CHAPTER 6

Writing a Business Plan
Instructor's Guide

This unit includes the basic information for teaching entrepreneurs how to write a business plan. It is designed to be used in a 2-4 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 a 2-4 week time 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.
- Entrepreneurs will learn the components of a business plan.
- Entrepreneurs will learn business plan format.

Handouts

Camera-ready copy of Instructor's Guide
Miniature copies of transparencies with space for notes

This unit was 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.

Writing a Business Plan

Title Transparency

There are two basic 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. It also provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

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 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.]

Business Plan Outline

I. **The Industry, the Company, and its Products**
   A. The Industry
   B. The Company
   C. The Product or Service

II. **Market Research and Analysis**
   A. Customers
   B. Market Size and Trends
   C. Competition
   D. Market Share and Sales

III. **Marketing Plan**
   A. Overall Market Strategy
   B. Pricing
   C. Sales Tactics
   D. Advertising and Promotion
   E. Packaging
   F. Publicity
   Sample Marketing Plan

IV. **Operating Plan**
   A. Location
   B. Facilities and Improvements
   C. Strategies and Plans
   D. Labor Force

V. **Management Team**
   A. Organization
   B. Key Personnel
   C. Management Compensation and Ownership
   D. Board of Directors

VI. **The Financial Plan**
   A. Cash Flow Worksheet
   B. Sources and Uses of Funds
   C. Income Statement (Profit and Loss Statement)
   D. Balance Sheet

I. The Industry, the Company, and its Products

Transparency 1

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 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, 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, partnership, or sole proprietorship that is best for you.

C. The Products or Services

1. Description: 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.

2. 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.

II. Market Research and Analysis

Transparency 2

This section presents enough facts to determine if your product or service has a 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.* 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, 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 rating services, 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, inflation, mortgage rates, and area bankruptcies. 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.

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 renovation 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 are helpful in gathering 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 the product 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 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 often extend product life.
- "Trendy" products may experience initial popularity, but almost immediately fizzle.

Customer Analysis. Group the customer base into categories defined by geographics (where customers are located), demographics (age, sex, occupation, 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 and surveys, or business and industry publications. Reference materials are also available through the MDECD 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 analyses 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 service. 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 corrected.

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 additional years may be estimated by multiplying sales by a reasonable percentage such as the gross national product (GNP) or other economic activity indicator.

Competitive Analysis. Compare your own product 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 over that of another company.

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 establishment, remember that location is a prime consideration.

Use information about the competition as a tool for bettering your own business. Look for trends in their advertising, pricing, or promotion, and for variances for the usual which could indicate new strategies or 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.

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**

Discuss who your customers are 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?

B. **Market Size and Trends**

Describe the primary market for your product, both geographically 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).

C. **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.

D. **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.

III. Marketing Plan

Marketing is not a one-time event, but an ongoing process. A specific marketing plan outlining concrete goals 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 immediate and long-range goals should be detailed in your marketing plan. Goals and objectives should be measurable, identifying actual results, 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 next year's end.

Tactics 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

Transparency 3

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.

Refer to Chapter 7, "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 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 is also an effective channel.

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 what works best for your particular business and maintain an awareness of developing sales methods.

Selective distribution is the key to effective distribution. Most 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.

Refer to Chapter 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 significantly lessens sales.

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.

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- national

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.

Size of Market

- Outboard motor boat sales for the last five years were 2.386 million units (quote source). Projecting sale4s 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 I 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 shrink-wrapped with brochure explaining product features and installation instructions contained within. Twelve items packed in a cardboard shipping container. Copy on 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 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
- Retail
  - 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 chairs 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 sale 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 movement of dealer reaction. Project sales after 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 a;; 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 new product, its features and benefits.
- 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 form the contestants.
- Contact major mail order houses offering fishing and boating supplies. Secure marketing agreement to advertise n their publications.

IV. Operating Plan

Transparency 4

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 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 you would use to upgrade them.

V. Management Team

Transparency 5

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management 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 individual who will fill each position. 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 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.

VI. The Financial Plan

Transparency 6

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.

A. **Cash Flow Worksheet**

B. **Sources and Uses of Funds**

C. **Income Statement**

D. **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 pro formas or projections is a vital aspect 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 our pro forma work with the cash flow statement.

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 until the following months or longer. Numerous businesses fall into cash flow trap. Also, many of your expenses are going to be fixed expenses — expenses that 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 goods and services, 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 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, 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 the cash that determines whether you have the cash on hand to pay your bills.

