Tutorial
Writing a Business Plan
Adapted for the
Wild Harvest Sector

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A business plan is an essential part of owning a small business entrepreneurship. It gives direction to the company and helps organize many thoughts onto paper. It is important to have this information to provide to investors or banks when applying for a loan. A business plan also helps prepare information for taxes. This tutorial will help an individual interested in non-timber forest products (NTFP) production.

This tutorial has been adopted from A Planning Guide for Small and Medium Size Wood Products Companies: The Keys to Success, by Jeff Howe and Steve Bratkovich. Significant portions of this tutorial are directly quoted from this publication. Full citation is available in the resources section, along with other resources.

Reasons for Writing a Business Plan:

- Inform an outsider (investor); or to attract investment into your firm
- Plan for reorganization
- Explain or justify new product, new market to pursue, establish a new facility, and improve an existing facility
- One way to differentiate your firm
- Required by internal management
- Lets others know you have thought through your venture; know what you are doing
- Shows that you understand the risks and have a plan to deal with them
- Investor needs several reasons to invest, but only one to reject it!

Planning horizon

- Generally, three to five years
- The greater the planning horizon the greater the uncertainty
- Forget anything past five years
- Focus statistics monthly for one year, and yearly after that
- Exit strategy is essential

Elements of the Business Plan

Executive Summary	**Introduction**	**Industry Overview**	**Product, Service, & Process**	**Marketing Plan**	**Organizational Plan**
Operating Plan	**Financial Planning**	**Risks and Weaknesses**	**Appendix**	**Business Loan Basics**	**Resources**

I. Executive Summary

The Executive Summary is usually written last, and it summarizes the heart of what the entire report is about. It is an important document for key decision makers. Make it short and to the point. Remember the audience - What key comments will they need to help you get what you need?

An Executive Summary includes these elements:

- Company name and location (include any significant benefits of the location)
- Descriptions of the industry (brief)
- Purpose of the business plan
- Description of the product (or service)
- Description of the market (include projections)
- Financial projections
- Finance amount sought
- Payback period
- Goals and objectives of the company
- Marketing strategies to achiefe goals
- Company expertise (management's as well)
- Impacts on community or region

Emphasize successful characteristics of business whenever possible!

This part of the plan can be reformatted into a cover letter for a loan application.

II. Introduction

- Why is this company in business? What is it's purpose?
- Keep it simple
- List all divisions
- Key personnel, products
- Use the Appendix to give more details
- Mission statement
- Goals of the company
- Short industry summary and company financial situation

- What do you hope to gain or do? (new product or equipment, expansion, etc.)

III. Industry Overview

Remember your Audience!

- History of the industry
- Trends and projected growth – where is the industry heading?
- Key success factors – why is your company distinctive and competitive?
- Your company's segment – Where does it fit in the industry?
- Make it short and concise; avoid too many details on the industry

IV. Product, Service & Process

- What does your firm do, make, or provide? Give a detailed description of your product!
- How does that product or service become available to the customer? Flow charts are helpful in this section.

V. Marketing Plan

- A Marketing Plan is necessary only for new products and/or new markets related directly to the project at hand
- Describe the product, price, distribution, and promotion
- Concentrate on your firm's niche, can you describe the person that will buy your product or service? See VBDN in reference section.
  a. geographic scope: Where are your customers located?
  b. Size: Show growth patterns. Can you meet demands if the market grows?
  c. Profile (describe a typical buyer):
     For consumers: Age, sex, income, profession, lifestyle, education, family size.
     For businesses: Type of business, sales, size, number of employees and number of years in business.
- Who is the competition? List as many of your closest competitors as possible. Can you be differentiated from them?
- Get up to date information
- Realize that market information gathering is an ongoing process
- Look for linkages that save your firm money and time

VI. Organizational Plan

Describe the structure of your company, including anticipated changes. Use a presentation format familiar to you, and keep it simple. The Organizational Plan should include the formal structure of your company, including tax status, and legal attributes, business advisors, and information about the owners of the company. A short paragraph will suffice most of these elements.

