

2006 Edition



# OfficeReady Business Plan User Guide and Business Plan eBook

**A Guide to preparing a  
winning business plan**

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# *Introduction*

The OfficeReady Business Plans product consists of a guide and templates to help you write a well-developed business plan. This guide will help you become familiar with the product. Read this guide, experiment with the templates and features, and you will see how OfficeReady Business Plan will become a valuable tool for your business.

# OfficeReady Browser

The OfficeReady browser is an enhancement to the Microsoft Office Suite. It provides an easy way to find and use professionally designed templates for documents, workbooks, and PowerPoint. Use the OfficeReady browser and templates to improve the quality of your projects and to save time and money.

The creators of OfficeReady are constantly producing new templates and instructional files to help you with all aspects of business and home office projects. These new materials, called template packs, cover specific areas of home office and small business. They are available at the TemplateZone website, which you can access using the OfficeReady browser. Click Get More Templates on the OfficeReady browser toolbar (this is explained further in the Frequently Asked Questions section below). This will open a website where you will find template packs for purchase.

## What is a template?

A template is a preformatted reusable file that provides a framework for creating a document or a project. Many templates also provide guidelines or instructions for the content.

OfficeReady templates provide a helpful jumpstart for your office documents. They cover many of your daily tasks as you manage your home or business, and they help maintain a familiar look for all of your documents.

Templates open like any other file except that they are always new documents that require a new file name to save them. This way, the original template remains available for the next time. You use a template every time you use the Microsoft Office Suite. In fact, whenever you open a new blank document in Word, you are really opening the default template for a blank document.

The following subsections explain the types of templates and files you will encounter as you use OfficeReady software.

### **OfficeReady templates for Word (.dot)**

A Word template is a file with a .dot extension. It provides overall formatting and appearance for your new Word document. It also provides placeholders for your text and images to maintain the appearance and flow of the document.

### **OfficeReady templates for Excel (.xlt)**

An Excel template is a file with a .xlt extension. It provides the layout, as well as styles and formulas, for the type of workbook or data entry form you choose.

### **OfficeReady templates for PowerPoint (.pot)**

A PowerPoint template is a file with a .pot extension.

Master:

A master is a set of layouts and backgrounds for a presentation. A layout is a slide with preset placeholders for objects such as titles, subtitles, bulleted lists, text, data charts, and organization charts. Each layout has a page format and a color scheme that is consistent with the entire presentation.

Presentation (.pot):

A presentation template is a set of slides with suggested content, layout, and backgrounds.



### **Other helpful files (.pdf)**

Some OfficeReady template packs include other helpful files to help you with your work in the area of template pack. Some of these files might be posters or sample files in PDF format. You can find and view these files while using the OfficeReady browser as explained later in this guide.

### **Why are OfficeReady templates so useful?**

OfficeReady templates eliminate many of the difficult, repetitive, and tedious tasks involved with starting a new document. The developers of OfficeReady have researched the best look for the type of document you want and developed the best layouts and formats in the industry.

OfficeReady templates save time by giving you layouts and formats for various types of documents. All you have to do is add text and images and then you can customize as much as you wish. You do not have to re-invent the wheel each time you start a new project. Many of the templates follow themes that match templates in other categories. You can use matching templates for getting a professional touch and familiar style.



OfficeReady templates also save you money. You could pay hundreds of dollars for graphic designers to create your themes, documents, and forms, or you can use OfficeReady to do it yourself.

# *Getting Started using OfficeReady Software*

This section explains how to get started using OfficeReady software. It describes how to find and open the templates using the OfficeReady browser.

## Locating the right template

Open the OfficeReady browser by double-clicking the OfficeReady icon on your desktop (Figure 1) or by clicking the OfficeReady icon in your Windows Start menu (Figure 2).



OfficeReady  
Business Plans

Figure 1. The OfficeReady icon as it appears on the desktop.

