,400	755,040	830,544	913,598	1,004,958	1,105,454	1,215,999	1,337,599	1,471,359
Electricity expense	171,496	188,645	207,510	228,261	251,087	276,195	303,815	334,197	367,616	404,378
Travelling expense	212,520	259,521	286,218	314,840	346,324	380,956	419,052	460,957	507,053	557,758
Communications expense (phone, fax, mail, internet, etc.)	22,950	25,184	27,636	30,327	33,280	36,520	40,076	43,977	48,259	52,958
Office expenses (stationary, entertainment, janitorial services, etc.)	15,300	16,790	18,424	20,218	22,187	24,347	26,717	29,318	32,173	35,305
Promotional expense	850,080	1,038,083	1,144,873	1,259,360	1,385,296	1,523,826	1,676,209	1,843,829	2,028,212	2,231,034
Depreciation expense	120,212	120,212	120,212	120,212	120,212	133,031	133,031	133,031	133,031	133,031
Amortization of pre-operating costs	39,616	39,616	39,616	39,616	39,616	39,616	39,616	39,616	39,616	39,616
Subtotal	3,632,074	4,103,784	4,497,232	4,925,844	5,396,817	5,927,159	6,495,833	7,120,714	7,807,360	8,561,875
Operating Income	690,033	1,329,686	1,501,131	1,678,876	1,875,529	2,080,273	2,320,958	2,587,211	2,881,734	3,207,513
Gain / (loss) on sale of office equipment	-	-	-	-	92,800	-	-	-	-	
Earnings Before Interest & Taxes	690,033	1,329,686	1,501,131	1,678,876	1,968,329	2,080,273	2,320,958	2,587,211	2,881,734	3,207,513
Interest expense on long term debt (Project Loan)	150,705	132,425	112,628	91,187	67,968	42,821	15,586	-	-	-
Subtotal	150,705	132,425	112,628	91,187	67,968	42,821	15,586	-	-	-
Earnings Before Tax	539,328	1,197,261	1,388,503	1,587,688	1,900,362	2,037,452	2,305,372	2,587,211	2,881,734	3,207,513
Tax	13,933	102,089	130,775	165,037	227,572	254,990	308,574	369,303	442,933	524,378
NET PROFIT/(LOSS) AFTER TAX	**525,395**	**1,095,172**	**1,257,728**	**1,422,651**	**1,672,789**	**1,782,462**	**1,996,798**	**2,217,909**	**2,438,800**	**2,683,135**

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Projected Cash Flow

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn't be taken by surprise.

There is no great trick in preparing it: The cash-flow projection is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

You need to account for operating data, which have an impact on cash flow, such as sales and inventory purchases.

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions; especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal inventory buildup that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.

And of course, depreciation does not appear in the cash flow at all because you never write or receive a check for it. **Please see the example given below:**

Cash Flow Statement

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Operating activities											
Net profit		525,395	1,095,172	1,257,728	1,422,651	1,672,789	1,782,462	1,996,798	2,217,909	2,438,800	2,683,135
Add: depreciation expense		120,212	120,212	120,212	120,212	120,212	133,031	133,031	133,031	133,031	133,031
amortization of pre-operating costs		39,616	39,616	39,616	39,616	39,616	39,616	39,616	39,616	39,616	39,616
Deferred income tax		13,933	102,089	130,775	165,037	227,572	254,990	308,574	369,303	442,933	524,378
Accounts receivable		(163,029)	(18,028)	(28,268)	(21,218)	(23,054)	(25,360)	(27,896)	(30,685)	(33,754)	(37,129)
Finished goods inventory		(181,682)	(24,996)	(20,420)	(22,438)	(24,656)	(27,092)	(29,769)	(32,711)	(35,944)	(39,497)
Equipment inventory	(5,367)	(1,515)	(1,087)	(1,235)	(1,427)	(1,648)	(1,903)	(2,198)	(2,539)	(2,932)	21,850
Raw material inventory	(170,016)	(58,362)	(48,681)	(58,182)	(70,401)	(85,185)	(103,074)	(124,719)	(150,910)	(182,601)	1,052,132
Pre-paid building rent	(312,000)	(31,200)	(34,320)	(37,752)	(41,527)	(45,680)	(50,248)	(55,273)	(60,800)	(66,880)	735,680
Accounts payable		94,835	20,881	13,141	14,422	16,186	18,193	20,483	23,100	26,097	(23,816)
Cash provided by operations	(487,383)	358,203	1,250,858	1,415,615	1,604,928	1,896,153	2,020,617	2,258,647	2,505,313	2,758,367	5,089,381
Financing activities											
Project Loan - principal repayment		(220,241)	(238,521)	(258,318)	(279,758)	(302,978)	(328,125)	(355,359)	-	-	-
Working Capital Loan - principal repayment		-	-	-	-	-	-	-	-	-	-
Issuance of shares	220,367	-	-	-	-	296,097	-	-	-	-	-
Purchase of (treasury) shares											
Cash provided by / (used for) financing activities	2,203,667	(220,241)	(238,521)	(258,318)	(279,758)	(6,881)	(328,125)	(355,359)	-	-	-
Investing activities											
Capital expenditure	(1,366,284)	-	-	-	-	(296,097)	-	-	-	-	-
Acquisitions											
Cash (used for) / provided by investing activities	(1,366,284)	-	-	-	-	(296,097)	-	-	-	-	-
NET CASH	**350,000**	**137,962**	**1,012,337**	**1,157,297**	**1,325,170**	**1,593,175**	**1,692,492**	**1,903,288**	**2,505,313**	**2,758,367**	**5,089,381**