VII. Operating Plan

- Describe how you plan to manage your company in both the short and long term
- Focus on your firm's capacity, production activities, potential for growth, and raw materials (sources, volumes, etc.)
- Provide an anticipated production schedule for the crop harvest.
- Cost are an issue faced in other parts of plan
- Look for bottlenecks and constraints
- Use solutions to increase efficiencies and thereby increase profits
- Include inventory, production, management

VIII. Financial Planning

A Financial Plan is very hard to write without the assistance of an accountant. It is a detailed 5 year plan, providing a source to justify estimates, and includes several financial estimates. These estimates include: See Howe and Bratkovich in Resources for more details.

- Listing of capital requirements, sources of information, contingencies, and reserves
- Description of financing plan, including all major alternatives considered and all sought, describe all sources of capital
- Beginning balance sheet
- Complete statement of projected operations and cash flows
- Discussion of the investment criteria that are used, including calculations

It may not be appropriate to write a full-scale financial plan for many small growers. There are simplified versions of documenting important information that can assist a grower. This section will describe a few simple items that can help account for cash flows. It has been adapted from The Virginia Business Development Network Step by Step Business Plan Guidebook. More information on this document is available in the Resources section.

The accounting system described in this section is an accrual system. It is different from a cash method. Sales are made but payments are not immediately collected. Your customers pay later, which creates "accounts receivable". Business purchases are made, but paid for later, creating "accounts payable". Assets (like equipment) are depreciated over their lifetime. This is tax deductible.

Hints for developing financials:

- Make realistic assumptions
- Show reasonable links between the past, actual, and future projections

Common Financial Problems:

- Limited capital
- Little or no record keeping
- Failure to seek outside help
- Poor management
- Reluctance to invest in the business
- Failure to personally guarantee the loan repayment

Financial Statements

A. Balance Sheet

1. Assets (what the company owns)
   a. Current Assets
      i. Cash
      ii. Accounts Receivable (Sales made but not collected)
      iii. Inventory (Inventory on hand, waiting to be sold)
      iv. Total Current Assets (Add up all current assets)
   b. Non-Current Assets
      i. Fixed Assets
      ii. Less Depreciation
      iii. Fixed Assets (net) = Fixed Assets – Less Depreciation
      iv. Advances to Owners (money owners take out of the business in the form of a loan to be repaid)
      v. Total Non-Current Assets
   c. Total Assets (Add the current assets and non-current assets)
2. Liabilities (how much the company owes)
   a. Current Liabilities
      i. Current Portion of Long-Term Debt (One year's worth of loan payments)
      ii. Note Payable (due within one year)
      iii. Accounts Payable (A/P) (Purchases not paid for)
      iv. Total Current Liabilities (Total all the short-term liabilities)
   b. Long Term Liabilities:
      i. Loan Payable
      ii. Total L.T. Liabilities
   c. Total Liabilities (Add the long-term and short-term liabilities)
3. Capital or Net Worth
   a. Owners Investment
   b. Retained Earnings
   c. Total Capital
4. Total Liabilities and Capital = Total Assets

B. Operating Statement

This is also known as the Income/Expense statement, Earnings Statement, or Profit and Loss Statement. For companies just starting up, they should project it on a month by month basis for the first year, then quarterly for the second year, and one whole year for the third year. From then on, it should include 3 fiscal year's end and an interim statement not more than 3 months old.

An operating statement must have the following elements:

1. Gross Sales
   a. Less Cost of Goods Sold (Cost to make products including materials and labor)
   b. Beginning inventory (from balance sheet)
   c. Purchases (used to make product)

   d. Labor (used to make product only)
   e. Ending Inventory (from balance sheet)
   f. Total Cost of Goods Sold (add up the costs of goods sold)
2. Gross Profit (Sales less cost of goods sold) (Markup or profit margin) Subtract each element (a – f) from Total Cost of Goods Sold
   a. Selling Expenses (salaries and expenses related to sales only)
   b. General and Administrative (all other expenses used to run the company)
   c. Operating Income or Loss (shows how the business performed)
   d. Interest Expense (subtract interest expense)
   e. Net Profit before Taxes
   f. Less Income Taxes
3. Net Profit

C. Personal Financial Statement

Includes Name, Date of Birth, Employer, Address, home phone number, and Social Security Number. At the end of the form, you should sign your name with the date to verify accuracy.