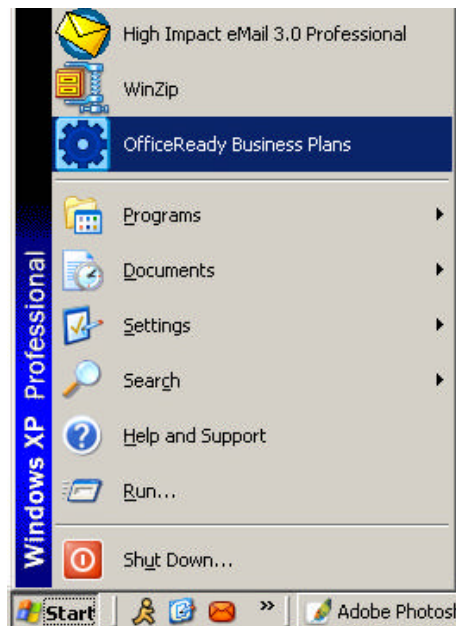


Figure 2. The OfficeReady icon as it appears in the Windows Start menu.

The OfficeReady browser will appear (Figure 3).

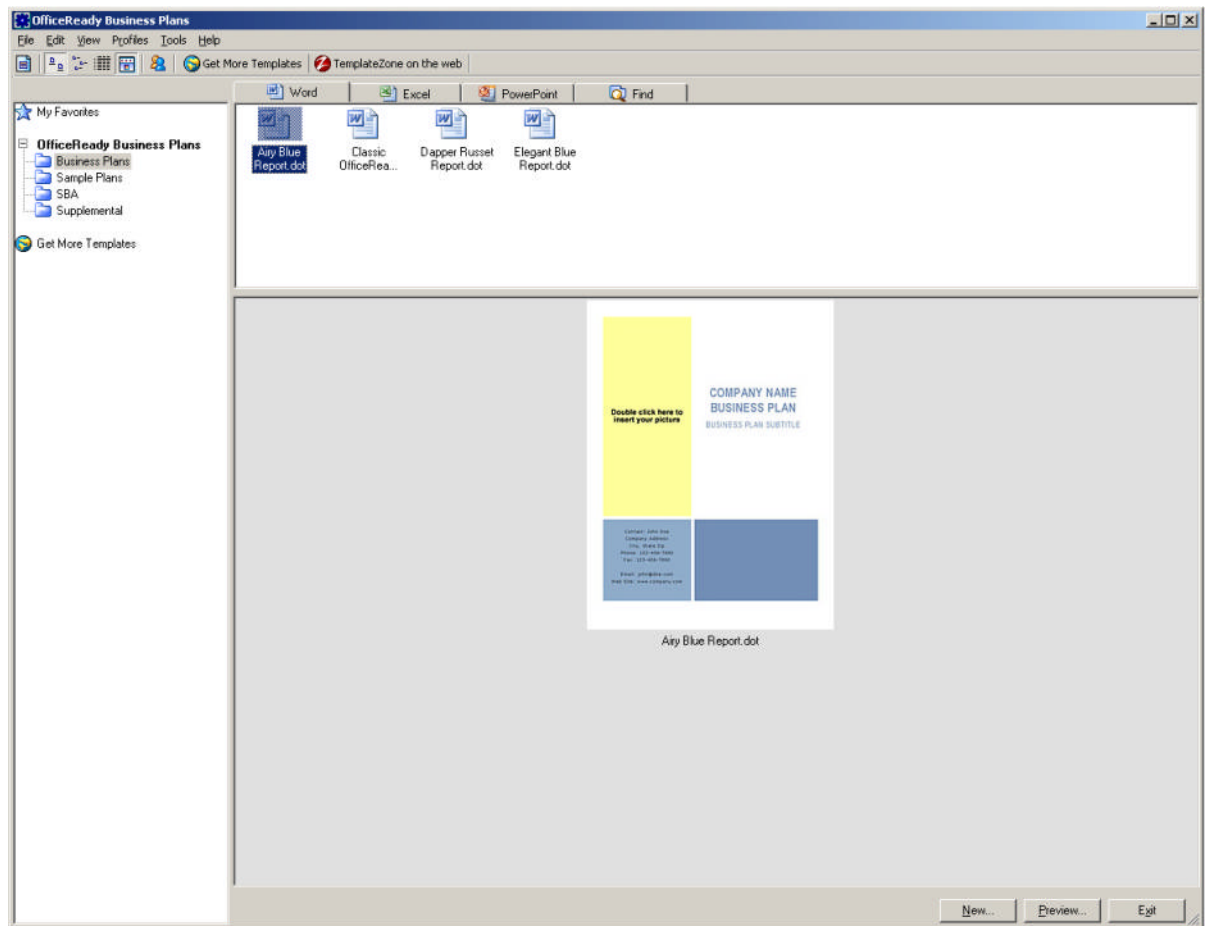


Figure 3. The OfficeReady browser showing the toolbar at the top, the folder list to the left, the thumbnail preview pane to the upper right, and the larger image preview pane to the lower right.

