HOME-BASED AND MICRO BUSINESSES

CASHING IN ON BUSINESS OPPORTUNITIES

WRITING A BUSINESS PLAN

PREFACE

This unit includes the basic information for teaching entrepreneurs how to write a business plan. It is designed to be used in a 3-5 hour session depending on the size and background of the audience. A combination of lecture and hands-on approach is recommended. Participants should be given time to work on a basic outline of their business plans and report orally to the entire group. Participants who want to continue the development of their plans should be given 4-6 weeks to do so with follow-up and feedback from the instructor.

Goal: Entrepreneurs will learn how to write business plans.

Objectives: As a result of this session, entrepreneurs will learn:

- The reasons for preparing a business plan.
- The components of a business plan.
- The format of a business plan.

HANDOUTS

Handout 1 — Business Plan Outline
Handout 2 — Sample Marketing Plan - Boat Buddies
Handout 3 — Cash Flow Worksheet
Handout 4 — Sources and Uses of Funds Statement Projected
Handout 5 — Income Statement
Handout 6 — Projected Balance Sheet

This unit was originally adapted (with permission) by Beth Duncan from "A Guideline for Preparing a Business Plan" written by the Mississippi Department of Economic and Community Development, P.O. Box 849, Jackson, MS 39205 601-359-3593.

INSTRUCTIONAL MATERIALS

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HANDOUT 1

What is a Business Plan?

A business plan is a basic description of the goals and objectives of the business and how the entrepreneur plans to achieve them. It is ideally a written document that describes the mission of the business along with the production, financing, organizing and marketing strategies.

Why is it Important to Write a Business Plan?

There are three important reasons for preparing a business plan. First, it requires the entrepreneur to investigate thoroughly the factors that will have a bearing on the success of the business. Second, it will enhance the ability of the entrepreneur to secure financing by providing an organized overview of the venture for lenders and investors. Third, writing a business plan provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

A common mistake in creating a business plan is to include too much information. The business plan only need to include pertinent information. Adding "fluff" does not create a better business plan but can be distracting to the reader and does not contribute to the overall effectiveness of the tool. A general rule of thumb is to keep the business plan between 10-15 pages. A business plan should provide a concise picture of the business and its operation. Limiting the number of pages in the business plan will force the writer to collect their thoughts and concisely describe their business, products, marketing approach, management style and financials to the reader. Constraining a business plan in length does mean the writer cannot include detailed and cumbersome information in the appendix. The information in the appendix should be referenced in the body of the business plan. Remember, this is a rule of thumb and if more or less space is needed act accordingly.

The following outline has been prepared to help the entrepreneur assemble the facts that are essential to good business planning. Complete your business plan using the accompanying outline to ensure that all the necessary details are included. Keep in mind that thoroughness, clarity, and rationality of the plan will all play key roles in successful financing, starting, and operating your business.

[NOTE: Because these guidelines were written to cover a variety of possible businesses, rigid adherence to them is not possible or even desirable for all businesses. Not all parts of all sections will be necessary for each individual's business plan.]

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THE EXECUTIVE SUMMARY.

This section provides a short and concise overview of what is contained in the business plan. Unfortunately, financiers many times only read the executive summary of a business

plan which creates their first impression. It is important that the executive summary hits the businesses highlights and intrigues the reader to read further. A poorly written rambling executive summary may lead the reader to form a less than positive opinion of the plan resulting in them leaving the bulk of the plan unread.

THE INDUSTRY, THE COMPANY, AND ITS PRODUCTS AND/OR SERVICES

This section assists you in describing your business venture in a detailed but concise manner. You must clearly present the business you are in, the product or services you will offer, and the nature of your industry.

A. The Industry

Present the current status and outlook for the industry in which the business will operate. Discuss new products and developments that have emerged in the marketplace, new markets and customers, and any other trends that could affect the business. Identify all sources of information used to describe these trends.

B. The Company

Briefly describe the business area your company is in, or intends to enter, the products or services it will offer, and its principal customers. Also discuss the ownership and legal form of the company. Consult an attorney for the form of corporation, limited liability organization, partnership, or sole proprietorship that is best for you.

C. The Products and/or Services

Describe in detail the products or services to be sold, as well as the application of your product or service. Emphasize any unique features of your product or service and highlight differences between what is currently on the market and what you will offer. Define the current state of development of the product or service; include photographs, if applicable.
Proprietary Position:
Describe patents, trade secrets, or other proprietary features. Discuss any advantage you might have that would enable you to achieve a favorable position in your industry.

MARKET RESEARCH AND ANALYSIS

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This section presents enough facts to determine if your product or service has a unique position and substantial market in a growing industry and can achieve sales despite a competitive market. This section is one of the most difficult to prepare and also one of the most important. (See Part 3, Lesson 1 Targeting New Markets for more information.)

Almost all subsequent sections of the business plan depend on sales estimates developed in this section. The sales levels you project, based on the market research and analysis, directly influence the size of the operation, the marketing plan, and the amount of debt and equity capital required.

Market research defines the need for the product or service, aids in predicting market share, identifies competition, provides direction for efficient use of advertising and

promotional dollars, identifies problems and opportunities, and establishes benchmarks by which to measure progress and success.

Basic research need not be expensive. Examples of primary (non-published) sources include: personal focus group interviews, mailed questionnaires, telephone surveys, license plate studies, traffic counts, and sales analysis reports. Examples of secondary (published) research sources include the Internet, libraries, educational institutions, advertising media, census information, local government sales tax data, chamber of commerce information, department store sales data, registrations for contests and drawings, and computerized demographic services.

Because of the importance of market analysis and the dependence of other parts of the plan on the sales projections, you may want to prepare this section of the business plan before you do any other. Allow enough time to do this section thoroughly and check alternate sources of market data.

