

Writing

Your Own

Business Plan



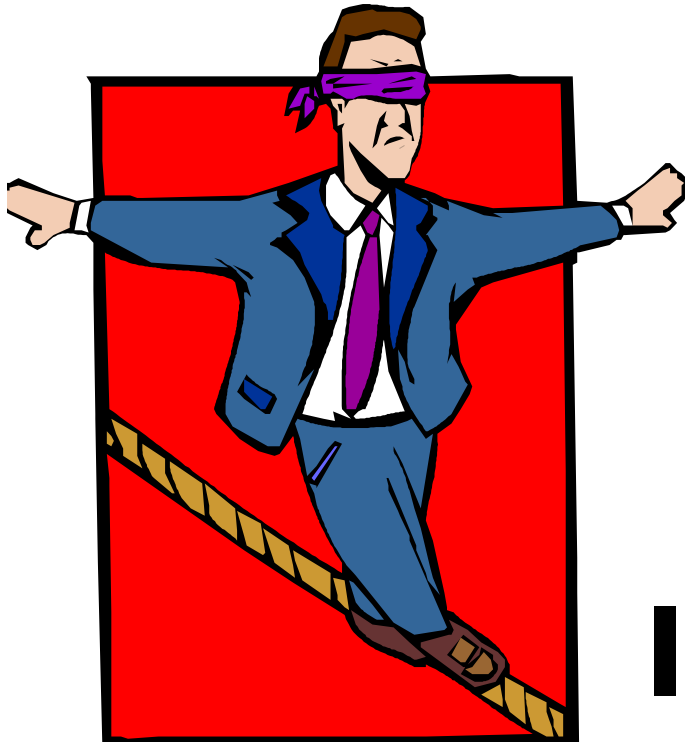
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INTRODUCTION

So you want to open your own business? Good! But there is a lot of work to be done before you are ready to open your doors.

One of the most important things you can do to for your business is to develop a business plan. **It becomes the financial proposal you will need to obtain financing for your business; particularly if your intent is to apply for a small business loan.** But even more than that, it helps plan for your business success. Thinking through every aspect of the business, in advance, allows you to side step many costly mistakes and avoid unnecessary debt. Planning proves that you have done your research and that you are well prepared for your business venture. We sincerely congratulate you on your decision to take the time for this most import step. It will be well worth the effort.

This workbook is designed to walk you through every aspect of your business plan's development. It will ask questions and point out certain aspects that you must consider in developing your business and it will give you instructions for its development. As you go through each section of this book, you should begin to complete your business plan outline. When you finish, you will have a draft business plan. Study it, refine it, and perfect it. It is your blueprint for success!

AND REMEMBER! You can call on us at any time for assistance:

OSBDC/SCORE - (580) 213-3197

Table of Contents

Introduction.....	i
STEP 1 - The Business Plan Background	03
Description of the Business.....	04
<i>Sample.</i>	06
Market Identification.....	07
<i>Sample.</i>	08
Competition Identification.....	09
<i>Sample.</i>	10
Products/Services.....	11
<i>Sample.</i>	12
Location.....	13
<i>Sample.</i>	14
Pricing.....	15
<i>Sample.</i>	16
Marketing Strategy.....	17
<i>Sample.</i>	19
Needs of the Company.....	20
<i>Sample.</i>	22
Financing Requirements.....	24
<i>Sample.</i>	24
STEP 2 - The Financials.....	25
Personal Financial Statement.....	27
<i>Sample.</i>	27
<i>Outline Sheet.</i>	28
Capital Equipment.....	29
<i>Sample.</i>	29
<i>Outline Sheet.</i>	30
Start-Up Expenses.....	31
<i>Sample.</i>	31
<i>Outline Sheet.</i>	32
Projected Cash Flow.....	33
<i>Sample.</i>	34
<i>Outline Sheet.</i>	35



Why do I have to go through all this trouble?

There are five reasons it will be worth your time and effort to do a business plan:

- 1) **Lack of planning is the number one reason for small business failure.**
- 2) The thinking involved will force you to take a look at your whole business rather than any one aspect of it.
- 3) The completed business plan serves as a feasibility study that helps evaluate your idea.
- 4) A business plan is a valuable tool in managing any type of business.
- 5) The plan will help you communicate your ideas to those outside of the business which includes serving as a financial proposal for funding the business.

Can't I hire someone to do this for me?

This is going to be your business. You should do the initial work. **If a business plan is to be useful, it must reflect your ideas and efforts;** not those of an outsider. Even a professionally prepared business plan won't do any good if you don't understand it inside and out. That level of understanding only comes from being involved in its development from the very beginning.

If you feel that you need outside assistance, use that help to review your completed work and to make suggestions for your plan's improvement or to "polish" your plan once you have it drafted. But you must make the initial attempt at developing your own business plan.

Why is planning so important?

The importance of planning can not be overstated. By objectively looking at your business you can:

- Identify areas of strength and of weakness;
- Pinpoint needs that you might otherwise accidentally overlook;
- Spot opportunities early on and begin plans to best achieve your business goals;
- See problems before they grow and identify their source, as well as suggest ways of solving or avoiding them.

What role does planning really play in managing a business?

The number one reason for failures among small businesses is lack of planning. We said it once and we will keep on saying it until it sinks in. It simply cannot be emphasized enough! Remember, businesses are constantly involved in making decisions and recording

results. Without a business plan there is no method to evaluate those results. Thus future actions are not based on a revised plan but on revised instinct. **Operating without a plan often means that you end up managing by reacting to events rather than by anticipating and planning for them.** Operating with a plan provides you with a continuous process of :

- **Visualization** which lets you put your thoughts into writing, via your business plan;
- **Decision Making** based upon your developed plan;
- **Evaluation**, comparing the results to the written plan; and a
- **Checks and Balances**, based on the usefulness of the plan; that allow you to modify it as needed.

There are two major reasons for writing a business plan:

1. **The most common reason** is to provide a lender with detailed information on all aspects of the business. The plan gives a lender or investor insight into the ways in which the business will be conducted. It details how the desired investment or loan will further the business's goals. It explains how the loan will improve the worth of the business and enables the loan to be repaid in a timely fashion. It details how the money will be used and it backs up figures with solid information.

2. **The most important reason** is to develop a working guide to be used throughout the life of the business. The business plan is, in essence, the blueprint for the business. As such, it can serve as a means of keeping the business on track. Therefore, to be useful, the plan must be kept up-to-date.

What's the bottom line for me if I do the plan?

Statistics indicate that failure rates among businesses with a business plan are significantly lower than among those businesses without a plan. A business plan can help you avoid a venture that is doomed to failure. Or if your proposed venture is marginal at best, the plan may show you why and help avoid business failure. It is certainly cheaper not to begin an ill-fated business than to learn by experience what a business plan would have taught you if you had spent a few hours in developing one.

How often do I have to do this?

A business plan should be revised as needed but, at a minimum, at least once a year. Planning is a continuous process. You will be surprised how much easier the plan is after the first time and, after a revision or two, just how much you know about your business.

Where do I begin?

You just have! In this workbook you will develop an outline for your business. Just like there are no shortcuts to establishing a successful business, there are none in this workbook. Take the time to complete the whole book. The end result will be a more thorough and well thought out business plan and a much higher chance of success for your business.

STEP 1

The Business Plan Background

A business plan is divided into two major parts :

- 1) The Business Plan Background, and the
- 2) Projected Financials.

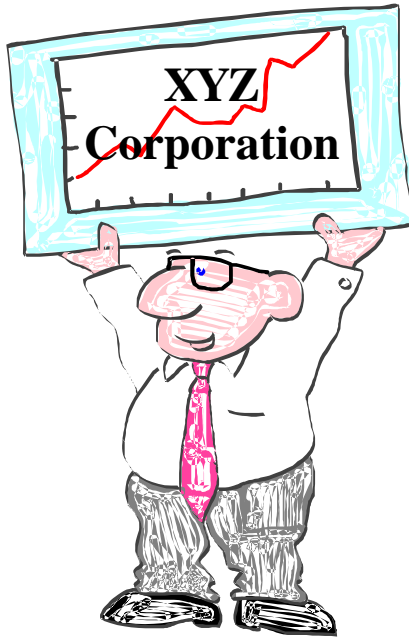
The Background Section is often the most overlooked part of a business plan. In this section you begin to establish the crucial pieces that together form a written description of how your business will operate. The Background must include the following information:

- An Executive Summary,
- Market Identification,
- Competition Identification,
- Products/Service Description,
- Location Analysis,
- Pricing Structure,
- A Marketing Strategy,
- A List of the Company's Physical Needs,
- Financing Requirements, and Repayment Projections.

Each piece is crucial. Alone, a single piece accomplishes nothing. However, when combined with the other components, together they establish a direction for your business and give it credibility.

Approach each section individually. Answer each question - - and include each piece of information requested - - adding any additional information you feel is needed. Take as little, or as much time as needed to complete each section thoroughly. The draft should contain everything required to paint a clear, yet concise, picture of your business operation. Do not worry about repetition. Editing can be done once the draft is completed and the entire plan is woven together.

If, at any point you have questions, contact your local OSBDC/SCORE office, (580) 213-3197.