Click a category in the left window to view small preview images (thumbnails) of the templates available in that category.

Click a thumbnail in the preview window to the right to view a larger preview image of the template.

Double-click a thumbnail or a large preview image of a template to open the template as a new document in its Word Office Suite application (Word, Excel, or PowerPoint).

Once the template is open, you should save it with a new filename as instructed below.

### Saving your work

Save your new document as soon as possible. You will be required to give the document a new filename, which should be descriptive and unique to the file you are creating. Be sure to choose a location for the file that you can easily find later. Then you can edit your document as many times as you want, and the original template file will remain unchanged.

### Editing an OfficeReady document

Your new OfficeReady document has placeholders for text and graphics. All you do is replace the text and graphics in each section with your own text, as explained below. Some of the placeholder text contains instructions and tips about the right kind of information to add. Read and follow the instructions before you make changes.

#### **Editing text**

You can edit the text in an OfficeReady document just like you can in any other Word Office document, but keep these things in mind as you get started:

- Be careful to avoid altering the formatting. The placeholder text in an OfficeReady document is formatted to fit correctly in the layout. Make sure you select only the text you want to replace. You can use the reveal codes function (Alt+F3) to see the formatting marks that you want to avoid deleting.
- If you make a mistake, you can always use the Undo button in the application toolbar or press Ctrl+Z to go back to where you were.

You can select all or any part of the text in a section and delete it to make room for your text. You can double-click a word to select it, click three times to select a sentence, or click four times to select a paragraph. You can also click and drag the cursor over an area to select all of the text (and graphics) in that area. This is where you need to be careful about what you select. Once you select text, you can either delete it and insert your text or just start typing to replace it. You can also use the cut and paste functions to replace the text.

Some of the text in a template might have arrows or brackets (<, >, [,]) to let you know to replace it. Be sure to replace the arrows or brackets along with the rest of the text. Here are a few tips to help you get your document finished faster:

- n Get to know the Word Office application you are using. Read the help topics (F1). You might be surprised at the number of helpful hints these help files provide.
- n Use the Word Find and Replace function (Ctrl+F) to replace repetitive text like [Company Name]. Once you are comfortable with the process, you can use the Replace All option.
- n Pay attention to the punctuation, such as capitalization, in the placeholder text. It suggests the correct way to present your text.
- n You might try using the Insert (Typeover) function to replace text as you type. Just press the Insert key to turn it on or off. This function deletes the original text as you type.
- n Once you are finished with your text, use the Find and Replace function to find brackets or arrows ([, ], >, <) you might have missed.

### Replacing photos

Many of the OfficeReady templates have placeholders for photos (Figure 4).

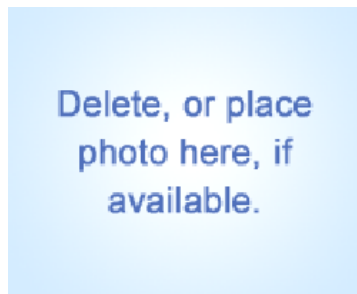



Figure 4. A photo placeholder from a template.

You can delete a placeholder or replace it with a photo. Here is how to replace it with a photo:

1. Click Insert on the toolbar at the top of the window. A menu will appear.
2. Click File in the menu. A dialog box will appear allowing you to browse for a file.
3. Find an image file, such as a .JPEG or a .GIF file that you want for your document.
4. Click Insert at the bottom of the dialog box. Soon the image will appear somewhere on the document.

**Note:** If a textbox was selected when you inserted the image, the image will stay inside the textbox.

5. Delete the image placeholder you want to replace.
6. Click the new image and drag it to the area where the placeholder was.
7. Resize the image to fit in the area. Here is how to resize an image:
  - a. Click to select the image. Black square dots will appear around the image.