3. **DISBURSEMENTS —** It is now time to 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 experience its own peculiar 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 you. 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 mean a need to hire additional labor, thus creating higher wages and benefits; it may also mean higher utility costs, higher material costs, and an increase in other variable centers.

4. **NET and CUMULATIVE —** 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 that of the previous months.

In the following example of a cash flow statement, note that the numbers in the narrative match the numbers on the worksheet. For example, "Disbursements," number 3 in the text, is also number 3 on the worksheet.

CASH FLOW WORKSHEET

	Month	1	2	3	4	5
	Sales					
#1	Sales #1	$10,000	$11,000	$11,500	$12,000	$12,500
	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					
#2	0-30 days	$11,250	$12,375	$12,956	$13,500	$14,025
	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	–	–	–	–	–
#3	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
	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
#4	**Total**	$401,810	$18,380	$18,699	$19,005	$19,305
	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

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

B. Sources and Uses of Funds

Transparency 8

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.

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) —** Obviously, 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).

SOURCES AND USES OF FUNDS STATEMENT

Funds Available

	Owner's funds	$100,000	
#5	Loan #1	250,000	
	Loan #2	50,000	
	Total		$400,000

Uses of Funds

	Land	$75,000	
	Building	250,000	
	Equipment	10,000	
	Machinery	25,000	
#6	Renovations		
	Inventory	10,000	
	Furniture & Fixtures	10,000	
	Deposits	2,500	
	Other	1,500	
	Total		$384,000

Cash Balance

(Working Capital)		$16,000

Transparency 9 & 10

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 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).

10. **GENERAL AND ADMINISTRATIVE EXPENSES —** These are the annual 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. A certain piece of equipment may be expected to last for 10 years, for example. If that equipment cost you $1,000 at purchase and will be worn out or worthless in 10 years, it is said to “depreciate” $100 per year. 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 material costs and operating costs 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.

Projected Income Statement
Year 1

	Sales			
	Sales #1	$190,500		66.7%
	Sales #2	94,975		33.27%
#8	Sales #3	0		00.00$
	Gross Sales	285,475		
	Less Returns	0		0.00%
	Net Sales		$285,475	100.00%
	Cost of Goods Sold			
	Beginning Inventory	$10,000		
#9	Material Purchases	118,994		
	Goods Available	128,994		
	Less Ending Inventory	(10,000)		
	Total Material Cost		$118,994	41.68%
	G&A 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%
#10	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%
	Income Tax			
#12	Federal	$1,500		
	State	250		
	Total Tax		$1,750	0.61%
#13	**Net Income**		$12,445	4.36%

Projected Balance Sheet

Year 1
ASSETS

	Current assets		
	Cash	$ 21,973	
	Ending inventory	10,000	
#14	Accounts receivable	9,375	
	Other	0	
	Total current assets		$ 41,348
	Fixed assets		
	Land	$ 75,000	
	Building	250,000	
	Equipment	10,000	
#15	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
	Other assets		
	Deposits	$ 2,500	
#16	Other	1,500	
	Total other assets		$ 4,000
#17	**Total assets**		$403,948

LIABILITIES

	Current liabilities		
	Notes payable	$ 0	
#18	C/P long-term debt	9,447	
	Other	0	
	Total current liabilities		$ 9,447
	Long-term liabilities		
#19	Loans payable	$ 291,503	
	Less current principal	(9,447)	
	Total long-term debt		$282,056
#20	**Total liabilities**		$291,503

EQUITY

#21	Owner's funds	$ 100,000	
	Retained earnings	12,445	
	Total equity		$112,445
#22	**Total liabilities & equity**		$403,948

The Balance Sheet

The Balance Sheet is a comparison of the assets, liabilities, and equity of your business. The one shown is a very basic example of a small business balance sheet.

Transparency 11

Assets

14. **Current Assets** — These are assets considered to be liquid or easily converted into cash. 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). It is these assets that depreciate in value over a longer period. Depreciation ($11,400) for past periods is, therefore, deducted from the sum of these assets and shown on the balance sheet as accumulated depreciation.

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).

Transparency 12

Liabilities

Under the liabilities sections, you are dealing with what your business owes to others.

18. **Current Liabilities** — Current liabilities are bills and accounts you must pay within the next year. (Short-term notes or accounts payable are examples.) 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 Table 4, 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.