EXECUTIVE SUMMARY

This section is particularly critical if you are going to use your business plan as a financial proposal; whether it be for the bank, the SBA, or potential investors. It is this section that will set the tone for the overall plan and either encourage, or discourage, further reading. Therefore, **it must be the most carefully crafted, thorough, and yet concise piece of the overall plan.**

The purpose of this section is to summarize what your business is all about. It should describe the business in general terms. You will be more specific in the individual

sections that follow. Explain your business by answering the following:

- 1) Its type of industry (service, retail, wholesale, manufacturing, transportation, construction, etc.);
- 2) Its legal entity (sole proprietorship, partnership, corporation, limited liability company, or limited liability partnership);
- 3) The status of the business (whether it is in start-up, expansion mode, a going concern, etc.);
- 4) Who will run the business (owners, managers, etc.; identified by name);
- 5) How the business will be run (days and hours of operation; holidays observed; up and down times, etc.);
- 6) Its chosen markets or customer base;
- 7) Who the competition is;
- 8) The products and/or services offered;
- 9) The chosen location
- 10) Marketing strategies;
- 11) The physical needs of the business (land, building, equipment, vehicles, inventory, operating capital, etc.); and
- 12) Financial requirements, including a repayment proposal and outlined collateral and equity.

Overall, this section must convince the reader this business will succeed. For this reason, be sure to answer the following questions.

- How is your business "special" or different from the competition?
- What is the size of the customer base your business will service?
- What percentage of the identified market do you believe your company can pull and why?
- What makes you - - the management team (anyone with 20% or more ownership) - - uniquely qualified to run this business? (Note: In other words, what is your experience in the industry?)
- If you have contracts already pending, what are they and how did you obtain them?
- Who are your vendors and suppliers and what arrangements have you made with them regarding trade credit?
- What are your business days and hours of operation?
- What holidays will the business observe and how will that effect business hours (if at all)?
- Does the business anticipate any peak, slow, or down time and, if so, why and how will you deal with it?
- What are the physical needs of the business?

If you are planning to buy an existing business, there are additional questions that must be answered:

- When and by whom was the business founded?
- Why is the owner selling the business?
- What is the asking price and how did the owner arrive at that purchase price?
- What have been the sales trends for the past three years? **(Note: You must include the financial statements for the business's last three years, including income tax returns if you are applying for a small business loan.)**
- What cycle is the business in (e.g., still growing, leveled off, going downhill, etc.) and why? If the business is going downhill, how do you plan turn it around? (In other words, how will your management make the business more profitable?)
- What is being sold as a part of the business (e.g., land, building, equipment, inventory, supplies, accounts receivable and/or payable, good will, etc.; in general terms)? **(Note: You must include an itemized list with each item's replacement value noted. Once added together, the sum must equal the amount that the owner is asking.)**
- If you are buying a building as part of the business, what is its appraised value? **(Note: An informal appraisal is acceptable at this point. If the loan is approved, the bank will require a formal appraisal of the collateral.)**
- How old are the business assets (e.g., equipment, inventory, etc.) and how much life (in months) do they have left in them?
- What trade credit agreements are available?
- What is the age of accounts receivable and payable (if being purchased as a part of the sale)?
- If you will be leasing the business space, what will your lease terms be for the first three years **(Note: You must provide at least an informal written agreement of these terms?)**
- Does the business currently have, or has it previously had, any legal problems? If so, what are (or were) they?

Aim for clarity and simplicity in writing your business background. Keep in mind, as a rule of thumb, if you can not describe your business clearly and concisely, then you have not sufficiently thought it through.

The last part of this section should explain what you want in terms of the physical needs of the business. Be very specific regarding financial requirements. Be sure to outline any time sensitivity. (*For example, you might need funding by a certain date in order to purchase inventory at a discounted price or the current owner might have another buyer on the line and might give you a deadline for your answer regarding the business.*) Also explain what collateral will be offered against the note and what your "owner" equity infusion into the deal is. Also request length of terms (e.g., five years, seven years, ten years). Your request may not be possible, but it certainly can not be considered if you do not ask. Finally, let the lender know how quickly you can begin to repay the note, with interest.

On the following page is an "Example Description of the Business." Read it thoroughly to get a feeling for how your section should sound once completed.

Note: This is a fictionalized business description meant to give you a "feel" for how your business's description should be written. It is NOT meant as an outline for you to follow. The previous two pages serve that purpose. This description is merely a narrative example.

SAMPLE - Executive Summary:

XYZ Corporation manufactures one-of-a-kind electronic and electromechanical components for the aerospace industry. Although it is in its initial start-up phase, the company has already closed three major contracts. Additional guaranteed contracts are pending that would bring the secured revenue base to \$4 million dollars during its first three years of operation.

Founded, and managed, by two former NASA engineers, XYZ begins with over 40 years of combined expertise in the aerospace industry. As specialists in the electromechanical field with management experience and singular expertise in the development of this specialized product line, Mike Renaldi and Doug Phillips were approached by several companies to begin a manufacturing firm that could manufacture these one-of-a-kind components to individualized specified requirements. These requests were backed by the above mentioned guaranteed contracts.

The future of XYZ appears exceptionally bright. With very little current competition locally, the company quickly received confirmation of three major contracts within less than a month of its incorporation. Additionally, because of its unusual expertise and flexibility in the field, the company was contacted by several international firms about potential contractual work in Germany, France, Great Britain, and Japan. Contracts are now pending with two German firms in the amount of \$750,000 for fiscal year 1996 and \$1,250,000 for fiscal year 1997. All of this has occurred without the benefit of formal marketing or advertising. As the company gears up with a full fledged international marketing campaign through direct mail advertising, it anticipates securing over ten million dollars in contracts over the next five years.

Competition for XYZ Corporation is limited. Pressure Systems Inc. manufactures one of the same components as XYZ but is an extremely small company with sufficient contractual work. It is not seeking to expand its scope or magnitude within the next five years. Centium Systems, which geared up to manufacture several similar components lost its chief engineer and designer and has been unable to maintain its stronghold within the industry.

Located in the Aerospace Industrial Park adjacent to NASA in Hampton, Virginia, XYZ Corporation will operate 24 hours a day, five days a week (Monday through Friday), in three shifts - - 7:00 a.m. to 3:00 p.m.; 3:00 p.m. to 11:00 p.m.; and 11:00 p.m. to 7:00 a.m. Work within this industry is not particularly seasonal in nature and there are no anticipated down times other than during economic down turns which are difficult to predict. Both the plant and its main office will be open January through December, but will observe traditional and federal holidays with reduced shifts. These will include New Year's Day, Martin Luther King Day, President's Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veteran's Day, Thanksgiving, and Christmas.

Suppliers have been obtained with generous trade credit established. Suppliers include Canon of Virginia, New Hampton Inc., Sysco Systems, United Steel, and Gesco.

Since work by XYZ is completed by contract only, payment schedules (net 30 days) are preestablished allowing the company a clear picture of its monthly cash flow projections. Very little bad debt is anticipated (which is the norm within the industry).

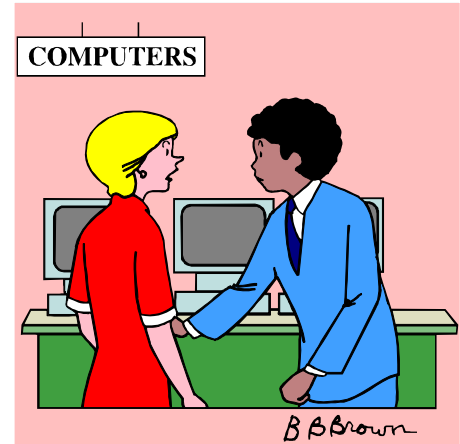
XYZ Corporation is seeking capital in the amount of \$90,000. This money will be used to purchase the new equipment and inventory necessary to meet current production contracts. Funding is needed by May 1st, 1995, in order to allow sufficient time for the equipment to be delivered and in place by July 1, 1995. Because there is a standard two month period between order placement and delivery date, this timing is crucial in allowing the company to meet current contracts.

The equipment inventory purchased through this loan will allow XYZ Corporation to establish a major foothold in a new and emerging technology critical to the success of the aerospace industry. Three contracts have been signed for the company's first year of business, in the amount of \$1,250,000. The loan, if granted, will be secured with the equipment and inventory purchased and can be further secured by company-owned real estate with a 1995 assessed equity value of \$350,000 or existing tools and equipment with an assessed value of \$500,000.

Repayment of the loan, with interest, can begin promptly within 60 days of receipt of funds. It is anticipated that repayment can be completed within one year.

MARKET IDENTIFICATION

In order to ensure a consistent cash flow for your business, you must be thoroughly knowledgeable about your customer base. **Everything your business does should revolve around your customer's needs.** Your products and/or services must be tailored around their idea of value. Your location and working hours have to fit theirs. Management decisions and personnel training have to be accomplished with one singular goal in mind - - satisfying the customer so he or she will keep coming back. If you can convince your bankers, investors, and suppliers that you have a strong, stable customer base, you won't lack for capital. A good business plan should help you define, understand, and satisfy your target market(s).



I don't want to do my company records on the computer, I want the computer to do them.

You have some control over who your customer will be. You can choose to enter or to leave certain markets. However, these are major strategic decisions that should not be made without a great deal of thoughtful preparation. For your business to succeed, you need customers who will buy your products or services at a price that yields a profit; in sufficient numbers and over a sufficient period of time to keep your business healthy and strong.