- 
- b. Click a corner dot and drag it away from the image to make the image larger, or toward the image to make it smaller.

**Note:** Dragging any other dot on the image will distort it.

8. Select the image and use the arrow keys to move it into position. You can hold the Shift key while using the arrow keys to move the image in smaller increments.

Now you can work on the rest of the document.

### **Updating table of contents**

To update the table of contents, go to Tools | Reference | Generate, or Press Ctrl + F9. A dialog box will appear. Check "Build hyperlinks" and then press ok. Your table of contents will automatically be updated.

# *Frequently Asked Questions*

Read this section to avoid unnecessary delays as you start working with the OfficeReady browser and templates.

Is the OfficeReady browser the only access to the templates?

No. You can access the templates directly by navigating to their folders, but the OfficeReady browser makes it much easier to see the templates that are available and open them.

When I save a template file as a document, does it appear in the browser?

No. When you open a template, you are really starting a new working document. It is not a version of the template. The application will prompt you to give the document a new filename and select a location to save it in. The new filename should be descriptive so you can recognize it later. Choose a location that is easy to find, such as My Documents.

Where can I find the OfficeReady templates on my hard drive?

The OfficeReady templates are installed at the following location (unless you changed the location at the time of installation):

C:\Program Files\OfficeReady Business Plan\Templates\

How can I get more templates for use with OfficeReady?

You can get more templates by installing template packs that are available by clicking Get More Templates on the OfficeReady browser toolbar. This opens a web page where you will find a wide variety of downloadable template packs including free sample packs.

Are my existing templates overwritten when I install a template pack?

Usually, no; however, if you are installing a new version of a template pack that includes updated templates, a message will appear with an option to overwrite the old ones.

## How can I learn more about OfficeReady?

You can access additional information about OfficeReady and how to use it by clicking Help on the OfficeReady browser toolbar. This will open a menu. Click Table of Contents for a list of topics, including a Frequently Asked Questions page.

## Where can I find more resources?

Additional resources are available by clicking Tools in the OfficeReady browser toolbar. You can also get more information and tools by clicking Get More Templates on the OfficeReady template browser toolbar where you can access additional templates and Template packs such as Home Essentials and Business Essentials. You will even find some free sample template packs.

Click Word on the Web to open a website with Word help and support. Here you will find additional Frequently Asked Questions and explanations for making your work with templates quick and easy.

Click View on the browser toolbar to customize OfficeReady. You can select options for listing templates as files or thumbnails and for displaying larger preview images of the templates.

You can also drag and drop your favorite templates into the My Favorites folder in the OfficeReady browser.

# *Writing your Business Plan*

## Preface

Whether you are already in business, starting a business, or operating a non-profit or charitable organization, one key to success is planning. Starting with a good business plan can dramatically increase your odds of success. This guide and the accompanying templates will help you with some basic principles to make a great business plan that will serve as a blueprint throughout the life of your business. You will have a clear plan that shows how you thought through your business, set reasonable goals and objectives, and prioritized the most important and anticipated problems. Your business plan will also help you to obtain capital from lenders and venture capitalists, who usually require well-written and thorough business plans to consider investing.

One note about terminology:

MS Office, including Excel and Word use original terms for document types:

- n Excel files are called workbooks
- n Individual pages of workbooks are called worksheets
- n Templates are Excel workbooks or Word files that have been pre-formatted and include formulas, text, and styles that help you quickly generate great looking and well organized documents.

## About the author

Michael P. Griffin is a professor in the Accounting and Finance Department, Charlton College of Business, University of Massachusetts Dartmouth. Mr. Griffin has also held positions in the financial services field. He is the author of many books on business planning, accounting, and finance and has an active consulting practice. He has developed a variety of business software via his association with KMT Software, TemplateZone and a host of business book publishers. Griffin is a graduate of Providence College and has an MBA from Bryant University, Smithfield, Rhode Island. He is a Certified Management Accountant, Certified Financial Manager, and a Chartered Financial Consultant.



