

How to write a traditional business plan

Every business starts with a vision, which is distilled and communicated through a business plan. In addition to your high-level hopes and dreams, a strong business plan outlines short-term and long-term goals, budget and whatever else you might need to get started.

You can write a business plan by following the steps below:

Draft an executive summary

A good executive summary is one of the most crucial sections of your plan—it's also the last section you should write.

The executive summary distills everything that follows and gives time-crunched reviewers (e.g., potential investors and lenders) a high-level overview of your business that persuades them to read further.

Again, it's a summary, so highlight the key points you've uncovered while writing your plan. If you're writing for your own planning purposes, you can skip the summary altogether—although you might want to give it a try anyway, just for practice.

An executive summary shouldn't exceed one page. Admittedly, that space constraint can make squeezing in all of the salient information a bit stressful—but it's not impossible. Here's what your business plan's executive summary should include:

- **Business concept.** What does your business do?
- **Business goals and vision.** What does your business want to do?
- **Product description and differentiation.** What do you sell, and why is it different?
- **Target market.** Who do you sell to?
- **Marketing strategy.** How do you plan on reaching your customers?
- **Current financial state.** What do you currently earn in revenue?
- **Projected financial state.** What do you foresee earning in revenue?
- **The ask.** How much money are you asking for?
- **The team.** Who's involved in the business?

Write a company description

This section of your business plan should answer two fundamental questions: who are you, and what do you plan to do?

Answering these questions with a company description provides an introduction to why you're in business, why you're different, what you have going for you, and why you're a good investment.

Clarifying these details is still a useful exercise, even if you're the only person who's going to see them. It's an opportunity to put to paper some of the more intangible facets of your business, like your principles, ideals, and cultural philosophies.

Here are some of the components you should include in your company description:

- Your business structure (Are you a sole proprietorship, general partnership, limited partnership, or incorporated company?)
- Your business model
- Your industry
- Your business's vision, mission, and value proposition
- Background information on your business or its history
- Business objectives, both short and long term
- Your team, including key personnel and their salaries

Brand values and goals

To define your brand values, think about all the people your company is accountable to, including owners, employees, suppliers, customers, and investors. Now consider how you'd like to conduct business with each of them. As you make a list, your core values should start to emerge.

Your company description should also include both short- and long-term goals. Short-term goals, generally, should be achievable within the next year, while one to five years is a good window for long-term goals. Make sure your goal setting includes SMART goals: specific, measurable, attainable, realistic, and time-bound.

Vision and mission statements

Once you know your values, you can write a mission statement. Your statement should explain, in a convincing manner, why your business exists, and should be no longer than a single sentence.

Next, craft your vision statement: What impact do you envision your business having on the world once you've achieved your vision? Phrase this impact as an assertion—begin the statement with “We will” and you'll be off to a great start. Your vision statement, unlike your mission statement, can be longer than a single sentence, but try to keep it to three at most. The best vision statements are concise.

Perform a market analysis

No matter what type of business you start, it's no exaggeration to say your market can make or break it. Choose the right market for your products—one with plenty of customers who understand and need your product—and you'll have a head start on success. If you choose the wrong market, or the right market at the wrong time, you may find yourself struggling for each sale.

This is why market research and analysis is a key section of your business plan, whether or not you ever intend for anyone else to read it. It should include an overview of how big you estimate the market is for your products, an analysis of your business's position in the market, and an overview of the competitive landscape. Thorough research supporting your conclusions is important both to persuade investors and to validate your own assumptions as you work through your plan.

How big is your potential market?

The potential market is an estimate of how many people need your product. While it's exciting to imagine sky-high sales figures, you'll want to use as much relevant independent data as possible to validate your estimated potential market.

Since this can be a daunting process, here are some general tips to help you begin your research:

- **Understand your ideal customer profile.** Look for government data about the size of your target market, learn where they live, what social channels they use, and their shopping habits.