Defining your target market(s) is done logically by determining who really needs your products or services and then learning anything and everything there is to know about them. Most businesses will have more than one customer base; many with as many as two or three different markets.

Any customer base (market) should be described by answering the following:

- 1) How old is your typical customer?
- 2) Is your average customer male or female?
- 3) Does your typical customer fall within a particular race or ethnic group?
- 4) What is your average customer's life-style in terms of:
 - a. education level,
 - b. marital status,
 - c. occupation,
 - d. income level,
 - e. religion,
 - f. social class,
 - g. hobbies

The simplest demographics and/or psychographics are more effective than none at all, so take time to do some homework. Your local library (research section) can probably help you with some basic information once you know who your market is and how they operate.

You also need to answer some additional questions:

- 1) How far are customers willing to travel to buy from you?
- 2) What distance will you serve (e.g., the city where your business is located, throughout the state, etc.) to sell to your customers?
- 3) How many projected customers reside within the geographical limits you have decided to serve?
- 4) What is the average amount each customer will spend during each visit?

Be as thorough as possible in defining your customer. **In this section, you must be able to show that there is a sufficient number of existing customers in your chosen market to generate the sales necessary to keep your business afloat.** The following questions must be answered:

- A) How many customers will buy products/services from you or a competitor? ____
- B) What percentage of those who do make a purchase will choose to purchase from you? ____ %

Multiply "A" & "B" together to determine your likely market share. What is it? ____

- D) How many purchases will the average customer make during a year? ____
- E) How much will the average customer spend for each purchase? ____

Multiply "A" & "B" together to determine the average customer purchase. Then multiply those two figures to determine your projected annual sales. What is that? ____

Does this number seem plausible? If not, how do you solve the problem? Be sure to take into consideration the competition and the effect it will have on your customer base.

SAMPLE - Market:

XYZ's customer base may, at first glance, appear limited. While initial contracts are narrowly focused within the U.S. and the aeronautic field, this focus has been one of "chance" rather than intent. Preliminary contracts were obtained with little or no marketing, based solely on the company's unique ability to produce the needed components. However, within a short time of its incorporation, XYZ was contacted by several international firms concerning potential contractual work in Germany, France, Great Britain, and Japan. Contracts are currently pending with two German firms in the amount of \$750,000 for fiscal year 1996 and \$1,250,000 for fiscal year 1997.

Research also indicates that the future work of XYZ need not be strictly limited to the aeronautic industry. Components, similar in nature to those currently being manufactured by the company, will also soon be required for equipment pegged for installation in newly designed ships and submarines. Additional design changes anticipated in the automobile industry, between now and the year 2010, also indicate requirement of similar electronic and electromechanical components. XYZ has already begun research into these potential markets.

Additionally, XYZ has begun the development of a network database of companies throughout the United States, Europe, and Japan that require specialized electronic or electromechanical components such as those currently manufactured by the company or within the realm of the company's ability to produce. As the company gears up with its international marketing campaign - - which will be handled by direct mail - - research indicates the possibility of securing more than \$8 million in contracts within the next five years. See the upcoming section on sales projections for more specific information in this area.



COMPETITION

Few business ideas are unique. Therefore, most businesses enter into a market knowing that competition already exists for their product and/or service. When entering into an existing market - - where the market is new to your business - - you already have one strike against you. Chances are that the competition knows more about the market than you; unless you have done your homework.

Most businesses understand and can identify their direct competitors; those that do the same, or almost the same thing, as they do. Unfortunately, those same businesses tend to forget or ignore their indirect competitors; those that fall within the same consumer category. For example, I as a consumer, generally allot a certain amount of money each month for "entertainment." Within that industry, I must then decided how to spend my entertainment dollar. I could spend it on movies , music, sports, dinner and dancing or a myriad of other forms of entertainment. Once my decision is made - - let's say that I have chosen "movies" - - then I must decide whether to go to a theater, rent a movie to watch at home, or buy a movie to add to my collection. That makes movie theaters, movie rental businesses, and retail stores that sell movies indirect competitors for my entertainment dollar. Another indirect competitor may exist in a business that does pieces - - or part - - of the same thing as you. For example, a small town convenience store may carry beer and wine, making them indirect competitors to liquor stores. They did not go head to head with the liquor stores.

In developing this section of the business plan, it is imperative that you identify both direct and indirect competition. Failure to identify one or the other is tantamount to condemning your business to fail.

If you plan to enter into an existing market - - whether it is direct or indirect- - look for a "niche" or an unusual angle to use in building your business. Keep in mind that new competition comes from old rivals as well as new ones. Existing businesses - - once they note your arrival on the scene - - may do their own research and come up with new ideas and ways to market their products/services against you. And, of course, since the business idea is probably not uniquely yours , someone else might open another new business in competition with you. Therefore, ongoing monitoring of the competition is a necessity if you want to be successful. It is a form of preventative maintenance that will keep you from losing your market share.

Never make the mistake of underestimating your competition. They are doing something right or they wouldn't still be in business. Your job is to match what they are doing right and to improve drastically on what they are doing wrong. If you can't do that, you will not succeed with your business.

Recognizing and taking advantage of new opportunities is the only way to keep a competitive edge. This is an ongoing battle and one that you can not afford to lose. To keep ahead, you must be able to answer these questions:

- 1) Who are your five toughest competitors and why?
- 2) How is your business different and how is it similar to them?
- 3) What is the status of the competition's business? (e.g., steady, increasing, decreasing)
- 4) What are their weaknesses?
- 5) **What are their strengths?***
- 6) What have you learned from watching their operation and how will you incorporate what you have learned?
- 7) What market(s) is the competition not serving?

**Never leave this part blank. Every competitor has strengths as well as weaknesses. It is your job to know what they are. If you don't your chances of loan approval are very likely slim.*

The objective of this section is to get you to think in terms of good competitive practices before you open the doors to your new business. You certainly don't want to open a business in a market that is already adequately served, or worse yet, in a market that is steadily decreasing. Careful viewing of the competition can help you alter your basic strategy and change existing operations to compete more effectively.

One final word. **One sure fire way to gain an edge on the competition is through real customer service BUT if you intend to hang your business hat on that nail, be sure you can identify in great detail exactly what "good customer service" means.**

SAMPLE - Competition:

XYZ Corporation is currently a unique business without a great deal of competition. There are two other direct competitors in the United States - - Pressure Systems, Inc. of Newport News, Virginia and Centium Systems of Orlando, Florida - - and one in Germany - - Ruyard Stallings Ltd. of Hangsburg, Germany.

***Pressure Systems, Inc.** manufacturers only one of the same components as XYZ Corporation. They have an excellent reputation within the industry and are well known for both their quality control and design. However, the company is intentionally small and does not wish to grow beyond its primary customer - - NASA. The company is in a healthy, but non growth pattern; with a steady, non fluctuating income.*

***Centium Systems** of Orlando, Florida was established one year prior to XYZ with the intent of manufacturing many of the same components. However, they lost their chief engineer and designer within six months of opening and have been unable to attract another individual of the same caliber to work for the company. For this reason, the quality of their products and creativity of their designs has been severely compromised. Although Centium initially showed a profit in their first and second quarters of operation, the company has spiraled down hill since then. Rumors abound of a possible restructure.*

***Ruyard Stallings Ltd.** manufacturers three of the same components as XYZ. The company enjoys a solid reputation but is known to be somewhat more expensive than its competition and does not export outside of Europe. They are in a healthy, slight growth pattern which is somewhat restricted by their export policies.*

XYZ Corporation also has indirect competition in the form of companies who choose to either establish new, or use their own, research and development divisions to invent and engineer electromechanical components geared specifically to the machinery manufactured by those companies. Locally, there are two companies that operate in that manner; Ball Metal Containers and Busch Brewer Machinery. Internationally, there are many others. However, through extensive research of these companies and their processes, XYZ has been able to determine that it can undercut the production cost of parts made in this fashion by between 15% and 35%, primarily because of the mass production capabilities of XYZ in comparison to those other entities. This gives XYZ substantive bargaining power to convince these companies to purchase with them rather than to continue to operate in their current fashion.

XYZ Corporation will continue to analyze both existing and potential markets to keep abreast of changes and seek out new markets for its future.



P RODUCTS/SERVICES

One of the most important aspects of business management is giving your market a reason to buy your products or services. While you may think your products and services are special, that perception may not be shared by your customers. Your ultimate job, when it comes to marketing, therefore, will be to convince your customers that they want and/or need what you have to offer.

Most businesses are built around products or services that are already available in the marketplace. However, if your product or service happens to be unique, state-of-the-art, or otherwise notable, take advantage of it. Such differentiation is extremely valuable.

Products and services are generally generic in nature. Therefore, distinguishing what you have to offer from those of the competition will take an extremely thorough knowledge of the industry, in general, and your product or service, in specific. Such knowledge is imperative if you intend to convince investors (public or private) to invest in your business.

Services tend to be even more abstract than products because there is nothing for the customer to see or feel. Instead the customer chooses the service based on an impression of the company itself. However, like products, services must have some attributes which will make the customer desire them.