# *Chapter One – You need a Business Plan*

Peter Drucker, the management guru, explained the central role of planning many years ago. Professor Drucker expressed it as follows: "Planning what is our business, planning what will it be, and planning what should it be have to be integrated.... Everything that is 'planned' becomes immediate work and commitment". Planning is generally recognized as the first of four basic and essential managerial tasks (planning, organizing, directing, and controlling). With books and related software and with business school courses and seminars that emphasize planning, it is certain that there is nearly universal agreement that planning is essential for business success. (Although I know some successful entrepreneurs who brag that they won't be constrained by planning; or policies and procedures – for that matter!) Planning is a good management practice and companies that don't plan are not as effectively managed as they could be. New ventures need planning to increase the odds of success.

So you must think about planning, let the plans swirl around in your mind and then the document that planning by writing your business plan. And there is more to developing business plans than trying to gain financing. Too often, entrepreneurs write business plans only to satisfy potential investors, but that is a mistake. Any business can benefit from a business plan. It is a plan for success. A friend, (my former high school baseball coach) who retired recently, is starting a summer camp for disadvantaged girls. His first step: write a business plan that stakeholders can embrace. His plan will be a critical guide for setting up operations, acquiring land, assembling a team, financing the venture, and marketing the camp.

Even if you are already established in business, a good business plan can help you chart a new course. It can help you think through what it will take to change course or add new product lines.

The business plan embodies a set of assumptions about a perceived opportunity, how the opportunity will be pursued and what to expect as things play out.

A well-developed business plan should accomplish the following:

- n communicate purpose
- n build commitment
- n ensure consistent decisions
- n promote effective and efficient allocation of resources

- n help to establish performance criteria and benchmarks for success
- n explain how strategies will be implemented
- n detail how the investment will be harvested
- n establish a business model

A business plan is an important link between strategy and implementation and the critical elements of a business plan provide some structure that allows you to study, analyze and “play with” your business concept. A business plan is a model of your venture and as such it allows you to shape and reshape and to experiment with “what-if” scenarios.

Preparing a good business plan is a learning process. It requires you to think about your business to:

- n evaluate and analyze all aspects of your business
- n think about the background of your management team
- n think about markets and your customers
- n examine your products, services, and marketing to meet the needs of your customers
- n document production and operations management
- n project your financial standing and cash needs

This guide is part of a package that includes professionally designed templates to help you with your business plan. Use this package to help you get started on the process of creating a clear and concise document that captures the attention of your readers and answers their questions.

The first few sections of this book provide tips on writing. Use the Getting Started Checklist, and read Chapter Three - Business Plan Writing Tips before you begin.

# *Chapter Two – Before you get started*

Don't let the idea of writing a business plan intimidate you. You may just need to know where to start. Take the time to learn the basics of a good business plan, and you will find that you can do it. Use this book to help you understand what a business plan is and how to start writing it.

You might want to make your business plan a collaborative effort. Think about your areas of expertise, and start gathering information. Call on your key managers and advisors for input. This will help with a better business plan, and it will bring your team together for a common vision and mission for your plan.

Use information you already have about your company to get started:

- n information you have only thought about or talked about
- n memos
- n letters
- n emails
- n accounting and finance reports
- n marketing plans
- n tax returns
- n photographs

Organize, analyze, and summarize it for your business plan.

With your data sources in place, you can begin writing. Follow the business plan Word template included with this template pack. You might prefer to start with the detailed sections such as Organization, Market Analysis, or Financial Plan before you write the Executive Summary. Work on areas you are comfortable with first to help build momentum.

You should also familiarize yourself with the Business Plan Word Template and the Excel workbooks. Appendix C - The Excel Workbooks, provides an explanation of each Excel workbook and how to use those workbooks.

# Chapter Three - Business Plan Writing Tips

As you begin writing, keep in mind that every business plan is unique, just as every business is unique. Find a style that works for you and your readers, and stick with it. Work on sections you know best, and delegate other sections. Remember, writing a good business plan is more of an art than a science. It must meet the needs of its readers. Your goal should be to leave your readers with very few questions. They should be able to make informed decisions about your business after reading your business plan.

Also keep in mind that your business plan is a selling tool and a feasibility study. It should communicate that you believe it is achievable and that your company will succeed. It should include your vision, your mission, and your dreams.