Opening Day Balance Sheet

A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal for long term investment/loan.

Please see the example given below:

Balance Sheet

Balance Sheet	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets											
Current assets											
Cash & Bank	350,000	487,962	1,500,299	2,657,596	3,982,766	5,575,941	7,268,433	9,171,721	11,677,034	14,435,401	19,524,781
Accounts receivable		163,029	181,057	209,325	230,543	253,597	278,957	306,853	337,538	371,292	408,421
Finished goods inventory		181,682	206,678	227,099	249,537	274,192	301,284	331,054	363,765	399,710	439,206
Equipment spare part inventory	5,367	6,881	7,969	9,204	10,630	12,278	14,181	16,379	18,918	21,850	-
Raw material inventory	170,016	228,378	277,059	335,242	405,642	490,827	593,901	718,620	869,531	1,052,132	-
Pre-paid building rent	312,000	343,200	377,520	415,272	456,799	502,479	552,727	608,000	668,800	735,680	-
Total Current Assets	837,383	1,411,133	2,550,582	3,853,737	5,335,918	7,109,315	9,009,483	11,152,627	13,935,585	17,016,064	20,372,408
Fixed assets											
Machinery & equipment	300,500	270,450	240,400	210,350	180,300	150,250	120,200	90,150	60,100	30,050	-
Furniture & fixtures	437,620	393,858	350,096	306,334	262,572	218,810	175,048	131,286	87,524	43,762	-
Office equipment	232,000	185,600	139,200	92,800	46,400	296,097	236,878	177,658	118,439	59,219	-
Total Fixed Assets	970,120	849,908	729,696	609,484	489,272	665,157	532,126	399,094	266,063	133,031	-
Intangible assets											
Pre-operation costs	396,164	356,548	316,931	277,315	237,699	198,082	158,466	118,849	79,233	39,616	-
Total Intangible Assets	396,164	356,548	316,931	277,315	237,699	198,082	158,466	118,849	79,233	39,616	-
TOTAL ASSETS	**2,203,667**	**2,617,589**	**3,597,210**	**4,740,536**	**6,062,888**	**7,972,555**	**9,700,075**	**11,670,570**	**14,280,881**	**17,188,712**	**20,372,408**
Liabilities & Shareholders' Equity											
Current liabilities											
Accounts payable		94,835	115,716	128,856	143,278	159,464	177,657	198,139	221,239	247,336	223,520
Total Current Liabilities	-	94,835	115,716	128,856	143,278	159,464	177,657	198,139	221,239	247,336	223,520
Other liabilities											
Deferred tax		13,933	116,022	246,797	411,835	639,407	894,397	1,202,971	1,572,274	2,015,207	2,539,585
Long term debt (Project Loan)	1,983,300	1,763,059	1,524,538	1,266,220	986,462	683,484	355,359	-	-	-	-
Long term debt (Working Capital Loan)	-	-	-	-	-	-	-	-	-	-	-
Total Long Term Liabilities	1,983,300	1,776,992	1,640,560	1,513,018	1,398,297	1,322,891	1,249,756	1,202,971	1,572,274	2,015,207	2,539,585
Shareholders' equity											
Paid-up capital	220,367	220,367	220,367	220,367	220,367	516,464	516,464	516,464	516,464	516,464	516,464
Retained earnings		525,395	1,620,567	2,878,295	4,300,946	5,973,736	7,756,198	9,752,996	11,970,904	14,409,704	17,092,839
Total Equity	220,367	745,762	1,840,934	3,098,662	4,521,313	6,490,200	8,272,662	10,269,460	12,487,368	14,926,168	17,609,303
TOTAL CAPITAL AND LIABILITIES	**2,203,667**	**2,617,589**	**3,597,210**	**4,740,536**	**6,062,888**	**7,972,555**	**9,700,075**	**11,670,570**	**14,280,881**	**17,188,712**	**20,372,408**