The key to this part of your business plan is not just to identify your products or services but, more specifically, to identify what it is you are "selling." To accomplish that, you must put yourself in your customer's position: What does the customer **think** they are buying? For example, a florist may think she is just selling flowers, but she is really selling beauty, love, forgiveness, and a variety of other intangible feelings. These are the things you must keep in mind when identifying your products and services.

Your narrative in this section should answer the following questions:

- 1) What product(s) and/or service(s) does your business offer?
- 2) What problems do your product(s) or service(s) solve?
- 3) What makes your product(s) or service(s) unique?
- 4) Who are your suppliers?
- 5) How are your products distributed?
- 6) Why will customers buy products or services from you rather than your competition?
- 7) What costs are associated with your product(s) or service(s)?
- 8) What level of inventory will you need to carry?

SAMPLE - Products/Services:

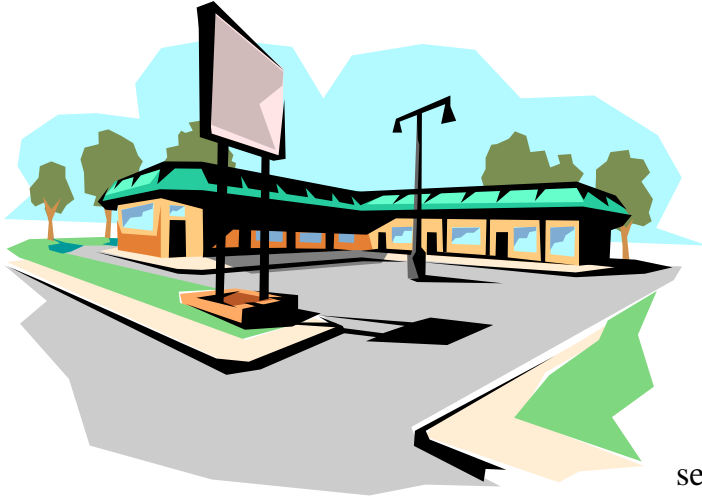
XYZ Corporation specializes in the design and manufacture of specialized electronic and electromechanical components for the aeronautics industry. The company has quickly secured a place in that industry as is verified by its receipt of three contracts for fiscal year 1995 and pending contracts reaching into fiscal year 1998. Additionally, research indicates that the company will be able to broaden its customer base into other industries within the next one to five years (See the "Market" description for further information).

The company's unique ability to design and manufacture one-of-a kind components to customer established standards, backed with an unconditional one-year warranty and personal service guarantee, establishes XYZ Corporation as a unique leader in its field. However, the company realizes that although current competition is somewhat limited, additional companies will continue to be established. Therefore, it is the company's intent to not only maintain, but to also improve, its current high standards in order to keep its top position. This is evidenced by XYZ's choice of product suppliers - -Canon of Virginia, New Hampton, Inc, Sysco Systems, United Steel and Gesco - - companies that are all regarded as top in their respective industries. Additionally, XYZ is committed to hiring only the best employees who are likewise highly regarded in their fields. The company pledges to keep abreast of the ongoing changes in the field of aeronautics (its current primary source of customers) through continuous training of company personnel. But beyond that, XYZ has already begun research into additional market potentials that will lead the company into the future.

Since products are developed solely on an "as needed" basis, and are verified through contractual arrangements, inventory requirements will be limited in nature. Production costs will be covered through initial contractual payments with overhead and variable costs covered through final contractual payments with terms of net 30 days.

Product prices will be variable, depending upon the complexity of each component's design and manufacturing requirements (See the "Pricing" section of this business plan for information on XYZ's pricing policy.) On the whole, however, XYZ's pricing ranges between 30% to 60% cheaper than any company can produce their own components inhouse and between 10% and 20% cheaper than its leading competitor - - making XYZ an obvious choice.

Initial distribution channels will be within the United States. Both over the road (truck) and air transportation will be used, depending upon the job in question and the timing requirements. However, as noted previously, plans are also well underway for European and Japanese distribution within the near future. Product distribution will, therefore, continually reviewed and revised as needed.



L LOCATION

While location can be an important factor for any business, different types of businesses have different needs. In the retail industry, as well as certain types of small service businesses, location can be critical to their success. For these businesses, customer access is extremely important and must be given due consideration when evaluating any location. Manufacturers and wholesalers, on the other hand, tend to value low rent costs and good access to transit routes over exposure to, and accessibility by, the general public. Additionally, most wholesale and manufacturing businesses are dependent upon the availability of resources such as labor, materials, transportation, and utilities. Any location choice for these types of businesses must take these factors into consideration.

In identifying the importance of location to your business, you need to answer the following questions:

- 1) What is its physical address?
- 2) What features make it a good location?
- 3) Why will this location help attract customers?
- 4) What are the physical features of the building?
- 5) What is the appearance of nearby business?
- 6) What are the terms of lease or purchase agreement(s)?
- 7) What are the typical annual costs associated with this location?
- 8) What renovations will be needed, at what costs?
- 9) Is there room for business growth? Where and how?

Be sure you identify both the benefits and the drawbacks of your selected location. Include information on surrounding businesses: They will affect your location. You may even wish to include drawings or photographs of the building so that your investors can better evaluate this aspect of your business plan.

SAMPLE - Location:

XYZ Corporation owns its the offices and plant, located at 1017 Research Drive, in the Aerospace Industrial Park (adjacent to NASA), in Hampton, Virginia. The structure, initially completed in 1993 for RCA, was vacated in the latter part of 1994. The modern brick and glass one-story building (5,000 square feet) is both aesthetically pleasing to the eye and constructed to the high standards of the industrial park. Located on ten acres of prime real estate, the property is exquisitely landscaped to enhance its natural surroundings. With no initial renovations required of the office space and minor renovation of the plant, the facilities became "ready for business" in January of this year. Currently, one-third of the plant is occupied, leaving adequate space for company expansion well in the next century.

The plant is located within one mile of the Williamsburg International Airport, which has drop shipping capabilities throughout the world, and within five miles of a major shipping line with connections throughout the United States, Mexico, and Europe. On a local scale, the industrial site is ideal for the business. Not only is it currently adjacent to the company's largest client - - NASA - - but it is convenient to future potential customers, many of which are also located within the park. Additionally, three of the company's primary suppliers are located within one mile of the business.

The industrial park area is projected to grow at a rate of 23.3% per year for the next five years, at which time it will be at full capacity. The industrial growth rate for the Hampton/Newport/News, Virginia area is projected at a rate of 26% per year for the same time period. Projected annual costs for this location are noted below:

<u>Category</u>	<u>Cost Per Month</u>
Utilities (electricity, water, waste)	\$1,250
Phone	\$750
Landscape maintenance	\$250
Other maintenance (janitorial, repairs, etc.)	\$500
Miscellaneous	\$250
TOTAL	\$3,000



P Ricing

Price, quality, service, and profitability are tied together in a complex web. While there are no magic formulas for making good pricing decisions that cut across all different types of businesses, there are guidelines that any business can employ to ensure a safe price range. One such guideline is:

$$\text{PRICE} = \text{Product} + \text{Service} + \text{Image} + \text{Expenses} + \text{Profit.}$$

There are, of course, many others. Only you can choose the one that is right for you.

Some businesses base their prices on that of their competition. This process, while common, can backfire. Your business's pricing structure should be based upon your expense base and your necessary profit margin. That may, or may not, be the same as that of your competition. Ultimately, whatever pricing strategy you intend to use, you must be able to explain it in detail to potential investors so that they can gage whether or not it is based in reality. With regard to pricing structure, answer these questions:

- 1) How will you calculate your product/service price?
- 2) Which products' or services' sales are very sensitive to price changes?
- 3) Which products or services will attract customers at sale prices?
- 4) How important is pricing to your overall sales strategy?
- 5) What are your discount policies?
- 7) What pricing policy will you use for slow-moving inventory?
- 9) What payment options will you provide customers, including credit policies (if any)?
- 10) How will bad debts be handled?

Another important part of pricing is its relationship to projected sales. You must be able to explain how you calculated the sales projections included in the cash flow portion of your business plan. For example, let's use a restaurant business as an example: If I own a restaurant that is open from 6:00 a.m. until 9:00 p.m. daily, then I know I am going to serve three meals a day: Breakfast, lunch, and dinner. Now, let's say, based on my target customer base, I estimate that I will likely have 50 customers for breakfast who will spend, on the average, \$5. By multiplying those two numbers together, that calculates to breakfast sales of \$250. Continuing on, let's say that I have estimated 150 customers for lunch who will spend, on the average, \$7.50 per person. That calculates to \$1125 in lunch sales. Finally, let's calculate 98 people for dinner, spending on the average, \$11 each. That calculates to \$1078 in dinner sales. By adding \$250, \$1125, and \$1078 together, I estimate that my restaurant will make \$2,453 per day. If I am open 22 days per month, that calculates to \$53,966. That figure would be my estimated monthly sales "base"; keeping in mind that some months are shorter than others and that some months are likely to have better sales than others.