## Write, edit, and re-write

Plan to take the time and effort to prepare. Do your homework. Your business plan should be the result of many hours of thinking, analyzing, researching, writing, and re-writing. You can make your business plan like a résumé, where you have a master version that you edit for each employer. You can write a master business plan with all possible data you can think of, and be able to edit it for each type of reader (lender, investor, customer, the press). You should go through a circular process of writing, editing, and re-writing until your business plan meets the needs of each reader.

Keep revising. Very few people can write a good business plan on the first try. It usually takes several drafts to get it right. Write the first draft knowing that better ways to put things will come later. Then put it aside for a while. Take a fresh look at it and make changes. You will see flaws that were not obvious before, and you will think of better ways to convey your plans. Rearrange and edit as you see fit. Print the second draft, and have someone who understands business read it. Get their input and revise your plan. Keep at this process until you have it right. Remember, you only get one chance to make a good impression.

## Clarity, conciseness, and coherence

As you revise your business plan, think of the three Cs: clarity, conciseness, and coherence. Keep it simple and straightforward. Think of your busiest reader, who just wants to get the information, make a decision, and move on. Weed out unnecessary redundancies, phrases, and clichés. For instance, you might think you have a creative sentence with lots of clarifying phrases:

We have an idea to earn a substantial profit in the burgeoning home entertainment industry by making it more affordable and more convenient for the average home entertainment buff to rent a wide variety of top quality box office movies at home on the Internet without driving anywhere.

But you can use fewer words to say more with better clarity and with more appeal:

Our plan is to provide a wide range of high quality movie rentals conveniently and at low cost online.

Your readers want to know what you have to say without having to think about it. They want to be able to go from section to section to get information. Try not to make them read the entire business plan to find out what they want to know.

A coherent business plan flows well and follows good logic. The sentences follow and link together. Paragraphs include clean transitions. Coherent writing leads the reader through your thoughts and ideas. Think of your business plan as a guided tour of your business model. As you revise your business plan, look at how your sentences fit together and flow to make complete unified paragraphs. Then look at how your paragraphs fit together and flow.

Good writing can make the difference to your readers, who will not take the time and effort to figure out what you are trying to say. They will put your business plan aside if the next one is easier to read and follow.

## Writing for your reader

Analyzing your audience is critical to the success of your business plan. Think about your reader. Ask yourself what your reader wants to know. Anticipate your reader's questions and answer them. Use the following checklist to analyze your audience:

- n What is the purpose of your business plan? (To get funding, to serve as an internal planning document, to serve as a blueprint for your business, to cover all of the above)
- n How convincing is your business plan? (Would you invest?)
- n How familiar are your readers with your company before and after they read your business plan?
- n Who are the primary and secondary audiences? (Primary audience is the investor, lender, or stakeholder for whom you are writing the business plan. Secondary audience is other people such as your company officers and employees who will use it to learn of your business plans and goals.)
- n What kinds of information do your readers need? (How much money will they make? How stable will it be? How much will it cost? How long will it take to break even? Why should they work with you? How will the competition react? How much competition is there? What are the legal ramifications of being a part of your business? How unique is your product or service? How difficult is it to do what you do? Who has power to make decisions?)
- n What supplementary information, such as tables, worksheets, and charts, can you include to help your case?
- n Are you overstating your case in such a way that the reader will become defensive?
- n What information might the reader want in an appendix?
- n How objective is your business plan? Will your readers become skeptical?
- n What is your business? Your business plan should tell a compelling story of the value of your business through your mission statement, descriptions of operations, products, services, management team, and labor force. You have to sell your business to your potential investors. They have to believe that your potential customers want what you are offering. If you can't sell your business to your investors, how can you expect to sell your product or service to your customers?
- n What is your exit strategy? When are you leaving the business? Are you looking to start the business and sell out? Do you plan to grow the company for a few years first?
- n How many other investors and stakeholders are involved? Are you spreading the risk among a group of investors (bankers, angels (friends or relatives that invest only because they know you), partners, limited partners, or suppliers)?

## Writing for management, employees, and prospective employees

A good business plan helps managers plan, organize, direct, and control. It triggers the management planning process. It helps managers to consider the vision and mission of the company along with goals and strategies to achieve the mission.