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Break-Even Analysis

A break-even analysis predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break-even is:

$$\text{Break-even Sales} = \frac{\text{Fixed Costs}}{\text{Sale price per unit - Variable Cost per unit}}$$

Include all assumptions upon which your break-even calculation is based.

VIII. Appendices

By including relevant material and studies used in preparation of business plan, you will have better results;

- Any Product brochures and advertising materials, if developed or available.
- Industry studies or articles (or a SMEDA prefeasibility study).
- Blueprints, Maps and photos of location, if prepared.
- Detailed lists of equipment owned and to be purchased.
- Copies of leases and contracts, if already negotiated (May use a SMEDA Contract Template).
- Letters of support from future customers or suppliers.
- Any other materials needed to support the assumptions in this plan.

IX. Refining the Plan

Please note following points for preparing Plans for different Types of Businesses:

Manufacturing

- Planned production levels.
- Anticipated levels of direct production costs and indirect (overhead) costs—how do these compare to industry averages (if available).
- Prices per product line.
- Gross profit margin, overall and for each product line.
- Production /capacity limits of planned physical plant.
- Production /capacity limits of equipment.
- Purchasing and inventory management procedures.
- New products under development or anticipated to come online after startup.

Service Businesses

Service businesses sell intangible products. They are usually more flexible than other types of businesses, but they have higher labor costs and generally very little fixed assets.

- What are the key competitive factors in this industry?
- Your prices, transparency and methods used to set prices.
- System of production management.
- Quality control procedures and Standards or accepted industry quality standards?
- How will you measure labor productivity?
- Percent of work subcontracted to other firms. Will you make a profit on subcontracting?
- Credit, payment, and collections policies and procedures.
- Strategy for keeping clients satisfied and enhancing base.

High Technology Companies

- Economic outlook for the industry, overall growth indicators.
- Will the company have information systems in place to manage rapidly changing prices, costs, and markets?
- Will you be on the cutting edge with your products and services?
- What is the status of research and development? And what is required to:
    - Bring product/service to market?
    - Keep the company competitive?
- How does the company:
    - Protect intellectual property?
    - Avoid technological obsolescence?
    - Supply necessary capital?
    - Retain key personnel?

High-tech companies sometimes have to operate for a long time without profits and sometimes even without sales. You must do longer-term financial forecasts to show when profit take-off is expected to occur. And your assumptions must be well documented and well argued.

Trading Business

- Company image and branding etc.
- Pricing:
  - Explain markup policies.
  - Prices should be profitable, competitive, and in accordance with the company image.
- Inventory:
  - Selection and price should be consistent with company image.
  - Inventory level: Find industry averages (numbers) for annual inventory turnover rate Multiply your initial inventory investment by the average turnover rate. The result should be at least equal to your projected first year's cost of goods sold. If it is not, you may not have enough budgets for startup inventory.
- Customer service policies: These should be competitive and in accordance with company image.
- Location: Does it give the exposure that you need? Is it convenient for customers? Is it consistent with company image?
- Promotion: methods used; estimate cost; Does it project a consistent company image?
- Credit: Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?

A BUSINESS PLAN IS NOT REQUIRED FOR PM's YOUTH BUSINESS LOANS SCHEME. HOWEVER, SMEDA RECOMMENDS ALL POTENTIAL ENTREPRENEURS TO PREPARE IT TO UNDERSTAND THE PROFIT POTENTIAL OF ANY PROJECT.