SAMPLE - Pricing:

Because of the uniqueness of XYZ's particular manufacturing capability, pricing is not a major concern at this time. Products are estimated, on the whole, to be anywhere from 15% and 50% cheaper than individual companies can currently produce for themselves. Each product is individually priced based upon its established design and manufacturing standards. It is calculated using the following formula:

$$\text{PRICE} = \text{Product} + \text{Service} + \text{Image} + \text{Expenses} + \text{Profit.}$$

An additional 20% is added to each product or service estimate in order to cover unexpected overhead and variable expenses. With that in mind and using the company's average monthly sales, we can project the following:

Products- 100 products/month @ \$1,000 each (on average) for a total of \$100,000.00/month
Services - 1000 man hours calculated @ \$200/per hour for a total of \$200,000/month

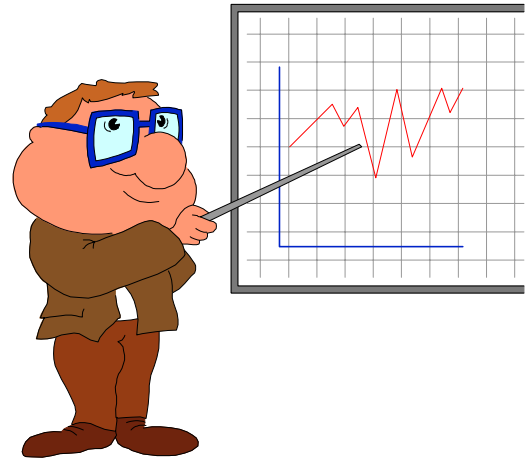
making our average monthly sales projections \$300,000/month. This amount will fluctuate from month to month, with sales being significantly higher during the months of March through October and lower during the remaining months. However, overall, this average is conservatively based on a low projected average.

No "sale" prices exist and no "discount" policies are anticipated at this time. Also, because products are produced on a contractual basis, it is anticipated that there will be little or no slow-moving inventory requiring special pricing policies.

MARKETING STRATEGY

Marketing, in essence, is the creation and retention of customers. Your first challenge in developing marketing strategies, therefore, is to define your target market(s). Using this basic information you can begin to identify ways of reaching these target groups through promotional activities, advertising, and customer service.

These are, by no means, the only marketing strategies available for use but they are the three most common.



Promotions are special activities like grand openings, give aways, sales, and gimmicks (e.g., coupons or games) that are short-term in nature. A popular retail promotion is the "anniversary" or "founder's day" sale that many stores run on the anniversary of their founding. A lot of businesses have grand openings which provide an introduction to the business and its products and services. Many fast food chains run coupon and game promotions on and off throughout the year. Food stores run weekly promotions which often include coupon items or give aways. Whatever the choice, the key is that promotions are generally run to gain quick attention and action and then allow the business to go back to "business as normal."

Advertising, on the other hand, is generally geared toward obtaining a more long term commitment from the potential customer base or to continually "remind" the customer about the business and its products or services. Ultimately, advertising's purpose is to convince customers to trade with a business on a regular basis.

There are many different forms of advertising. However, the most common are: print ads, outdoor ads (bill boards and transit advertising) radio or television spots, direct mail, e-commerce or web pages on the internet, and word-of-mouth. Which one or more of these methods you choose for your businesses relies solely on the information you have learned about your customer base. However, statistics indicate that the most successful advertising is likely to occur when using two or three of these methods in tandem (e.g., print ads in the newspaper and radio spots or direct mail and print ads in the newspaper, etc.) For this reason, careful thought should be given to the forms of advertising you choose for your business. The forms chosen will drive your marketing and advertising budget. With regard to promotions and advertising, answer these questions:

- 1) What promotional activities will you use and why?
- 2) What advertising media will you use and why?
- 3) When will promotions or advertising be used (e.g., holidays, down times, monthly, etc.)?
- 4) Does merchandise display make a difference and, if so, how?
- 5) How does all of this tie into your overall marketing strategy?

Word-of-mouth advertising, which is considered by many to be the most effective form of advertising, can work for or against your business. Unfortunately, positive word-of-mouth is much more difficult to generate than negative. This is where good customer service comes in handy. It is one sure fire method for generating positive word-of-mouth advertising.

Customer service can literally make or break just about any business. However, good customer service has become quite an elusive commodity. Some businesses sincerely want to give it but have no idea exactly what it is. Other businesses don't even make an effort to define it and, even when they are told what it is, refuse to deliver it. In reality, most businesses are hard pressed to define exactly what good customer service is.

We as customers know exactly what we want in terms of good customer service. It is probably the one thing that we want more than anything else (e.g., cheap prices, high quality, etc.). In fact we have proven over and over again that we don't even mind paying a little bit more for a product or service when good customer service is part of the deal. With that in mind, it is apparent that if you - - as a small business owner - - want to stand out in a crowd of your competitors, customer service might be just the place to hang your hat. If you can't define customer service yourself here is a radical idea - - **ask your customer base**. We will tell you willingly.

With regard to customer service, answer the following questions:

- 1) What special customer services you will offer?
- 2) What types of payment options will you offer?
- 3) How will you deal with customer problems?
- 4) How will you deal with customer suggestions or requests?
- 5) How will you handle customers returns?

It is also important to decide whether or not you will extend "in store" credit to your customers. In making that decision, answer these important questions:

- 1) Can you afford to offer credit?
- 2) Do you have to extend credit?
- 3) Can you evaluate credit risks?
- 4) Can you collect?
- 5) Can you afford to write off bad debts?

Customer credit costs you money. It can result in a negative cash flow for your business. If you must offer credit because it is customary in your line of business, make sure that your financial plans reflect this. Or consider using bank credit cards. They will be less expensive and safer than setting up in store credit. That way you don't deny customers the benefit of credit, but let you pass on the costs to a financial institution that knows how to deal with credits risks.

SAMPLE - Marketing Strategy:

XYZ's marketing strategy during its initial start-up phase will primarily consist of "word of mouth" advertising. During this phase little or no formal marketing should be used since a sufficient number of contracts already exist for this time period.

In addition to the direct mail information prepared by in-house specialists, which will include full-color customer packets of brochures, flyers, and video, etc., trade (aeronautic initially; followed by naval and automobile when applicable) trade magazines and the Internet - - through the company's website - - will serve as the other two major advertising media used on a regular basis.

Once the company is ready for international distribution, advertising will occur regularly - - January through December; Monday through Friday - - with no particular seasonal nature. Sales personal will set up displays at applicable trade shows throughout the United States when time allows and sales potential appears valid. International sales people will also travel to similar trade type shows throughout the world as well as make direct, one-on-one contacts with potential clientele.

Customer service will be an important part of XYZ Corportion's overall marketing strategy. Flexible contractual payment options will be made available to proven long-term customers. All customers will receive an unconditional one-year guarantee and maintenance contract on all components designed and manufactured by XYZ. Additionally, XYZ personnel will make themselves available to assist in installing and troubleshooting all company parts and provide unlimited technical assistance throughout the first few months of operation. Beyond that, XYZ stands behind its products 100% and will do anything and everything within its power to ensure complete customer satisfaction with regard to its products and its services.

NEEDS OF THE COMPANY

This section of the business plan provides you with an opportunity to outline your company's physical needs in terms of things like land, building(s), equipment (including vehicles), inventory, human resources, and capital.

Many businesses have specific types of needs in terms of space (land) and/or structure (building). These are things that potential investors may or may not understand. In this section of the business plan, it is your job to translate that information into understandable terms that makes such physical needs clear. Answer questions like:

- 1) Will you have any specific land or building requirements?
Note: Be sure to address specifics in terms of building square footage requirements, remodeling necessities, special features (e.g., display windows, warehouse space, etc.)
- 2) Do you plan to lease or purchase space for your business?
Note: If you are leasing, include the lease terms for the first three years in your business plan.

Another important factor to many businesses is equipment and/or inventory. Again, depending upon the knowledge of potential investors, they may or may not understand these items. Just like with "space" above, you must explain the business's requirements in these areas. Answer questions like:

- 1) What type of equipment will your business require? **Note: You will have to give specifics in the "Capital Equipment" section of this business plan.**
- 2) Will the equipment be purchased or leased?
- 3) If purchased, will equipment be new or used? **Note: You will also have to give each piece of equipment's expected "life" (how long it should last) in the "Capital Equipment section of this business plan.**
- 4) What are the business's inventory requirements?
- 5) What human resource requirements will you have?
- 6) Will you need operating capital for a period of time? If so, how long?

Studies indicate that of the factors contributing to small business failure, 98% can be attributed to management weakness. Areas of management weakness must be taken into consideration during the planning stages of business development. This is particularly important if you are using your business plan as a financial proposal. Banks, and even private investors, will want to know what steps you intend to take to overcome any management weaknesses that might exist. There are ways to overcome most weaknesses, including lack of experience. You can obtain the experience before you go into business, hire someone who has



the necessary skill, or surround yourself with advisors who possess expertise in the area needed. There are, however, no known methods to overcome incompetence. Business owners who do not take management weakness into account - - and come up with ways of overcoming them - - are suffering from gross incompetence. Don't let that be you!