Economic Trend Analysis. Economic trend analysis requires data on employment levels, incomes, population, inflation, mortgage rates, area bankruptcies, etc. Free sources of this information include libraries, banks, educational institutions, investment houses, government agencies, newspapers, business publications, and trade associations. Compare and contrast several sources before drawing conclusions or implications. You should be looking for economic trends that may affect your business. For example, if you are providing a high-end or luxury product or service, then an economic downturn may adversely affect your business to a greater extent than if you were providing a product or service that is seen as more of a necessity.

Political and Social Analysis. Depending upon the nature of the business, operations may be affected by local, state, regional, national, and world political situations. National deregulations, tax increases, or elimination of trade barriers, for example, can have a profound impact. At the state or local level, the acceptance or rejection of bond issues, election of new officials, or ren-ovation plans might affect a company's marketing philosophy. The media, periodicals, trade journals, and general business publications are good references.

Social analysis includes a study of the demographics of the customer base. Important factors include the age groupings, income level, type of employment, mobility, marital status, and leisure habits of customers, as well as the number of women and teenagers in the local work force. Chambers of commerce and local government agencies can be helpful in your gathering of local information.

Product and Service Analysis. Products and services must be current and varied as the market demands. Access to supplies and the ability to effectively distribute products and provide services are vital. Decisions concerning the extent of product line or services are ultimately determined by the needs and wants of potential customers, and vary with changing trends, sales results, and customer demands or perceptions. Market analysis, product testing, and continued sales observance reveal customer preferences and reactions.

General Guidelines for Product Development:

- A few products often account for the majority of sales volume.
- Marginal products (poorer performing products in terms of profit generation) drain cash flow and management time.
- Increasing management time or advertising dollars will not increase sales of a product perceived by consumers as defective or inferior.
- Offering even one poor product diminishes the image of a firm's other products.
- Modifications and changes in customer's perception of the product can extend product life.
- Trendy" products may experience initial popularity, but almost immediately
- Fizzle. A marketing strategy based on these types of products will usually require you to constantly seek out or develop new products to satisfy constantly changing customer perceptions.

Customer Analysis. Group the customer base into categories defined by geographics (where customers are located), demographics (age, sex, occupation, education, marital status, and income levels), and psychographics (lifestyle characteristics, including frequency of purchasing products or services, method of payment, leisure and reading preferences).

General customer analyses may be obtained from local chambers of commerce, media computer services, the Internet and surveys, or business and industry publications. Reference materials are also available through your local State Department of Economic and Community Development and library. Specific psychographic data changes frequently and should be obtained through professional survey techniques.

The customer base is never static, but constantly grows, diminishes, and further segments itself. The successful entrepreneur constantly analyzes the market and makes adjustments based on customers' changing needs, perceived benefits, and emotional satisfaction.

Market Potential Analysis. Market potential is the total of all sales you plan to capture in units or dollars. Published sources can provide excellent data for many industries, but information is not plentiful for new or unique products and services. Professional surveys are often necessary to support market potential data and to make the best prediction of annual sales.

Estimating what percentage of total market sales your company might capture from the competition is very important. Use every source possible in making the "guesstimate," then continue to track market share not only in geographical areas but also by product line. Slow growth areas must be recognized and corrective action may need to be taken.

Sales assumptions in a new business should be projected for at least two years, and allowances must be made for seasonal fluctuations. Sales increase projections for future years may be estimated by multiplying sales by a reasonable percentage such as an estimated percentage change of gross national or state product (GNP or GSP), the Consumer Price Index or other economic activity indicator.

Competitive Analysis. Compare your own product or service to that of your competition. Know the similarities, the differences, and the ways in which your product is unique. Develop reasons why customers should choose your product or service over that of another company. Be sure to keep in mind the "atmosphere" in which you offer the product or service. In many cases, a small business will be able to compete with a much larger competitor by offering an enjoyable experience or by providing superior customer service.

An effective marketing strategy cannot be developed without a thorough knowledge of the competition. Read all annual reports, newspaper articles, advertising, company literature, and published statistics related to the competition. Question suppliers and attend trade shows and business fairs. Continually seek information on competitors' products, research and development activities, production methods and costs, organizational designs, financial status, marketing strategies, and general strengths and weaknesses. If the business is a retail or personal service establishment, remember that location is a prime consideration.

Use information about the competition as a tool for improving your own business. Look for trends in their advertising, pricing, or promotion, and for variances from the usual which could indicate new strategies or the need for test marketing. Do not overreact to a change in operations by the competition, but always be prepared to make adjustments based on their actions if necessary.

List the strengths and weaknesses for each competitor, Some of the factors to consider include:

- Business name and location
- Estimated sales volume
- Product selection
- Quality of product or service
- Price of product or service
- Advertising
- Customer satisfaction

Based on the results of the market research and analysis the following items should be included in this section of the business plan:

A. Customers

Describe the potential customers you are targeting for the product or service. Who and where are the major purchasers? What is the basis for their purchase decision: price, quality, service, personal contact, or some combination of these factors? How do potential customers rank these factors in order of importance?

B. Market Area

Describe your market area. Where are the customers for your products? If business is general automobile repair. A general automobile repair facility will generate the vast majority of its customers from area residents. Therefore, the market area will be the local area. AoOutomible owners in foreign countiries or distant cities, states or communities would most likely have their automobiles repaired in their local community.

C. Market Size and Trends

Describe the number of potential customers in your businesses defined market area. Then determine the number of these people that are most likely to be your customers. This will provide a very rough estimate of the market size with regard to customers and in terms of total sales volume. Also describe the seasonal fluctuations and the potential annual growth of the total market for your product or service, and discuss the major factors affecting that growth (industry trends, economic trends, government policy, population shifts).

