

# Contents Of A Good Business Plan

Ben Swartz, Director of the Drake University SBDC

After everyone has recommended that you write a business plan and after you have diligently pursued and completed this formidable effort, it is quite likely that no one will read it. Why is that, you might ask.

Most business plans are written for the purpose of securing financing. A small percentage are written as a benchmarking mechanism for the owner. Assuming that your plan will combine with a loan application, the banker will require a completed business plan that includes cash flow projections. Cash flow projections are nothing more than a compilation of anticipated startup costs, revenues and outlays of cash. They enable the business owner to anticipate cash requirements spread out over a period of time.

Of all the loan applications and business plans bankers receive, a small percentage are actually read. A number of them will be approved because the banker already has talked to the applicant, knows what the financials look like, and knows that in all likelihood, the loan will be approved.

Conversely, another group of applications get rejected early for a variety of reasons. Therefore, the banker will not waste time reading through something he/she knows will go no further.

This leaves the group that appears to be reasonable, but that still requires the banker to read through it to satisfy him/herself that it is "bankable." The applicant needs to go through the process, especially to be able to give informed answers to questions the banker is bound to raise.

Typically, the banker will ask where the applicant got market information and how the applicant justifies assumptions about revenues and costs.

Another thing that has a direct bearing on the business plan is the applicant's personal budget. Will the business support the applicant's lifestyle and still have enough to carry both the principal and interest payments of the loan?

Financing arrangements are changing all the time. In today's competitive times, ratios of debt to equity are no longer what they used to be. In many loan applications a 30% equity contribution used to be standard, particularly if the loan was being guaranteed in part by the SBA. Today in 75% of commercial loans that are being made, the equity requirement is up to the banker, thereby throwing out old rules.