A business resume for each principal player (your management team) in the business must be included as a part of this business plan. As a minimum, the information in this section must cover each of the following areas:

1. **Each Principal's Personal History** - If you are a sole proprietor, describe your specific capabilities. If you have formed a partnership, explain how partners were chosen and how duties are divided and decisions are made, including who has final say. If your business is incorporated, explain how the corporation is structured and give detailed information on each officer - - who they are, why they were chosen, what they bring to the corporation, and what, if any, their duties are. In every instance - - no matter the legal entity of the business - - explain the duties and responsibilities of all principals in terms of who will do what; who will report to whom; and who makes which decisions. Also include information on projected salaries. Caution: be realistic in setting wages. Deals won't happen if lenders feel the salaries are too high. Others will self-destruct when low salaries have to be increased, throwing the budget into chaos.
2. **Other Resources Available to the Business** - All businesses should list an accountant, lawyer, banker, and insurance agent. Other resources might include: SBA, SCORE, OSBDC, Chamber of Commerce, and business, trade or civic organizations.

As a minimum, resumes must cover:

1. **Work History** - Identify the business background of the owner(s) and manager(s) of the business in terms of their experience in the industry. If none, explain how the individual(s) intend to compensate.
2. **Educational Background** - Identify the education of the owner(s) and manager(s) of the business.
3. **Other Information** - Identify any additional information that may have bearing on the individual's capability to perform his or her role effectively.

Where management holes exist, identify consultants to assist in covering those areas.

Employees can also be a major stumbling block for small business. **Unfortunately many business owners assume that handling employees is the least of their worries. Not true!** With the ever-changing labor laws and the number of law suits currently in the courts, employment management must be given careful consideration in developing any business. After all, businesses stand or fall on the strength of their employees. Strong employees can make a deal successful; weak ones can destroy the entire business.

Employees should be hired only when it would result in added profitability for business. Carefully consider BEFORE HIRING whether or not the job is really necessary. If it is, give maximum attention to hiring the right person. Weigh whether hiring an experienced person (at a higher wage) might be cheaper than an inexperienced person (at a lower wage) that you have to train. Training can be a major hidden personnel cost, particularly in terms of your time and patience.

Complete the following Personnel Outline:

1. How many employees do you need? _____
2. What are the job titles and skills needed?

3. What sources will you use to obtain needed employees?
4. What problems do you anticipate in finding competent employees?
5. How will you train employees?

Give careful thought to how you will handle your employees. You should have an established set of policies and procedures (normally referred to as an employee manual or personnel policy manual) established that govern how employees working for your business will be treated.

6. By what date will you have an established set of personnel policies and procedures?

SAMPLE - Needs of the Company:

XYZ Corporation owns a 3,000 square foot modern brick and glass one-story building located on 10 acres of land in the Aerospace Industrial Park, adjacent to NASA, at 1017 Research Drive in Hampton, Virginia. The plant should be large enough to sustain the business for its first five to seven years of operation. When growth becomes an issue, the company owns sufficient land to build onto the plant for many years to come.

XYZ uses unique, state-of-the-art, high technology equipment which must meet stringent requirements because of the type of work it is expected to do. The company already owns the following:

<u>#</u>	<u>Equipment</u>	<u>Cost</u>	<u>Status</u>	<u>Life</u>	<u>Depreciation</u>
2	X911 Laser	\$199,698	New	90	\$2219
3	772 Robot Arm	\$145,000	New	90	\$1611
1	1278CNC210	\$ 37,500	Used	72	\$ 521
5	1610E CG Microscope	\$ 1,513	New	60	\$ 25
2	Electron Microscope	\$ 39,610	New	60	\$ 660

EXISTING EQUIPMENT VALUE - \$958,681

XYZ plans purchase the following equipment from funds obtained through a small business loan:

<u>#</u>	<u>Equipment</u>	<u>Cost</u>	<u>Status</u>	<u>Life</u>	<u>Depreciation</u>
1	RJK 3112 CNC	\$ 20,000	Used	72	\$ 278
1	Sim Elec Scope Model 217A	\$ 18,200	New	120	\$ 152
1	PSA Mill 700	\$ 21,800	Used	108	\$ 202

VALUE OF EQUIPMENT TO BE PURCHASED - \$60,000

Inventory requirements for the company are minimal (less than \$1000) at any given time within the life of the company.

XYZ boasts a strong management team. The corporate structure includes a Board of Directors comprised of the following:

President/CEO - Mike Renaldi - \$36,000 - 8 years management experience; 10 years of production experience - Responsibilities include making final decisions for the company in addition to personnel and production management.

Vice President/CFO- Doug Phillips - \$30,000 - 7 years budgeting and finance experience; 9 years management experience - Responsibilities include budgeting and financial management for the company in addition to marketing and sales management.

Board Treasurer- Charles Tillman - \$25,000 - 10 years production supervisory experience - Responsible for supervision of the production team.

Board Secretary - Janine Freeman - \$19,5000 - 9 years marketing/sales experience - Responsible for marketing as well as supervision of the sales team.

Management is structured so that personnel and production management falls under the direct supervision of the President/CEO and marketing/sales management under the supervision of the Treasurer/CFO. Resumes for all officers are enclosed.

In addition to its management team, XYZ Corporation has compiled an excellent list of resource consultants with additional expertise to assist the company. These include, but need not be limited to the following:

- Business Development Specialist - Charlie Kuchinsky, VPCC**
- Accountant - Jameson Reeves - Reeves & Reeves, C.P.A.**
- Lawyer - Sheila Johnson - Shields, Johnson, Mason, & Click**
- Banker - Theodore Frederick - First Virginia Bank**
- Insurance Agent - Marsha Fields - Metropolitan Life**

XYZ Corporation will initially employ a staff of 32; four at management level and twenty-eight at support level. As indicated in the company's Management Statement, the four management-level individuals have already been identified. An additional support staff of eight has also been employed. They include an executive secretary, a receptionist, a sales person, a designer, three electromechanical technicians, and an engineer. This leaves a remaining staff requirement of nineteen to be hired through local and national recruitment, employment agency search, and vo-tech/college recruitment.

<u>NO.</u>	<u>TITLE</u>	<u>SKILL REQUIREMENTS</u>
(2)	Secretaries	Basic secretarial skills, computer literacy, good communication skills a must; bookkeeping and desktop publishing skills a plus. Salary commensurate with skills; ranging between \$13,000 to \$16,000 plus benefits.
(2)	Salespersons	Minimum of three years sales experience a must; knowledge of electronics a plus. Salary commensurate with skills; ranging from \$18,000 to \$22,000 plus benefits.
(3)	Master Technicians Apprentices	AAS Master Technician Degree in Electromechanical Technology. Will hire directly out of school if qualifications sufficient. As an apprentice, no practical experience required; will receive on-the-job training. Beginning salary between \$14,000 & \$16,000 plus benefits.
(3)	Elec Technicians	BS Degree in electronics required. Five years experience in the field preferred; minimum of three acceptable. Must be willing to cross-train in mechanics as well. Salary commensurate with experience; ranging from \$17,000 to \$19,000 plus benefits.
(4)	Mech Technicians	BS Degree in mechanics required. Five years experience in the field preferred; minimum of three acceptable. Must be willing to cross-train in electronics as well. Salary commensurate with experience; ranging from \$17,000 to \$19,000 plus benefits.
(2)	EM Technicians	BS Degree in electromechanical technology required. Five years experience in the field preferred; minimum of three acceptable. Must be willing to obtain further training (at company expense) if required. Salaries commensurate with experience; ranging from \$17,000 to \$19,000 plus benefits.
(1)	Designer	BS Degree in drafting and designed required; Masters Degree, preferred. Salary commensurate with experience; ranging from \$17,000 to \$20,000.
(2)	Engineers	BS Degree in engineering required; Masters Degree, preferred. Salary commensurate with experience; ranging from \$20,000 to \$25,000 plus benefits.

(NOTE: Benefits packages add an additional 31% on top of salaries. They include vacation, sick leave, personal leave, health and life insurance.)

As the company grows, more support staff will be added. It is anticipated that one secretary, one sales person, and three technicians will be added by January, 1996, with three to five additional technicians being brought on board prior to the end of fiscal year, '96.

DRAFT - Business Resume

Name of Principal: _____ Title: _____

Address: _____

_____ Phone No: _____

Duties & Responsibilities: _____

_____ Projected Salary: _____ per _____

WORK HISTORY: *(Start with your most recent employment and cover a minimum of 10 years or your entire history; whichever is greater.)*

From ____ to ____ (Name of company; address; and phone #. Supervisor or contact. Employee title and job duties)

Example:

Feb, '73 to Feb, '78 **Interstate United Corporation**, 1231 E. Gordon in Wichita, Kansas, 67676; (304) 222-2222. **Supervisor: Bruce Taher. Title: Regional Cafeteria Manager; managing 16 regional school cafeterias located through Wichita.**

Mar, '78 to Jun, '00 **Quality Wines, Inc.** 3737 Jefferson Avenue, Newport News, VA 63666; (505) 987-2345. Supervisor: Aminco Aracri. Title: Manager; managing wine business.

EDUCATIONAL BACKGROUND: *(Start with high school, or final school of attendance if below high school, and move forward)*

From ____ to ____ (Name of school; address; city, state, and zip; major(s); diploma or degree earned; and date earned.)