D. Competition

Make a realistic assessment of the strengths and weaknesses of competitive products and services, and name the companies that supply them. Compare these competing products or services on the basis of price, performance, service, warranties, and other pertinent features. Present a short discussion of the current advantages and disadvantages of competing products and services and state why they are not meeting customer needs.

E. Market Share and Sales

Summarize what it is about your product or service that will make it sell in the face of current and potential competition. Identify major customers who are willing to make purchase commitments, and if possible attach their commitment letters to your plan. Discuss which customers would be major purchasers in the future and why. Based upon your assessment of the advantages of your product or service, market size and trends, customers, the competition and their product, and the sales trend in prior years, estimate your share of the market and your sales in units and dollars for the next two years. Be sure to state any assumptions upon which your projections are based.

MARKETING PLAN

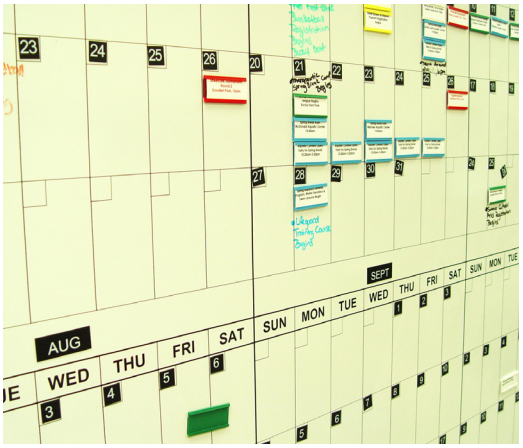
Marketing is not a one-time event, but an ongoing process. A specific marketing plan outlining concrete goals, objectives and strategies is indispensable to a well-managed business: without it, financial budgets and profit plans are incomplete. While even the best marketing plan cannot ensure success, conducting thorough research and establishing specific objectives greatly minimizes the possibility of failure. The marketing plan decreases misunderstanding and increases organized thinking, as well as serving as a measuring tool for annual progress.

Writing the marketing plan entails developing goals, objectives, strategies, and tactics. Both short-range and long-range goals should be detailed in your marketing plan. Goals and objectives should be measurable, identify actual results or outcomes, and should be attainable within a specific time frame. Goals and objectives should address profit, sales volume, and/or market share penetration, and be based upon what is learned through the market research. For example, one goal might be to increase sales by 15 percent by the end of next year.

Tactics or strategies are the active ways in which you plan to accomplish the business goals you have set. They are a combination of efforts that work together to position your product for maximum customer benefits and sales. For example, tactics to increase sales volume

by 15 percent might involve redesigning packaging and increasing magazine advertising in selected areas.

A. Overall Market Strategy
Describe the general marketing philosophy and strategy of the company. This should be derived from marketing research and evaluation. It should include a discussion of what kinds of customer groups will be targeted for initial intensive sales promotions as well as which groups will be targeted for later sales efforts.



B. Pricing
The pricing policy is one of the most important decisions you will have to make. The price must be right to penetrate the market, maintain a market position, and produce profits. It is important to determine if your product is a commodity, luxury or niche market product. The level of competition, the relative quality of your product, and the size of the market will all significantly impact the price folks are willing to pay for your product.
Refer to Part 2, Lesson 2, Setting the Right Price, for guidelines on determining your pricing strategy.

C. Sales Tactics
Describe the methods that will be used to make sales and distribute the product or service. Analyze the effectiveness of everything available within the sales system. Traditional channels include salespeople, agents, distributors, direct mail services, and dealers. Additional distribution methods involve the Internet, warehouse clubs, electronic shopping, telemarketing, trade shows, temporary space in shopping malls, vending machines, franchising, or large volume sample sales to hotels for free distribution to guests. Offering discounts to wholesalers or dealers who assist in distribution may also an effective channel.

Referring back to your target customer, it is important to sell your product in places where these folks look for products. If your target customers are affluent households, it is important to have your product on the shelves of up-scale stores and not discount retailers.

Each distribution method must be evaluated as to cost, coverage, and performance. Many of these channels are geared only to large or very small volume, or lend themselves only to specialized merchandise. Choose the method that works best for your particular business and maintain an awareness of developing sales methods. Again, knowing your customer will help you decide on which channels are best for your product.

Selective distribution is the key to effective distribution. Start-up businesses are most successful when operating out of one location or geographic area, even though they may employ several sales techniques.

D. Advertising and Promotion
Describe approaches the company will use to bring its product to the attention of prospective purchasers. The schedule and cost for advertising and promotion should be presented. If advertising and promotion will be a significant expense item, an

exhibit of how and when these costs will be incurred should be included as well as a description of why you are targeting these venues, i.e. target customers read these publications or listen to this radio format.

Refer to Lesson 14, "Targeting New Markets," for marketing guidelines.

E. Packaging

Describe how the product will be packaged. Packaging refers to the presentation of goods or services. Proper packaging attracts the customer, effectively communicates product attributes, identifies the brand and seller, lists ingredients, and makes the product easier to handle. Effective package design decreases cost associated with storage, labor, shipping, and pilferage. Poor packaging, however, creates an impression of inferiority and can significantly reduce sales. Again, refer to target customers to ensure that you are packaging your products according to their needs. For example, a recent study on grass fed beef found that the target customers were "empty nesters," mature households with no children. These households wanted their beef packaged to accommodate meals for two instead of the traditionally larger packaging that serves 3-4 people.

F. Publicity

Publicity, often referred to as "free advertising," means getting the company's name, product, or service in the media at no charge. Publicity is especially important for entrepreneurs with limited advertising and promotional budgets.

Press releases are effective only if they are genuinely newsworthy, and should be accompanied by a photograph if possible. Company newsletters, sponsorships of local athletic teams, donations of gifts for charitable functions, and participation in civic organizations are all good sources of positive publicity. Capitalize upon every opportunity to get your company's name in front of the public at no charge.