- **Research relevant industry trends and trajectory.** Explore consumer trends and product trends in your industry by looking at Google Trends, trade publications, and influencers in the space.
- **Make informed guesses.** You'll never have perfect, complete information about your total addressable market. Your goal is to base your estimates on as many verifiable data points as necessary.

Some sources to consult for market data include government statistics offices, industry associations, academic research, and respected news outlets covering your industry.

SWOT analysis

A SWOT analysis looks at your strengths, weaknesses, opportunities, and threats. What are the best things about your company? What are you not so good at? What market or industry shifts can you take advantage of and turn into opportunities? Are there external factors threatening your ability to succeed?

SWOT is often depicted in a grid or visual way. With this visual presentation, your reader can quickly see the factors that may impact your business and determine your competitive advantage in the market.

Competitive analysis

There are three overarching factors you can use to differentiate your business in the face of competition:

- **Cost leadership.** You have the capacity to maximize profits by offering lower prices than the majority of your competitors. Examples include companies like Mejuri and Endy.
- **Differentiation.** Your product or service offers something distinct from the current cost leaders in your industry and banks on standing out based on your uniqueness. Think of companies like Knix and QALO.
- **Segmentation.** You focus on a very specific, or niche, target market, and aim to build traction with a smaller audience before moving on to a broader market. Companies like TomboyX and Heyday Footwear are great examples of this strategy.

To understand which is the best fit, you'll need to understand your business as well as the competitive landscape.

You'll always have competition in the market, even with an innovative product, so it's important to include a competitive overview in your business plan. If you're entering an established market, include a list of a few companies you consider direct competitors and explain how you plan to differentiate your products and business from theirs.

If you're entering a market where you can't easily identify direct competitors, consider your indirect competitors—companies offering products that are substitutes for yours. For example, if you're selling an innovative new piece of kitchen equipment, it's too easy to say that because your product is new, you have no competition. Consider what your potential customers are doing to solve the same problems.

Outline the management and organization

The management and organization section of your business plan should tell readers about who's running your company. Detail the legal structure of your business. Communicate whether you'll incorporate your business as an S corporation or create a limited partnership or sole proprietorship.

If you have a management team, use an organizational chart to show your company's internal structure, including the roles, responsibilities, and relationships between people in your chart. Communicate how each person will contribute to the success of your startup.

List your products and services

Your products or services will feature prominently in most areas of your business plan, but it's important to provide a section that outlines key details about them for interested readers.

If you sell many items, you can include more general information on each of your product lines. If you only sell a few, provide additional information on each.

Describe new products you'll launch in the near future and any intellectual property you own. Express how they'll improve profitability. It's also important to note where products are coming from—handmade crafts are sourced differently than trending products for a dropshipping business, for instance.

Perform customer segmentation

Your ideal customer, also known as your target market, is the foundation of your marketing plan, if not your business plan as a whole. You'll want to keep this person in mind as you make strategic decisions, which is why an overview of who they are is important to understand and include in your plan.

To give a holistic overview of your ideal customer, describe a number of general and specific demographic characteristics. Customer segmentation often includes:

- Where they live
- Their age range
- Their level of education
- Some common behavior patterns
- How they spend their free time
- Where they work
- What technology they use
- How much they earn
- Where they're commonly employed
- Their values, beliefs, or opinions

This information will vary based on what you're selling, but you should be specific enough that it's unquestionably clear who you're trying to reach—and more importantly, why you've made the choices you have based on who your customers are and what they value.

Define a marketing plan

Your marketing efforts are directly informed by your ideal customer. Your marketing plan should outline your current decisions and your future strategy, with a focus on how your business idea is a fit for that ideal customer.

Most marketing plans include information on four key subjects. How much detail you present on each will depend on both your business and your plan's audience.