Example:

Sep, '65 to Jun, '68 **Emerson High School**, 115 W. Walnut in Enid, OK 73701; (580) 234-3456. **Major: English/Speech. Diploma earned 1968.**

Sep, '78 to Jun, '80 **Thomas Nelson Community College**, 9898 S. Sunset in Hampton, VA 63666; (233) 666-6666. **Major: English/Communications. AAS Degree earned 1979.**

Sep, '80 to Jun, '82 **Old Dominion University**, 3456 S. Hampton in Norfolk, VA 67890; (507) 876-5432. **Major: Communications. BS Degree earned 1982.**

Aug, '82 to Mar, '83 **Stevenson School of Upper Management** in Washington D.C. 78787; (708) 907-3988. **Major: Management. Management Certificate in 1983.**

OTHER INFORMATION: *(Include any other information that may have bearing on your ability to perform your duties within the business.)*

Example:

Chairman of the Board American Red Cross Advisory Board, Hampton, VA
BSP Woman of the Year 1989
Founder Virginia Peninsula Battered Women's Shelter



F INANCING NEEDS

The final section of the business plan provides you with an opportunity to explain to potential investors, in minute detail, your company's financing requirements in terms of the amount of financing needed; any specific term requirements or requests; and the proposed repayment terms. For this reason, **it is important the this section answer all of the following questions:**

- 1) Who is asking for the money?
- 2) How much money is needed?
- 3) What is the money to be used for? (e.g., purchase of building, equipment, operating expenses, etc.)
Note: Your totals must add up to the loan amount requested.
- 4) How will the funds be secured (What is your collateral)?
Note: You may use some or all of your purchases as a part of the business as collateral. However, be aware that it may be insufficient. Be prepared to answer the question: What other collateral do you have to offer?"
- 5) What equity is the business owner bringing to the deal? **Note: They will be requesting around 20%.**
- 6) What length of terms are being requested? **Note: Ask for what you want but be prepared to negotiate.**
- 7) How will the funds be repaid?

Any loan request, and its repayment, must be supported by the remainder of the business plan; the financials. This means that the finished plan must project sufficient sales and cash flow to pay back the funds (with interest), pay all of the operating expenses, purchase all of the necessary supplies, and still leave the business owner with enough money to continue in the life-style to which he or she is accustomed.

SAMPLE - Financing Requirements:

The XYZ Corporation is seeking capital in the amount of \$90,000. This money will be used to purchase the new equipment and inventory necessary to meet current production contracts. Funding is needed by May 1st, 1995, in order to allow sufficient time for the equipment to be delivered and in place by July 1, 1995. Because there is a standard two month period between order placement and delivery date, this timing is crucial in allowing the company to meet current contracts.

The equipment inventory purchased through this loan will allow XYZ Corporation to establish a major foothold in a new and emerging technology critical to the success of the aerospace industry. Three contracts have been signed for the company's first year of business, in the amount of \$1,250,000. The loan, if granted, will be secured with the equipment and inventory purchased and can be further secured by company-owned real estate with a 1995 assessed equity value of \$350,000 or existing tools and equipment with an assessed value of \$500,000.

Repayment of the loan, with interest, can begin promptly within 60 days of receipt of funds. It is anticipated that repayment can be completed within one year.

STEP 2

The Financials

In the financial section of your business plan, you translate all of the information outlined in the Background Section into actual numbers. This allows you to look realistically at your business in terms of its potential profitability.

This section is often the first section examined by potential lenders or investors after they have finished reading the Executive Summary. Because of this, many people consider it to be the most important part of the overall plan. This is a fallacy. Both business plan sections - - Background and Financials - - must be used in harmony. The Background represents your company "policy", or how you will run the business while the Financials represent your control system, or how you will measure the accomplishment of your business goals. Together, policy and control help you build a successful business venture. Apart, they accomplish little or nothing at all.

The information gathered and contained in this section should never be prepared just to satisfy a potential lender or investor. It must present a clear picture of how you - - the business owner - - intend to control your business. While every investor knows, and understands, that projections are your "best guess," they expect them to be realistic and within reach.

Complete each form completely; using the best judgment you have. If at any point, you have questions, stop and call your local OSBDC/SCORE office before continuing; (580) 213-3197.

SPECIAL NOTE: *If you are planning to purchase an existing business, you must obtain the following information from the current owner:*

- 1) Financials for the last three years of business (or however many years in business, if less than three);
- 2) Income tax returns for the same amount of time;
- 3) A list of everything being sold as a part of the business and its replacement value (like item for like item);
- 4) If leasing space, an informal written agreement spelling out lease terms for your first three years.
- 5) A copy of the buy/sell agreement for the business.
- 6) If you are purchasing land and/or a building, an informal appraisal on its value.



PERSONAL FINANCIAL STATEMENT

All financial institutions, and many investors, will require information about your personal financial resources. Use the following format to prepare your personal financial statement by first, preparing a list of all of your assets (whether they are paid for or not) and then preparing a list of your liabilities. Your net worth equals the difference between your assets and your liabilities. Then convert all of that information to the SBA Form 412 included as a part of this workbook. All information must be current and accurate.

SAMPLE - Personal Financial Statement

Name: Michael J. Renaldi of XYZ Corporation **Business Phone:** 222-33-4444
Address: 22 W. Giabaldi Street, Hampton, VA 23666 **Res. Phone:** 222-249-4489

ASSETS:

Cash on Hand	\$ 11,872
Savings Account	10,000
IRA or Other Retirement Accounts	50,000
Accounts and Notes Receivable	0
Life Insurance (cash value only)	150,000
Securities (stocks & bonds)	70,000
Real estate (market value)	111,000
Vehicles (market value)	30,000
Other Personal Property - Antiques	10,000
Other Assets - Certificates of deposit	<u>10,000</u>
TOTAL ASSETS	\$452,872

LIABILITIES:

Accounts Payable	\$ 572
Notes Payable (to banks & other lenders)	0
Vehicle Loans (monthly payment of \$___)	5,700
Installment Accounts (monthly payments of \$___)	0
Life Insurance Loan	0
Mortgages on Real Estate	0
Unpaid Taxes	0
Other Liabilities	0
Endorser/Comaker Liabilities	0
Legal Claims or Judgments	0
Other	<u>0</u>
TOTAL LIABILITIES	\$ 6,272

NET WORTH: (Assets - Liabilities) **\$446,600**

SOURCES OF INCOME:

Salary	\$ 72,000
Other - Spouse Income	31,000



CAPITAL EQUIPMENT

Capital equipment is defined as assets which have useful lives of more than one year and cost more than \$250 per piece. Examples include machines, equipment, office furniture, and computers.

Depreciation is defined as the original cost of the equipment divided by the useful life (in months) of the equipment. For example, a truck might cost \$6,000 and have a useful life of five years (or 60 months). The truck's monthly depreciation would be \$100 per month (\$600 divided by 60 months).

List each piece of equipment needed to start your business, indicate its projected cost, and identify whether you intend to purchase it new or used; estimate its useful life (in months) and calculate the monthly depreciation (cost divided by useful life in months).

SAMPLE - Capital Equipment

<u>#</u>	<u>Equipment</u>	<u>Cost</u>	<u>Status</u>	<u>Life</u>	<u>Depreciation</u>
2*	X911 Laser	\$199,698	New	90	\$2219
3*	772 Robot Arm	\$145,000	New	90	\$1611
1*	1278CNC210	\$ 37,500	Used	72	\$ 521
5*	1610E CG Microscope	\$ 1,513	New	60	\$ 25
2*	Electron Microscope	\$ 39,610	New	60	\$ 660
1	RJK 3112 CNC	\$ 20,000	Used	72	\$ 278
1	Sim Elec Scope Model 217A	\$ 18,200	New	120	\$ 152
1	PSA Mill 700	\$ 21,800	Used	108	\$ 202

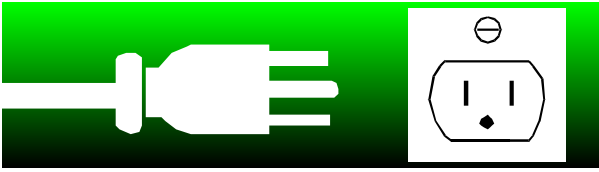
TOTAL COST FOR CAPITAL EQUIPMENT \$483,321

*Existing Equipment - \$423,321
Equipment to be Purchased - \$60,000

TOTAL MONTHLY DEPRECIATION \$5,668

Existing Equipment - \$5,036
New Equipment - \$632

Electrical Services



S **TART-UP** **EXPENSES**

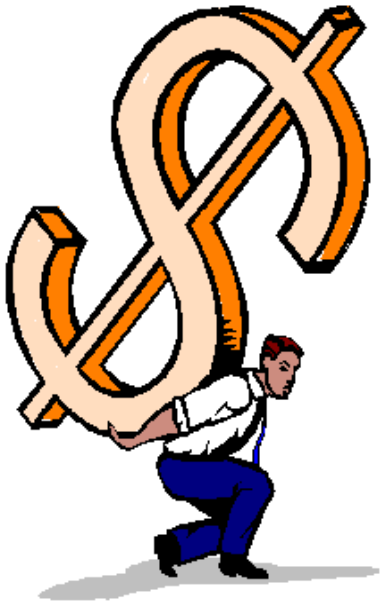
Start-up expenses are those expenses it takes to get ready to open your doors for business. These generally include things like: renovation to the building (if necessary), purchase of equipment, furnishings, and supplies, as well as other expenses encumbered in getting ready for business. Some will be onetime expenditures while others may occur once or twice a year - - generally within the first two to three months of the business year - - that will not be routine monthly expenses after that. Standard examples of such expenses are listed below.