OPERATING PLAN

The operating plan should describe facilities, location, space requirements, capital equipment, and labor force required to provide the company's product or service.

The discussion guidelines given below are general enough to cover different businesses. Only those that are relevant to your particular business should be addressed in your business plan.

A. Location

Describe the planned location of the business and discuss the advantages and disadvantages of the site in terms of wage rates; labor availability; proximity to customers and suppliers; access to wholesalers, distributors, and transportation; state and local taxes and laws; utilities; and zoning.

B. Facilities and Improvements

If yours is an existing business, describe the facilities currently used. If your firm is new,

describe how and when the facilities to start the business will be acquired. Discuss how and when space and equipment will be expanded to the capacity required for future sales projections. Discuss any plans to add to or improve existing space. Explain future equipment needs and indicate the cost and timing of such acquisitions.

C. Strategies and Plans

Describe the process involved in production of your product or service. Also present a plan that shows cost-volume information at various sales levels of operation with a breakdown of material, labor, purchased components, and overhead. Manufacturers should briefly describe their approaches to quality control, production control, and inventory control. Explain the quality control and inspection procedures the company will use to minimize service problems and ensure customer satisfaction.

D. Labor Force

Exclusive of management functions, does the local labor force have the necessary skills, in sufficient quantity and quality, to produce the product? If their skills are inadequate, describe the training needed to upgrade them.

RISKS AND OPPORTUNITIES

It is important to be aware both the risks and opportunities facing a business. Including the risks that are associated with the business is not perceived as being negative. All businesses face some level of risk from a variety of sources. Identifying risks show that the writer has researched the project thoroughly and is not oblivious to the fact that there are risks associated with business activity. Providing solutions or means of addressing these risks enhances the strength of the business plan and will convey that the writer has carefully thought through the business plan.

Clearly identifying opportunities provides a means of showing how the business can take advantage of current business conditions and generate revenue. It is important to convey that the business has identified areas that offer business opportunities and how these opportunities might be captured.

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MANAGEMENT TEAM

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed team with a balance of technical, managerial, and business skills. The proposal should include a description of the organizational structure, key management personnel and their primary duties, and the board of directors, if applicable.

A. Organization

In a table or flow chart, present the key management roles in the company and the name of the individual who will fill each position if possible. Discuss any current or past situations where the management personnel have worked together, and indicate how their skills complement each other and result in an effective management team.

B. Key Personnel
Describe the exact duties and responsibilities of each key member of the management team. For each individual, include a brief statement of career highlights that focuses on his or her ability to perform the assigned role. A complete resume for each member should be included as an exhibit attached to the business plan.

C. Management Compensation and Ownership
State the salary to be paid to each member. Set forth stock ownership planned for key personnel, the amount of their equity investments, and any performance-dependent stock options or bonus plans that are contemplated.

D. Board of Directors
Discuss the company's philosophy as to the size and composition of a board of directors. Identify proposed board members and include a short statement about each member's background.

THE FINANCIAL PLAN

The financial plan is basic to the evaluation of a business opportunity and should represent your best estimate of future operations.

In developing a financial plan, you must prepare several basic forecasts. Many decisions will be based on what you present here. It is vitally important that you apply your best efforts in formulating these forecasts.

The four key financial statements to be included in the business plan include:

A. The Cash Flow Worksheet

B. The Sources and Uses of Fund Statement

C. The Income Statement

D. The Balance Sheet

For an existing business, balance sheets and income statements for the current and previous three years should be provided. After you have completed preparation of the financial exhibits, briefly highlight the important conclusions that can be drawn. Finally, explain all of your assumptions and the sources of your data.

Developing financial projections (aka pro formulas) is a vital component of your business plan. It is important that you take the time to research your projections thoroughly so they will be as realistic as possible. Be liberal with your expenses and conservative with your revenues. It is much better if your financial surprises are pleasant ones.

Too often people try to determine their start-up costs without considering their costs

of operation after the business has opened. To finance the business properly, determine whether you will need additional cash at the outset to support periods of operating losses that often occur during the early months of operation. With that thought in mind, let's start developing our financial projections with the cash flow statement.

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HANDOUT 3

A. Cash Flow Worksheet

A cash flow statement is nothing more than a presentation of the monthly cash receipts and cash disbursements you expect to incur while operating your business. It is important to address this on a monthly basis because many businesses pay for their goods and expenses in one month but do not collect the money from sales until the following months or longer. Numerous businesses fall into this cash flow trap. Also, many of your expenses are going to be fixed expenses — expenses that generally stay the same, regardless of your sales level. Fixed expenses might be rent, insurance, salaries, or contract obligations.

While some businesses may generate "unearned" revenues such as rent, interest, or similar incomes, we will deal with the primary concern of most small businesses, which is sales.

1. SALES — Sales revenue is income your business receives by selling its goods and services to others. Your business may sell more than one type of good and service, so you should keep your sales figures separated by product or service. Notice on the Cash Flow worksheet how sales are typically lower during the early months of operation. It will take time to develop a customer base for your business, so it will be necessary to borrow enough at the outset to carry the business through this building period. Your first step is to post your projected monthly revenues to your cash flow statement.

2. CASH RECEIPTS — Cash receipts reflect when you actually receive the cash for the goods and services you sold. Some of your sales may be for cash, meaning you receive those funds at the time of sale. However, some of your sales may be on credit, and you may be required to mail invoices for your sales. If this is true, then you have to "carry" the outstanding cash as accounts receivable. Some of this cash may be received in 30 days, some in 60 days, and some longer. Some of your accounts receivable may never be collected. All of these considerations must be brought into play when preparing the cash receipts section of your cash flow statement. It is the actual receipt of cash that determines whether you have the cash on hand to pay your bills.