A good business plan also helps management to organize resources and use them effectively. It works like a blueprint to help management get the job done and monitor (control) the progress of specific objectives. If your primary reason for preparing a business plan is to have an internal process document, you can be more forthright about strengths and weaknesses. You are free to document weaknesses that need attention (areas to avoid in an external document). Your internal business plan might also include extended sections for more specific and tactical goals, objectives, and tasks.

Your business plan can serve as an effective communication tool for your vision, mission, goals, strategies, and projected finances. You might even use it to introduce your business model to prospective employees.

## Writing for Investors

Keep in mind that if your business plan is to be reviewed by potential investors, it will receive a great deal of scrutiny. Each reader of your plan will do so with a healthy dose of skepticism. The document must inspire confidence. Readers (investors) of business plans are looking for conservative assumptions and reliable information upon which to base their investment decisions. When writing for investors be certain to:

- n Provide a complete picture without overloading the reader with unnecessary information
- n Provide key assumptions upon which the plan is based
- n Identify critical success factors that need to be managed for the venture to be successful
- n Detail the proof that you understand the technology, market, risks, and potential rewards of the venture
- n Demonstrate that you can implement the plan, assemble the team, and that the team can function effectively and are committed to making the venture a success

When you write for investors, including venture capitalist, be deliberate in your style. In other words, let your writing show that you are very purposeful, sure of yourself. At the same time, you need to view the business plan as a living document, one that will need to be updated often. You will run your company in a flexible and emergent style; keeping your eyes open for new opportunities; always sharing and reshaping your venture. However, your writing must make it seem as though you are following a path that is clear with definite goals and objectives along the way; goals and objectives that you have deliberately set in your business plan.

## Professional writing quality

Writing quality is imperative to a successful business plan. Your readers expect it to be your best work; organization, writing style, grammar, spelling, and format are critical in showing that you are capable of communicating in the business and financial world. Use the templates that accompany this guide for help with formatting and organization, but take care to prepare professional-quality content. Here are some tips for quality writing:

- n Keep your writing simple. Avoid frustrating your readers by trying to make the ordinary seem extraordinary.
- n Avoid using jargon unless you know it will help your readers to understand you. As a rule, jargon comes across as pompous, but when situations require it, use it correctly, and mean it. Never put jargon in quotation marks. This can come across as sarcastic. The use of jargon is very tempting, especially in a high tech venture.
- n Avoid using sarcasm, humor, or profanity. Such language in a business plan is out of place at best, easily misunderstood, and insulting at worst.
- n Avoid using passive sentences. Take credit for your work. For instance, make sure your sentences say that you accomplished something rather than that something was accomplished. Active sentences are shorter, clearer, and livelier.
- n Use conservative business language that is free from errors. Always have someone else proofread for you. You will not be able to see some errors because your brain skips over certain words and phrases after you have read them a few times.



## Making it look good

Appearance and presentation are important; they provide the first impression, and they make statements about you and your company. Well-formed pages are also easier to read. Remember that your business plan might be the reader's first exposure to your business.

Use the formatting and page styles provided in the accompanying templates to help with a professional appearance, but don't be afraid to make changes if you can improve on the appearance. Look at every page for good use of space. Make sure your charts, tables, white space, and formatting look good and fit together. Use text between graphics to explain them. Tell your reader what they mean to your business.

Avoid long paragraphs and crowded pages that can make a page look long and arduous. Make them look easy to read. Use bullets, photographs, illustrations, graphs, and charts to improve readability. Your reader will appreciate your efforts in making your business plan pleasant to read.

## Points of style checklist

- n Use high quality paper.
- n Use a good LaserJet or inkjet printer.
- n Balance each page between text and graphics.
- n Make sure the numbers are easy to find.
- n Use photographs, illustrations, and bullet lists effectively.
- n Use white space effectively. Keep the margins consistent.
- n Include an appealing cover.
- n Use professional binding.

## The cover page

Your cover page should look professional. It can include a logo, slogan, picture, or text to introduce your company. Include the business address, telephone numbers, fax number, website URL, contact name, and email address. Remember that it is the first thing your readers will see. Give them good expectations as to what is inside.