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Equity

21. **Equity** — the equity section reflects your original investment (#5) as well as the accumulation of profits (#13) of the business (retained earnings).

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.

Masters for Transparencies

CHAPTER 6

Writing a Business Plan

Handouts

CHAPTER 6

Writing a Business Plan

Handout 1

Writing a Business Plan

There are two basic 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. It also provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

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 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.]

BUSINESS PLAN OUTLINE

I. **The Industry, The Company, and its Products**
   A. The Industry
   B. The Company
   C. The Product or Service

II. **Market Research adn Analysis**
   A. Customers
   B. Market Size and Trends
   C. Competition
   D. Market Share and Sales

III. **Marketing Plan**
   A. Overall Market Strategy
   B. Pricing
   C. Sales Tactics
   D. Advertising and Promotion

IV. **Operating Plan**
   A. Location
   B. Facilities and Improvements
   C. Strategies and Plans
   D. Labor Force
   E. Packaging
   F. Publicity
   Sample Marketing Plan

V. **Management Team**
   A. Organization
   B. Key Personnel
   C. Management Compensation and Ownership
   D. Board of Directors

VI. **The Financial Plan**
   A. Cash Flow Worksheet
   B. Sources and Uses of Funds
   C. The Income Statement (Profit and Loss Sheet)
   D. The Balance Sheet

I. The Industry, the Company, and its Products

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 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, 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, partnership, or sole proprietorship that is best for you.

C. The Products or Services

1. Description: 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.

2. 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.

II. Market Research and Analysis

This section presents enough facts to determine if your product or service has a 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.* 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, 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 rating services, 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, inflation, mortgage rates, and area bankruptcies. 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.

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 renovation 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 are helpful in gathering 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 the product 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 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 often extend product life.
- "Trendy" products may experience initial popularity, but almost immediately fizzle.

Customer Analysis. Group the customer base into categories defined by geographics (where customers are located), demographics (age, sex, occupation, 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 and surveys, or business and industry publications. Reference materials are also available through the MDECD 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 analyses 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 service. 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 corrected.

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 additional years may be estimated by multiplying sales by a reasonable percentage such as the gross national product (GNP) or other economic activity indicator.

Competitive Analysis. Compare your own product 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 over that of another company.

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 establishment, remember that location is a prime consideration.

Use information about the competition as a tool for bettering your own business. Look for trends in their advertising, pricing, or promotion, and for variances for the usual which could indicate new strategies or 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.

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**

Discuss who your customers are 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?

B. **Market Size and Trends**

Describe the primary market for your product, both geographically 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).

C. **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.

D. **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.

III. Marketing Plan

Marketing is not a one-time event, but an ongoing process. A specific marketing plan outlining concrete goals 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 immediate and long-range goals should be detailed in your marketing plan. Goals and objectives should be measurable, identifying actual results, 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 next year's end.

Tactics 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.

Refer to Chapter 7, "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 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 is also an effective channel.

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 what works best for your particular business and maintain an awareness of developing sales methods.

Selective distribution is the key to effective distribution. Most 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.

Refer to Chapter 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 significantly lessens sales.

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.

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- national

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.

Size of Market
- Outboard motor boat sales for the last five years were 2.386 million units (quote source). Projecting sale4s 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 I 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 shrink-wrapped with brochure explaining product features and installation instructions contained within. Twelve items packed in a cardboard shipping container. Copy on 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 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
- Retail
  - 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 chairs 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 sale 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 movement of dealer reaction. Project sales after 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 a;; 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 new product, its features and benefits.
- 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 form the contestants.
- Contact major mail order houses offering fishing and boating supplies. Secure marketing agreement to advertise n their publications.

IV. 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 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 you would use to upgrade them.

V. Management Team

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management 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 individual who will fill each position. 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 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.

VI. 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.

A. **Cash Flow Worksheet**

B. **Sources and Uses of Funds**

C. **Income Statement**

D. **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 pro formas or projections is a vital aspect 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 our pro forma work with the cash flow statement.

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 until the following months or longer. Numerous businesses fall into cash flow trap. Also, many of your expenses are going to be fixed expenses — expenses that 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 goods and services, so you should keep your sales figures separated by product or service. Notice on the Cash Flow Analysis 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 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, 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 the cash that determines whether you have the cash on hand to pay your bills.