3. DISBURSEMENTS — You must also identify the payments you will have to make each month for your expenses. Be careful and realistic while considering these disbursements. The cash flow example on the following page identifies some of the more common expense categories, but each business will have its own particular expenses.

In our example, "material purchases" is the amount that will be paid to suppliers to replace the goods that were sold. It is based upon "sales" and the cost of those sales. Your research should have identified a "cost of goods sold" percentage for your business. If that percentage were 50%, for example, then your cost of goods sold will be

exactly one-half of your gross sales. If your cost were 25%, then your cost of goods sold will be one-fourth of your gross sales.

Be sure to remember that an increase in sales may bring about an increase in certain disbursements. Sales increases may result in a need to hire additional labor, thus creating higher wages and benefits. It may also mean higher utility costs, higher material costs, and/or an increase in other variable expenses.

4. NET and CUMULATIVE CASH FLOWS — Net cash flow reflects the difference between receipts and disbursements, positive or negative, for the current month. The cumulative cash flow, or current position, is determined by adding the present month's cash flow to cumulative cash flow of the previous month, much like the running balance in your checkbook register.

B. Sources and Uses of Funds

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Having completed your cash flow worksheet, you now have some idea of what your sales and operating expenses might be and you can determine how much financing you will need.

HANDOUT 4

5. SOURCES OF FUNDS — After you have identified your financing needs, it's time to address where the funds must come from. Either the investor or investors must provide the necessary capital, or the business must make arrangements to borrow the funds. In most cases, you will use both sources of funds. The example shows that the entrepreneur has injected $100,000 of his own funds. That is 25 percent of the entire project cost, which is approximately what a bank would require. The remaining 75 percent or $300,000 was arranged through two separate loans: one long-term loan for the land and building, and a second, shorter-term loan for the equipment, machinery, and fixtures.

6. USES OF FUNDS — List what you will need to purchase to begin operation, and determine the cost of each item. The example Sources and Uses of Funds Statement gives some of the more common items that you must have before you start operation. Bids need to be secured for any construction, while pricing lists should be provided for equipment, machinery, and inventory. Be sure to ask your local utility company if any deposits are required. Also, refer to your cash flow statement to see if you must prepare for a period of cash shortage.

7. CASH BALANCE (Working Capital) — The funds remaining after the initial purchases represent your working capital. As shown by the cash flow analysis, this additional capital is necessary as a cushion to absorb the negative operating cash flow you have in your first seven months of operation (according to the example).

HANDOUT 6

C. Income Statement (Profit and Loss Statement)

With the cash flow worksheet completed, the income statement is easy to compile (refer to example).

8. SALES — Total your monthly sales for each category as shown on your cash flow statement. This figure reflects your total projected annual gross sales. From this figure, deduct any refunds that you gave to customers for returned merchandise. This sum represents your total net sales.

9. COST OF GOODS SOLD — This is the cost of the products that you sold to your customers. Your beginning inventory ($10,000) is added to any inventory purchases you made during the report period ($118,994) to identify the amount of goods available for sale. Suppose you did not sell everything you had available for sale. At the end of this period you counted your inventory on hand and found you still had $10,000 of inventory on the date you prepared this report. Your goods available for sale minus your ending inventory produces the total cost of goods sold (total material costs). In the example, that amounts to $118,994 ($128,994 minus $10,000 of ending inventory). Note that if you are a service business, you would not have a cost of goods sold section in your income statement.

10. OPERATING EXPENSES — These are the totals of the expenses as listed on the cash flow statement. Note there are some changes. Payment of the principal portion of your note is not considered an expense. It will be accounted for later on your balance sheet but does not appear on the income statement. Also, note the addition of an expense category termed "depreciation." This is not considered on your cash flow statement because you don't write a check to depreciation. The purpose of depreciation is to account for the fact that your assets will begin to wear out as you use them. For example, you may have a certain piece of equipment with an IRS recovery period (i.e., The length of time you have to write off the capital expense) of 10 years. If that equipment cost you $1,000 at purchase and has an IRS recovery period of 10 years, you will have a depreciation expense of $100 per year if you elect to use the straight-line method of depreciation. In our example the building, equipment, machinery, etc., is depreciated by $11,400 per year. You don't actually write a check for the $11,400, but your assets have devalued by that amount.

11. NET INCOME (PRE-TAX) — Net sales minus Cost of Goods Sold and Operating Expenses gives us the net income of the business, However, this amount does not include the payment of taxes on the profit made.

12. TAXES — If you have made a profit operating your business, you will be expected to pay both state and federal income taxes. This aspect of your business should be discussed thoroughly with your accountant.

13. NET INCOME (AFTER-TAX) — After taxes have been paid, the remaining profit belongs to your business in the form of retained earnings.

D. The Balance Sheet

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The Balance Sheet is a listing of the assets, liabilities, and equity of your business. The one shown is a very basic example of a small business balance sheet. Please note that the Balance Sheet must balance. That is, total assets must equal total liabilities plus equity.

14. CURRENT ASSETS — These are assets that can be converted into cash within a year. The cumulative cash of the business (#4) is listed along with the ending inventory (#9) and accounts receivable — as well as other similar assets — to form the current assets portion. The ending inventory is a listing of the goods held for sale at the end of your accounting period, and the accounts receivable is a listing of what is owed to you by your customers for previous purchases.