SAMPLE - Start-Up Expenses:

<u>EXPENSE</u>	<u>COST</u>
Total Cost of Capital Equipment	\$60,000
Beginning inventory of merchandise	2,000
Legal fees	4,000
Accounting fees	1,000
Licenses and permits	200
Remodeling work	2,200
Deposits (public utilities, etc.)	500
Advertising (grand opening, etc.)	1,000
Miscellaneous Furniture	800
Supplies	<u>500</u>
TOTAL START-UP EXPENSES	\$ 72,200

DRAFT - Start-Up Expenses

<u>EXPENSE</u>	<u>COST</u>
Total Cost of Capital Equipment	_____
Beginning inventory of merchandise	_____
Legal fees	_____
Accounting fees	_____
Licenses and permits	_____
Remodeling work	_____
Deposits (public utilities, etc.)	_____
Advertising (grand opening, etc.)	_____
Promotions (door prizes, etc.)	_____
Other expenses (please list below)	_____
_____	_____
_____	_____
_____	_____
_____	_____
TOTAL START-UP EXPENSES	_____



PROJECTED CASH FLOW

Cash flow is the most critical financial projection that you will make. It projects when cash is expected to be received and when it must be spent to pay off debts. For a new business, cash flow can make the difference between success and failure. For an ongoing business, it can make the difference between growth and stagnation. Cash flow projections typically show:

- 1) How much cash your business will need;
- 2) When it will be needed;
- 3) Whether you need to look for equity, debt, operating profits, or sale of fixed assets; and
- 4) Where the cash will come from.

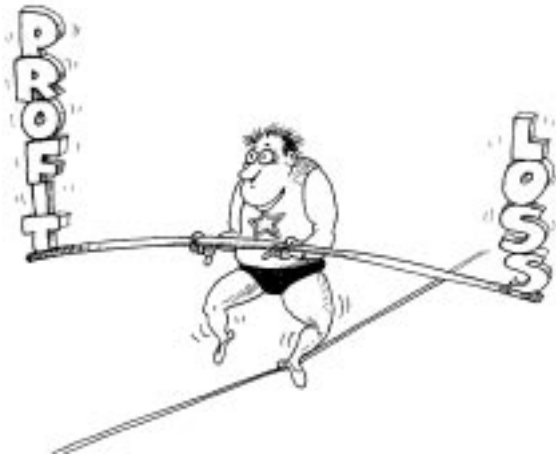
For business planning you will need to project your cash flow for one to three years. Please note that when cash receipts are less than cash disbursements, you will have a negative cash flow. Negative cash flows are enclosed in brackets like this (\$5218).

Cash flow projections can typically be approached one of two ways. The first is to begin by calculating the number of customers you expect to have within your business each month (as identified in your *Market Identification* section), multiplied by the average expenditure anticipated per visit. *Note: Always be conservative in revenue projection.* Example, if you expect your business will generate approximately 1000 customers per month, each spending an average of \$10 per visit, your typical projected monthly revenue would be $1000 \times \$10$ or \$10,000.

Another way of calculating cash flow is through the "back door." This method can be particularly useful for certain types of service oriented businesses. In this method, you begin by establishing your business's standard monthly expenses (for rent, phone, travel, cost of goods, etc.). You then project any additional expenses that may exist, being cautious to err on the liberal side. Once you have calculated the total monthly expenses, you begin to compare that against needed revenue. For example, if your business will typically spend \$7,500 per month in expenses, you know that your revenue must - - as a minimum - - cover that amount in order to just break even. Using the same revenue formula above (1000 customers per month at \$10 per visit) you will be able to guess that your business can both make expenses and a profit. If, however, the formula was 850 customers at \$8 per visit, revenue would be short by at least \$700; signaling a red flag. At that point you would have to determine if there was a way to cut expenses or increase revenue in order to ensure some form of cash flow within the business.

SAMPLE - Projected Cash Flow

See the following pages.



BALANCE SHEET

The balance sheet is a picture of your business's financial condition which includes a list of:

- 1) Assets - - what your business owns that is of monetary value,
 - 2) Liabilities - - what your business owes its creditors, and
 - 3) Equity - - Your business's net worth.
- It, therefore, shows whether your financial position is strong or weak.

SAMPLE - Balance Sheet

CURRENT ASSETS:

Cash	\$ 72,200
Accounts Receivable	0
Inventory	22,000
Prepaid Expenses	0
Land	175,000
Buildings	400,000
Less Bldg. Book Value (Depreciation)	325,000
Equipment	958,681
Less Equip Book Value (Depreciation)	947,444
Office Furnishings	160,000
Less Equip Book Value (Depreciation)	<u>154,750</u>
TOTAL ASSETS	\$1,696,394

LIABILITIES:

Accounts Payable	\$ 72,200
Federal & State Taxes Owed	0
Other Short-Term Liabilities	0
Notes Payable to the Bank	90,000
Mortgages Payable	0
Other Long-Term Liabilities	0
TOTAL LIABILITIES	\$ 162,200

<u>OWNER'S EQUITY</u> (Assets - Liabilities)	<u>\$1,534,194</u>
	\$1,696,394

DRAFT - Balance Sheet

CURRENT ASSETS:

Cash	_____
Accounts Receivable	_____
Inventory	_____
Prepaid Expenses	_____
Land	_____
Buildings	_____
Less Bldg. Book Value (Depreciation)	_____
Equipment	_____
Less Equip Book Value (Depreciation)	_____
Office Furnishings	_____
Less Equip Book Value (Depreciation)	_____
TOTAL ASSETS	_____

LIABILITIES:

Accounts Payable	_____
Federal & State Taxes Owed	_____
Other Short-Term Liabilities	_____
Notes Payable to the Bank	_____
Mortgages Payable	_____
Other Long-Term Liabilities	_____
TOTAL LIABILITIES	_____

OWNER'S EQUITY (Total Assets - Total Liabilities). _____

TOTAL ASSETS (Total Liabilities + Owner's Equity). _____

ESTIMATED PROJECTION & FORECAST OF THREE YEARS EARNINGS

	Year 1	Year 2	Year 3
Gross Receipts	\$ _____	\$ _____	\$ _____
Merchandise Cost	\$ _____	\$ _____	\$ _____
Gross Profit	\$ _____	\$ _____	\$ _____
Expenses			
Wages/Salaries	\$ _____	\$ _____	\$ _____
Employee's Benefits	\$ _____	\$ _____	\$ _____
Accounting & Legal Fees	\$ _____	\$ _____	\$ _____
Advertising	\$ _____	\$ _____	\$ _____
Rent	\$ _____	\$ _____	\$ _____
Depreciation	\$ _____	\$ _____	\$ _____
Equipment	\$ _____	\$ _____	\$ _____
Utilities	\$ _____	\$ _____	\$ _____
Telephone	\$ _____	\$ _____	\$ _____
Interest	\$ _____	\$ _____	\$ _____
Repairs	\$ _____	\$ _____	\$ _____
Travel	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____
Bad Debts	\$ _____	\$ _____	\$ _____
Miscellaneous	\$ _____	\$ _____	\$ _____
<i>Office Supplies</i>	\$ _____	\$ _____	\$ _____
<i>Licenses & Permits</i>	\$ _____	\$ _____	\$ _____
-----	\$ _____	\$ _____	\$ _____
-----	\$ _____	\$ _____	\$ _____
Total Expenses	\$ _____	\$ _____	\$ _____
Net Profit	\$ _____	\$ _____	\$ _____
Less Income Taxes	\$ _____	\$ _____	\$ _____
Net Profit After Taxes	\$ _____	\$ _____	\$ _____
Loan Payment	\$ _____	\$ _____	\$ _____
Net Profit Remaining	\$ _____	\$ _____	\$ _____



O **TH**ER **INFORMATION**

If you are using your business plan to apply for a small business loan, please be aware that different lenders will have additional forms and applications for you to fill out for their individual institutions. It is neither practical, nor feasible, to include all such documents as a part of any standardized business plan.

In many instances the lender will assist you directly with these additional requirements. However, your OSBDC representative will also be happy to help you with this information if you require assistance in its preparation.

If you are purchasing an existing business, please be aware that you must provide the following additional information from the business's current owner as a part of your business plan:

- 1) A list of everything being sold as a part of the business, its age, and an itemization of its replacement value;
- 2) The financials for the business's last three years of operation (or for however long it has been in operation if less than three years), including income tax returns;
- 3) An appraisal (informal is fine at this point) of any property - - building and/or land - - that is being purchased;
- 4) A written contract (again, informal is fine at this point) of your lease terms for the first three years (if property is to be leased); and if possible
- 5) A buy/sell agreement for the business.

Additionally, it is advisable to include a copy of your credit report in your business plan. It will be reviewed. Including it will save your lender time and effort and speed up the process.

Also include any of the following that may be applicable to your business:

- 1) Contracts or letters of intent;
- 2) Additional background information on your industry;
- 3) Photos of your property, equipment, inventory, or products,
- 4) Letters of reference, and/or
- 5) Any other information that you feel will help the lender make a more informed decision.

If you have any further questions or need more assistance, do not hesitate to call your OSBDC/SCORE office at (580) 213-3197.

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