1. Assets & Liabilities:
   a. <u>Assets</u>: Cash, Savings Accounts, Retirement Accounts, Accounts and Notes Receivable, Life Insurance (cash value), Stocks and Bonds (market value), Real Estate (equity value), Automobiles (equity value), other Property, other Assets.
   b. <u>Liabilities</u>: Residential Mortgage (amount owed), Investment Mortgage, other loans, unpaid taxes, other accounts and bills due.
   c. <u>Net Worth</u> = Assets – Liabilities
   d. Total Liabilities + Net Worth
2. Income & Expenses
   a. <u>Annual Income</u>: Salary, Bonuses, and Commissions, Dividends and Interest, Real Estate Income, Other Income.
   b. <u>Annual Expenses</u>: Mortgage/Rental Payments, Taxes (federal, state, local, property), Insurance Premiums, other loans, Alimony and child support, tuition, Medical Expenses/Health Insurance, Notes Payable, Contingent liabilities, other Debt or Liabilities.
   c. <u>Total</u>

D. Cash Flow Statement Example:

	Pre-Start-Up		Month 1		Month 2		Month 3	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
A. Cash on Hand								
B. Cash Receipts								
1. Cash Sales								
2. Credit Account								
3. Loans								
C. Total Cash Receipts								
D. Total Cash Available								
E. Cash Paid Out								
1. Purchases								
2. Gross Wages								
3. Payroll Expenses								
4. Outside Services								
5. Supplies								
6. Repairs and Maintenance								
7. Advertising								
8. Car, Delivery, and Travel								
9. Professional Services								
10. Rent								
11. Telephone								
12. Utilities								
13. Insurance								
14. Taxes								
15. Interest								
16. Other Expenses (Specify!)								
17. Miscellaneous								
18. Subtotal of Operating Costs								
F. Other Operating Costs								
1. Loan Principal Payment								
2. Capital Purchases								
3. Other Start-Up Costs								
4. Reserve and/or Escrow								
5. Owner's Withdrawal								
G. Total Cash Paid Out (E + F)								
H. Cash Position (End of Month) (D minus G)								
(H becomes Cash on Hand for next month)								

Ratios

The ratios provided are intended to be used to calculate in order to see which areas of your business differ from industry standards. They come from the Income Statement and Balance Sheet, not the Cash Flow Statement.

- Realize that the numbers are quantitative, and are dependant upon the scale of the numbers being used. A ratio of 38% compared to an industry average of 39 % seems like a small 1% difference. If sales are $4 million, 1 % is $40,000. If net profits are only $100,000, then the $40,000 is very important!
- Lenders and investors compare your ratios to their acceptable ranges, or to an existing company's prior years, or to business history to see trends.
- Industry ratios are averages, some companies are above and others are below.
- Many industry standards can be found in reference books at a library. Companies are grouped by a "S.I.C" code (Standard Industrial Classification). Study the data carefully and decide which ratio resources are the best for your business.

A. Asset Management Ratios

1. Accounts Receivable Turnover
Number Source: Balance Sheet and Operating Statement

$$\frac{\text{Accounts Receivable X 365 Days}}{\text{Sales}} = \text{\# days it takes to collect bills}$$

2. Inventory Turnover
Number Source: Balance Sheet and Operating Statement

$$\frac{\text{Inventory Figure X 365}}{\text{Cost of Goods Sold}} = \text{\# days to turnover or sell inventory}$$

B. Liquidity Ratios

1. Working Capital
Number Source: Balance Sheet

Current Assets – Current Liabilities = Working Capital

2. Quick or Acid Test Ratio
Number Source: Balance Sheet

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = Q$$

This answer should be >1. If it is not, the company could not pay all it's current liabilities without selling some inventory

3. Current Ratio

Number Source: Balance Sheet

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = \text{Times you can pay current liabilities}$$