15. FIXED ASSETS — The second category of assets is fixed assets. This is a listing of the assets that are long-term in nature (brick-and-mortar-type assets). Due to their nature of being usable for a longer period of time, these assets are depreciated over a longer period. Depreciation ($11,400) for past periods is shown on the balance sheet as accumulated depreciation and is deducted from the fixed assets to arrive at net fixed assets. Land is also considered a fixed asset but, is not a depreciable one (it is assumed that the value of land will only increase, not decrease)

16. OTHER ASSETS — This is a catch-all section for other assets, such as deposits held by utility companies.

17. TOTAL ASSETS — This is simply the sum of current, fixed, and other assets (categories 14, 15 and 16).

SLIDE 13

18. CURRENT LIABILITIES — Current liabilities are bills and accounts you must pay within the next year. Examples include short-term notes or accounts payable. Also considered to be a current liability is that portion of any long-term note that must be paid in the upcoming year. This figure can be provided by your banker, accountant, or your amortization schedule of notes payable.

19. LONG-TERM LIABILITIES — Long-term liabilities are the long-term financial commitments your business has made to the bank or other debt holders. If additional debt is not incurred, the "loans payable" section will decrease each year by the amount of principal payments made during the period. In the example in Slide 8, the original debt of $300,000 — as shown in the Sources and Uses of Funds Section — is now reduced to a balance due of $291,503. Therefore, $8,497 in principal was paid that first year of operation ($300,000 minus $291,503). Also, note that $9,447 is deducted and shown as less current portion. That is because it is the portion of long-term principal that will be paid in the upcoming year, and it is, therefore, considered to be a current liability and is listed under that category.

20. TOTAL LIABILITIES — This is the sum of current and long-term liabilities.

SLIDE 14

21. EQUITY — the equity section reflects your original investment (#5) as well as the accumulation of profits (#13) of the business (retained earnings). Equity is equal to the difference of the assets that the business holds and the liabilities that it owes.

22. TOTAL LIABILITIES & EQUITY — The sum of your liabilities and equity when added together should equal your assets. Do they balance? If not, you have an error in one of your sections.

HANDOUT 1

BUSINESS PLAN OUTLINE

I. Executive Summary

II. The Industry, the Company, and/or its Products and Services

- A. The Industry
- B. The Company
- C. The Products and/or Services

III. Market Research and Analysis

- A. Customers
- B. Market Area
- C. Market Size and Trends
- D. Competition
- E. Market Share and Sales

IV. Marketing Plan

- A. Overall Market Strategy
- B. Pricing
- C. Sales Tactics
- D. Advertising and Promotion
- E. Packaging
- F. Publicity
- G. Sample Marketing Plan- Boat Buddies

V. Operating Plan

- A. Location
- B. Facilities and Improvements
- C. Strategies and Plans
- D. Labor Force

VI. Risk/Opportunity

VII. Management Team

- A. Organization
- B. Key Personnel
- C. Management Compensation and Ownership
- D. Board of Directors

VIII. The Financial Plan

- A. Cash Flow Worksheet
- B. Sources and Uses of Funds
- C. Income Statement (Profit and Loss Statement)
- D. Balance Sheet

HANDOUT 2

SAMPLE MARKETING PLAN-BOAT BUDDIES

I. Overview Product Line Description

A line of unique fishing tackle boxes, made from durable plastic materials, designed to be attached to the hull of a fishing boat. The product has a patent pending.

Business Description

A manufacturing company, in its formation stage, is to be located in a Midtown, Mississippi, area. The company will be incorporated, wholly owned by the founder. Initial capital investment is estimated to be $20,000. The location of the business provides easy access to component parts produced locally and is centrally located for efficient delivery of products. The markets to be served are:

- Short-Term (first year)- the states of Mississippi, Louisiana, Tennessee, Arkansas, and Alabama
- Long-Term (five-ten years) – Nationwide

Industry Description

The target consumer for this line is the sport fishing boat owner. The tackle box industry is to be considered in pricing policies only.

Market Conditions

- Economic Issue
- Industry sales appear to be impacted by Disposable Personal Income (DPI)

Research (quote your source) indicates a 10.15 percent DPI increase in the last year and a projected DPI annual growth of 9.2 percent over the next three years.

Market Area:

Targeting the Southeast. Transporation costs and competitors make it difficult to compete for customers outside this area.

Size of Market

- Outboard motor boat sales for the last five years were 2.386 million units (quote source). Projecting sales over the next five years using an average of the previous period and assuming 75 percent of those of the previous period are still in use, results in the potential of those plus 298,250 new boat owners in the regional market.

II. Marketing Issues

Customer Profile

Fishing boat owners

- Hold a high to moderate interest in fishing
- Currently own fishing tackle boxes

- Read or subscribe to fishing magazines
- Occasionally watch fishing programs on television
- Occasionally attend boat and fishing expositions
- Occasionally participate in fishing contests
- Male head of household

Product Positioning

- The product line is to be positioned as a new convenient accessory for fishing boats.
- Its function is to provide added convenience for the boat fisherman.
- The product's advantages are to be perceived as:
    - convenience, fast access to fishing lures
    - safe storage for fishing tackle
    - added value to the fishing boat

Pricing Issues

- For fishing boat owners
    - While the product is not considered competitive to tackle boxes currently in use, pricing must be perceived as a value to the consumer as compared to the tackle box they now own.
    - Retail pricing on existing lines ranges form $6.95 to $84.95.
    - Wholesale pricing will be 30 percent to 60 percent below retail pricing, depending on the type of retail outlet.
- Cash discounts need to be offered to all market channels. Customary terms of two percent discount if paid within ten days; net due in 30 days is advisable. If pricing is to be offered on a delivered basis, average freight costs must be included in the published price list.

Packaging Issues

- Products distributed through market channels for boat owners should be shrinkwrapped with brochure explaining product features and installation instructions contained in the package. Twelve units will be packed in a cardboard shipping container. Copy on package code number, and gross weight of case. This information should appear on front, back, and both end panels.