3. **DISBURSEMENTS —** It is now time to 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 experience its own peculiar 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 you. 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 mean a need to hire additional labor, thus creating higher wages and benefits; it may also mean higher liability costs, higher material costs, and increase in other variable centers.

4. **NET and CUMULATIVE —** 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 that of the previous months.

In the following example of a cash flow statement, note that the numbers in the narrative match the numbers on the worksheet. For example, "Disbursements," number 3 in the text, is also number 3 on the worksheet.

CASH FLOW WORKSHEET

	Month	1	2	3	4	5
	Sales					
#1	Sales #1	$10,000	$11,000	$11,500	$12,000	$12,500
	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					
#2	0-30 days	$11,250	$12,375	$12,956	$13,500	$14,025
	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	–	–	–	–	–
#3	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
	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
#4	**Total**	$401,810	$18,380	$18,699	$19,005	$19,305
	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

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

B. Sources and Uses of Funds

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.

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% of the entire project cost, which is approximately what a bank would require. The remaining 75% 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) —** Obviously, 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).

SOURCES AND USES OF FUNDS STATEMENT

Funds Available

	Owner's funds	$100,000	
	Loan #1	250,000	
#5	Loan #2	50,000	
	Total		$400,000

Uses of Funds

	Land	$75,000	
	Building	250,000	
	Equipment	10,000	
	Machinery	25,000	
#6	Renovations		
	Inventory	10,000	
	Furniture & Fixtures	10,000	
	Deposits	2,500	
	Other	1,500	
	Total		$384,000

Cash Balance

(Working Capital)		$16,000

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 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).

10. **GENERAL AND ADMINISTRATIVE EXPENSES —** These are the annual 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. A certain piece of equipment may be expected to last for 10 years, for example. If that equipment cost you $1,000 at purchase and will be worn out or worthless in 10 years, it is said to “depreciate” $100 per year. 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 material costs and operating costs 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.

Projected Income Statement

Year 1

Sales

	Sales #1	$190,500		66.7%
	Sales #2	94,975		33.27%
#8	Sales #3	0		00.00$
	Gross Sales	285,475		
	Less Returns	0		0.00%
	Net Sales		$285,475	100.00%

Cost of Goods Sold

	Beginning Inventory	$10,000		
#9	Material Purchases	118,994		
	Goods Available	128,994		
	Less Ending Inventory	(10,000)		
	Total Material Cost		$118,994	41.68%

G&A 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%
#10	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%

Income Tax

#12	Federal	$1,500		
	State	250		
	Total Tax		$1,750	0.61%
#13	**Net Income**		$12,445	4.36%

Projected Balance Sheet

Year 1
ASSETS

	Current assets		
	Cash	$ 21,973	
	Ending inventory	10,000	
#14	Accounts receivable	9,375	
	Other	0	
	Total current assets		$ 41,348
	Fixed assets		
	Land	$ 75,000	
	Building	250,000	
	Equipment	10,000	
#15	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
	Other assets		
	Deposits	$ 2,500	
#16	Other	1,500	
	Total other assets		$ 4,000
#17	**Total assets**		$403,948

LIABILITIES

	Current liabilities		
	Notes payable	$ 0	
#18	C/P long-term debt	9,447	
	Other	0	
	Total current liabilities		$ 9,447
	Long-term liabilities		
#19	Loans payable	$ 291,503	
	Less current principal	(9,447)	
	Total long-term debt		$282,056
#20	**Total liabilities**		$291,503

EQUITY

	Owner's funds	$ 100,000	
#21	Retained earnings	12,445	
	Total equity		$112,445
#22	**Total liabilities & equity**		$403,948

The Balance Sheet

The Balance Sheet is a comparison of the assets, liabilities, and equity of your business. The one shown is a very basic example of a small business balance sheet.

Assets

14. **Current Assets** — These are assets considered to be liquid or easily converted into cash. 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). It is these assets that depreciate in value over a longer period. Depreciation ($11,400) for past periods is, therefore, deducted from the sum of these assets and shown on the balance sheet as accumulated depreciation.

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).

Liabilities

Under the liabilities sections, you are dealing with what your business owes to others.

18. **Current Liabilities** — Current liabilities are bills and accounts you must pay within the next year. (Short-term notes or accounts payable are examples.) 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 Table 4, 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.

Equity

21. **Equity —** the equity section reflects your original investment (#5) as well as the accumulation of profits (#13) of the business (retained earnings).

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