C. Debt Management Ratios

1. Leverage (or Debt to Worth) Ratio
Number Source: Balance Sheet

Lower answers are better. Lenders prefer this ratio to be 3 or lower.

$$\frac{\text{Total Liabilities}}{\text{Total Capital}} = \text{Number of times company is leveraged}$$

2. Accounts Payable Turnover
Number Source: Balance Sheet and Operating Statement

$$\frac{\text{Accounts Payable X 365 Days}}{\text{Purchases}} = \text{Accounts Payable are paid in \# of Days}$$

D. Profitability Ratios

1. Profit Margin on Sales
Number Source: Operating Statement

$$\frac{\text{Net Profit}}{\text{Net Sales}} = \text{Profit Margin (Percentage of net profit for every dollar of sales)}$$

2. Cash Flow to Current Maturities (Debt Service) Ratio
Number Source: Balance Sheet and Operating Statement

$$\frac{\text{Net Profit + Depreciation}}{\text{Current Portion Long Term Debt}} = \text{U}$$

For every dollar of payments, U is available to pay it

IX. Risks and Weaknesses

- Raise the critical points, be realistic!
- Focus on your firm's plan for expansion or new product
- Keep this section short and to the point
- Let the banker or investor decide if he/she needs more information

X. Appendix

- Start with an index listing documents
- Background information that supports plan
- Realize that some analysts may wish to see your calculations
- Appropriate attachments may include: work schedules, illustrations, diagrams, tables

Business Loan Basics:

A. Ask yourself these questions:
1. How much money do I need?
2. What type of lender do I need? (bank, state, or federal agency, venture capitalist firm, or other investor)
3. What is the lender's minimum and maximum loan size?
4. Can the lender meet my present and future needs?
5. What types of businesses will the lender finance?
6. What collateral does the lender accept?

B. Lenders use the 8 "C's" rule:
1. Credit (must be good)
2. Capacity (ability to repay)
3. Capital (money going into the business)
4. Collateral (your assets that secure the loan)
5. Character (you)
6. Conditions (Economy, finances, anything that will affect your business)
7. Commitment (your ability and willingness to succeed)
8. Cash Flow (prove the business can support its debt and expenses)

C. Basic questions a lender will ask you:
1. How much do you want?
2. How will the loan be used?
3. How long will it take to repay the loan?
4. How will the loan be repaid?
5. What collateral do you have to offer?
6. How much are you investing in the business?

D. Before meeting with a lender:
1. Call to find out the rules for business loans.
2. Is the lender looking for loans of your size and type?
3. Ask for a loan application to be sent to you.
4. Make an appointment.
5. Rehearse your presentation.
6. Remember – your first customer is the lender! Before you sell anything, you have to first convince the lender that your business concept has merit.

E. When meeting with a lender:
1. Dress properly and be on time!
2. Bring your business plan, a completed loan application, and any other materials you need.

3. Be strong and positive.
4. The entire presentation should take 30 minutes. Give an overview or outline at the beginning. Know how you are going to end the presentation.
5. Ask your lender to take a tour of your current or proposed operation.
6. Answer all negative questions with positive answers. Be willing to back up your answers and never lose your temper.
7. Find out when you can expect an answer.
8. Get any decisions or negotiations made on the telephone put in writing.
9. Follow up with a thank you letter and a phone call.

F. If your loan is rejected, ask these questions to the lender who rejected your plan:
   1. Why was I rejected? Get the reasons in writing.
   2. Does this mean I'm turned down? Or can I correct the problems and resubmit the plan?
   3. Should I go to another bank or lending institution?
   4. Should I seek alternative refinancing? (Small Business Administration/SBA Guarantee, State Loan)?
      - Which alternative? Why?
      - Who should I ask for? Why?
      - Should I tell the new lender the reasons for my rejection?

Resources

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Administration, the Virginia Department of Economic Development, Universities, Community Colleges, Local Governments, and the Private Sector. For a copy of the document, contact David Shanks at the Small Business Development Center, Radford University (540) 831-7027.

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