Distribution Issues

- Sales Service
    - An office procedure needs to be developed to coordinate orders received, production scheduling, shipping, and invoicing.
- Shipping Issues
    - Shipments to market channels serving boat owners should be scheduled through United Parcel Service or Federal Express for orders less than five cases. Larger orders are to be shipped via common carrier. Delivery schedules need to be established and customers advised.
- Storage Issues
    - Raw materials/components from suppliers.
    - All components are manufactured locally. Proper order scheduling will keep

storage needs at a minimum.

- Finished goods
    - Depending on order velocity and productive capacity, finished goods will be stored in plant or in local, outside warehouses.
- Inventory control
    - A complete inventory control system needs to be established to provide adequate customer service levels, while minimizing working capital requirements.

Market Channels

- For fishing boat owners
    - Wholesale/chain
    - Boating supply houses
    - Discount chain stores
    - Fishing tackle distribution
    - National chain stores
    - Main order houses featuring boating and fishing equipment
- For retail outlets
    - Marinas
    - Fishing tackle stores

III. Objectives

Short-Term (first year)

- To attain distribution in 300 retail outlets
- To attain distribution with one retail chain having national distribution
- To reach annualized sales volume of 5,000 units by the end of the fifth year

Long-Term (five years)

- To attain retail distribution in 1,500 retail outlets
- To obtain a supplier agreement with three major mail order houses
- To attain distribution with five retail chains having national distribution
- To reach an annualized sales volume of 50,000 units by the end of the fifth year

IV. Strategies

- Conduct preliminary test marketing program in local market
- Direct sales and media efforts toward areas of high incidence of fishing and boating.
- Maximize efforts to publicize and advertise product line, just preceding and during the fishing and boating season.
- Provide adequate staffing to supervise sales efforts and ensure high levels of customer service.

V. Tactics

- Contact local market retail outlets for initial sales. Analyze dealer perceptions of customer reactions to the product. Project sales after a 90-day test.

- Establish a reporting system to track sales efforts and results.
- Develop a sales brochure for use in all sales presentations and direct mailings. Brochure should describe the features and benefits of the products, shipping and billing procedures, and should include pictures of the products and installation instructions.
- Develop a media plan to include scheduling ads in major fishing and boating magazines. Copy and art work is to be developed for various size ads.
- Develop a publicity program consisting of news releases describing the new product, its features and benefits.
- Press release will be mailed to fishing/sport editions of all state newspapers and appropriate magazines.
- Schedule participation in all major boat and fishing shows in the state and region. This will require development of collateral material to be used in the booth, including brochures, photographs, product samples, etc.
- Schedule participation in the major fishing contests in the state and region. Arrange to give products to all professional contestants. Obtain photographs and testimonials from the contestants.
- Contact major mail order houses offering fishing and boating supplies. Secure marketing agreement to advertise in their publications.

HANDOUT 3

CASH FLOW WORKSHEET

	Month	1	2	3	4	5
	SALES					
	Sales #1	$10,000	$11,000	$11,500	$12,000	$12,500
#1	Sales #2	5,000	5,500	5,775	6,000	6,200
	Sales #3	—	—	—	—	—
	Less Returns	—	—	—	—	—
	Total Sales	**$15,000**	**$16,500**	**$17,275**	**$18,000**	**$18,700**
	CASH RECEIPTS					
	0-30 days	$11,250	$12,375	$12,956	$13,500	$14,025
#2	30-60 days	0	3,750	4,125	4,319	4,500
	More than 60 days		—	—	—	—
	Equity proceeds	100,000	0	0	0	0
	Loan proceeds	300,000	0	0	0	0
	Total Receipts	**$411,250**	**$16,125**	**$17,081**	**$17,819**	**$18,525**
	DISBURSEMENTS					
	Material purchases	$6,250	$6,875	$7,194	$7,500	$7,800
	Labor	3,500	3,500	3,500	3,500	3,500
	Management	1,800	1,800	1,800	1,800	1,800
	Payroll Tax	636	636	636	636	636
	Benefits	250	250	250	250	250
	Advertising	500	500	500	500	500
	Truck/auto expense	-	-	-	-	-
	Contributions	-	-	-	-	-
	Charge card	-	-	-	-	-
	Dues & subscriptions	25	25	25	25	25
	Freight	126	126	126	126	126
	Insurance	275	275	275	275	275
	Legal & accounting	100	100	100	100	100
	Office supplies	35	35	35	35	35
	Shop supplies	45	45	45	45	45
#3	Travel	-	-	-	-	-
	Phone	150	150	150	150	150
	Utilities	450	450	450	450	450
	Repairs	-	-	-	-	-
	Tax/license	55	0	0	0	0
	Rent/lease	-	-	-	-	-
	Miscellaneous	150	150	150	150	150
	Principal payment	671	678	684	691	698
	Interest payment	2,792	2,785	2,779	2,772	2,765
	Land & building	325,000	0	0	0	0
	Machinery & equipment	35,000	0	0	0	0
	Furniture & fixture	10,000	0	0	0	0
	Additional inventory	10,000	0	0	0	0
	Utility deposits	2,500	0	0	0	0
	Other assets	1,500	0	0	0	0
	Income taxes	0	0	0	0	0
	Total	**$401,810**	**$18,380**	**$18,699**	**$19,005**	**$19,305**
#4	**Net Cash Flow**	**$9,440**	**($2,255)**	**($1,618)**	**($1,186)**	**($780)**
	Cumulative Cash Flow	**$9,440**	**$7,185**	**$5,567**	**$4,381**	**$3,601**