- Price. How much do your products cost, and why have you made that decision?
- Product. What are you selling and how do you differentiate it in the market?
- Promotion. How will you get your products in front of your ideal customer?
- Place. Where will you sell your products? On what channels and in which markets?

Promotion may be the bulk of your plan since you can more readily dive into tactical details, but the other three areas should be covered at least briefly—each is an important strategic lever in your marketing mix.

Provide a logistics and operations plan

Logistics and operations are the workflows you'll implement to make your business idea a reality. If you're writing a business plan for your own planning purposes, this is still an important section to consider, even though you might not need to include the same level of detail as if you were seeking investment.

Cover all parts of your planned operations, including:

- **Suppliers.** Where do you get the raw materials you need for production, or where are your products produced?
- **Production.** Will you make, manufacture, wholesale, or dropship your products? How long does it take to produce your products and get them shipped to you? How will you handle a busy season or an unexpected spike in demand?
- **Facilities.** Where will you and any team members work? Do you plan to have a physical retail space? If yes, where?
- **Equipment.** What tools and technology do you require to be up and running? This includes everything from computers to lightbulbs and everything in between.
- **Shipping and fulfillment.** Will you be handling all the fulfillment tasks in-house, or will you use a third-party fulfillment partner?
- **Inventory.** How much will you keep on hand, and where will it be stored? How will you ship it to partners if required, and how will you approach inventory management?

This section should signal to your reader that you've got a solid understanding of your supply chain and strong contingency plans in place to cover potential uncertainty. If your reader is you, it should give you a basis to make other important decisions, like how to price your products to cover your estimated costs, and at what point you plan to break even on your initial spending.

Make a financial plan

No matter how great your idea is, and regardless of the effort, time, and money you invest, a business lives or dies based on its financial health. At the end of the day, people want to work with a business they expect to be viable for the foreseeable future.

The level of detail required in your financial plan will depend on your audience and goals, but typically you'll want to include three major views of your financials: an income statement, a balance sheet, and a cash-flow statement. It also may be appropriate to include financial data and projections.

Here's a spreadsheet template that includes everything you'll need to create an income statement, balance sheet, and cash-flow statement, including some sample numbers. You can edit it to reflect projections if needed.

Let's review the types of financial statements you'll need.

Income statements

Your income statement is designed to give readers a look at your revenue sources and expenses over a given time period. With those two pieces of information, they can see the all-important bottom line or the profit or loss your business experienced during that time. If you haven't launched your business yet, you can project future milestones of the same information.

Balance sheets

Your balance sheet offers a look at how much equity you have in your business. On one side, you list all your business assets (what you own), and on the other side, all your liabilities (what you owe). This provides a snapshot of your business's shareholder equity, which is calculated as:

$$\text{Assets} - \text{Liabilities} = \text{Equity}$$

Cash flow statements

Your cash flow statement is similar to your income statement, with one important difference: it takes into account when revenues are collected and when expenses are paid.

When the cash you have coming in is greater than the cash you have going out, your cash flow is positive. When the opposite scenario is true, your cash flow is negative. Ideally, your cash flow statement will help you see when cash is low, when you might have a surplus, and where you might need to have a contingency plan to access funding to keep your business solvent.

It can be especially helpful to forecast your cash-flow statement to identify gaps or negative cash flow and adjust operations as required.

Summarize how your company operates

Before the end of your business plan, summarize how your business is structured and outline each team's responsibilities. This will help your readers understand who performs each of the functions you've described above — making and selling your products or services — and how much each of those functions cost.

If any of your employees have exceptional skills, you may want to include their resumes to help explain the competitive advantage they give you.

Add any additional information to an appendix

Finally, attach any supporting information or additional materials that you couldn't fit in elsewhere. That might include:

- Licenses and permits.
- Patents.
- Equipment leases.
- Contracts.
- Bank statements.
- Details of your personal and business credit history, if you're seeking financing.

If the appendix is long, you may want to consider adding a table of contents at the beginning of this section.