HANDOUT 3

CASH FLOW WORKSHEET CONTINUED

6	7	8	9	10	11	12
$13,000	$15,000	$17,500	$19,000	$21,000	$23,000	$25,000
6,500	7,500	8,500	9,500	10,500	11,500	12,500
—	—	—	—	—	—	—
—	—	—	—	—	—	—
$19,500	**$22,500**	**$26,000**	**$28,500**	**$31,500**	**$34,500**	**$37,500**
$14,625	$16,875	$19,500	$21,375	$23,625	$25,875	$28,125
4,675	4,875	5,625	6,500	7,125	7,875	8,625
—	—	—	—	—	—	—
0	0	0	0	0	0	0
0	0	0	0	0	0	0
$19,300	**$21,750**	**$25,125**	**$27,875**	**$30,750**	**$33,750**	**$36,750**
$8,125	$9,375	$10,875	$11,875	$13,125	$14,375	$15,625
3,500	4,700	4,700	4,700	4,700	4,700	4,700
1,800	1,800	1,800	1,800	1,800	1,800	1,800
636	780	780	780	780	780	780
250	250	250	250	250	250	250
500	750	750	750	750	750	750
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
25	25	25	25	25	25	25
126	200	200	200	200	200	200
275	275	275	275	275	275	275
100	100	100	100	100	100	100
35	50	50	50	50	50	50
45	65	65	65	65	65	65
—	—	—	—	—	—	—
150	200	200	200	200	200	200
450	525	525	525	525	525	525
—	—	—	—	—	—	—
0	0	0	0	0	0	0
—	—	—	—	—	—	—
150	200	200	200	200	200	200
704	711	718	725	732	739	746
2,759	2,752	2,745	2,738	2,731	2,724	2,717
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
$19,630	**$22,758**	**$24,258**	**$26,008**	**$26,508**	**$27,758**	**$30,008**
($330)	**($1,008)**	**$867**	**$1,867**	**$4,242**	**$5,992**	**$6,742**
$3,271	**$2,263**	**$3,130**	**$4,997**	**$9,238**	**$15,231**	**$21,972**

HANDOUT 4

SOURCES AND USES OF FUNDS STATEMENT

#5	**Sources of Funds (Funds Available)**	
	Owner's funds	$100,000
	Loan #1	250,000
	Loan #2	50,000
	Total	**$400,000**
#6	**Uses of Funds**	
	Land	$75,000
	Building	250,000
	Equipment	10,000
	Machinery	25,000
	Renovations	
	Inventory	10,000
	Furniture & Fixtures	10,000
	Deposits	2,500
	Other	1,500
	Total	**$384,000**
#7	**Cash Balance**	
	(Working Capital)	$16,000

HANDOUT 5

PROJECTED INCOME STATEMENT: YEAR 1

#8	**Sales**			
	Sales #1	$190,500		66.7%
	Sales #2	94,975		33.27%
	Sales #3	0		00.00$
	Gross Sales	285,475		0.00%
	Less Returns	0		
	Net Sales		**$285,475**	**100.00%**
#9	**Cost of Goods Sold**			
	Beginning Inventory	$10,000		
	Material Purchases	118,994		
	Goods Available	128,994		
	Less: Ending Inventory	(10,000)		
	Total Material Cost		**$118,994**	**41.68%**
#10	**Operating Expenses**			
	Labor	$49,200		17.23%
	Management	21,600		7.57%
	Payroll Tax	8,496		2.98%
	Benefits	3,000		1.05%
	Advertising	7,500		2.63%
	Truck/Auto Expense	0		0.00%
	Contributions	0		0.00%
	Charge Card	0		0.00%
	Dues & Subscriptions	300		0.11%
	Freight	1,956		0.69%
	Insurance Expense	3,300		1.16%
	Legal & Accounting.	1,200		0.42%
	Office Supplies	510		0.18%
	Shop Supplies	660		0.23%
	Travel Expense	0		0.00%
	Phone Expense	2,100		0.74%
	Utility Expense	5,850		2.05%
	Repairs	0		0.00%
	Tax/License	55		0.02%
	Rent/Lease	0		0.00%
	Other Expenses	2,100		0.74%
	Interest Expense	33,059		11.58%
	Depreciation Expense	11,400		3.99%
	Total G&A		**$152,286**	**53.34%**
#11	**Net Income (Pre-Tax)**		$14,195	4.97%
#12	**Income Tax**			
	Federal	$1,500		
	State	250		
	Total Tax		**$1,750**	**0.61%**
#13	**Net Income**		$12,445	4.36%

HANDOUT 6

PROJECTED BALANCE SHEET: YEAR 1

	Assets		
#14	**Current Assets**		
	Cash	$ 21,972	
	Ending Inventory	10,000	
	Accounts receivable	9,375	
	Other	0	
	Total Current Assets		**$ 41,347**
#15	**Fixed Assets**		
	Land	$ 75,000	
	Building	250.000	
	Equipment	10.000	
	Machinery	25,000	
	Renovations	0	
	Furniture & Fixtures	10,000	
	Other	0	
	Total Fixed Assets	**$ 370,000**	
	Less Accumulated Depreciation	11,400	
	Net Fixed Assets		**$ 358,600**
#16	**Other Assets**		
	Deposits	$ 2,500	
	Other	1,500	
	Total Other Assets		**$ 4,00**
#17	**Total Assets**		**$ 403,947**
	Liabilities		
#18	**Current Liabilities**		
	Notes Payable	$ 0	
	C/P Long-term Debt	9,445	
	Other	0	
	Total Current Liabilities		**$ 9,445**
#19	**Long-term Liabilities**		
	Loans Payable	$ 291,501	
	Less Current Principal	(9,445)	
	Total Long-term Debt		**$ 282,057**
	Total Liabilities		**$ 291,501**
	Equity		
#21	Owner's Funds	$ 100,000	
	Retained earnings	12,446	
	Total Equity		**$ 112,446**
#22	**Total Liabilities & Equity**		**$ 403,947**