# *Chapter Four – Business Plans for Various Types of Businesses*

You might have trouble placing your company into a single category because, after all, your business is unique; however, explaining the nature of your business is important since your readers will have specific concerns. The following subsections list issues to consider as you write. Read all of them to be sure you cover everything that pertains to your unique company.

Note that some of the templates that accompany this guide are for specific types of businesses. Choose one that comes close, and tailor it to your business.

## **Technology**

If your business is in technology, keep in mind the following:

- n Emphasize the high intellectual content of your company. Smart business people know that intellectual content is difficult to value and to protect. Reassure your readers that you have it.
- n Address obsolescence. Explain how you will manage it. Show how you see it as an opportunity rather than a threat.
- n Address your plans to find and retain effective management and key personnel.
- n Address your capability to manage the expected changes to your business structure that come with commercialization of innovations.
- n Address your plans for investing in research and development. Be sure to cover how you plan to deal with the possibility that R&D costs can exceed expected cash flows and revenues for years.
- n Show how your management information systems will cope with the demands of a technology enterprise.
- n Show how your company will be able to survive rapid growth.

## **Manufacturing**

If your business is in manufacturing, keep in mind the following:

- n Explain what you plan to outsource. Include who will perform the final testing and assembly.
- n Forecast your unit output capabilities on a quarterly basis.
- n Explain your inventory policy including what you use as a basis for establishing inventory levels.
- n Forecast and reconcile your quarterly shipping and inventory levels.

- n Explain your outlook on raw materials. List suppliers, terms, advantages, disadvantages, and anticipated changes.
- n Describe how your physical plant and equipment relate to the production schedule. For each location, list uses, current value, applicable financing, layout, advantages or disadvantages, and anticipated changes. Also include a separate list of idle facilities and plans for them.
- n Describe your labor needs. List each job category, its projected need, expected turnover, personnel availability, compensation and training requirements, and expected union involvement.
- n For each product or product line, include sales price, direct and indirect costs, and variable and fixed costs to help determine profitability and the break-even point.
- n List opportunities to reduce costs, increase flexibility, or improve the company's production process.

### Service

If your business is in service, keep in mind the following:

- n Plot the correspondence between your capacity and your sales forecasts at least quarterly.
- n Show the costs of changing capacity temporarily (for instance, to cover seasonal demand fluctuations) or permanently.
- n List opportunities for increasing capacity (for instance, show how increasing hours of operation or employee skill levels can increase capacity).
- n Show how your pricing policy maximizes profit.

## Retail

If your business is in retail, keep in mind the following:

- n How does your location suit your overall strategy? For each location, note advantages or disadvantages, including traffic patterns, parking, character of locale, floor space, appearance, and cost.
- n How well does your company's image support your business strategy? Make sure that location, merchandise quality, manner of display, service, credit policy, and pricing are consistent with your business strategy.
- n Explain your pricing policies. Keep them consistent with your business strategy.
- n Explain your policy on customer service. What services are necessary to compete in your market? List the projected costs of customer service. Compare your policies with those of your competition.
- n Explain your approach to advertising. What form of advertising will you use? What are the expected costs and results? How does it compare with competition?
- n Explain your inventory policy. What is your basis for establishing inventory levels? How will you approach buying to match strategy, customer tastes, and demand?
- n Address the qualities of your suppliers. List their names, locations, products, prices, discounts, credit terms, advantages, disadvantages, and anticipated changes.

## New Venture

Although a new venture is not a separate category of business type, it deserves a special mention. Many business plans are prepared for new and early stage companies and each presents some challenges. There are no historical numbers in place and no strategies to carry on in new ventures. Revenue projections cannot be based on prior experiences but must be derived from conjecture, forecasting models, comparisons to similar ventures, and from polling of experts (such as sales people, board members, etc).

The credibility and accuracy of a new venture business plan is always in question. Critical assumptions must be carefully crafted. Product development timelines, the size of the market, the subject venture's portion of the market, prices and labor availability are all difficult to project. As a consequence, new venture business plans consume a greater investment in time and money than the plans of businesses with established track records.

In any event, a business plan for a new venture must inspire confidence by revealing carefully thought out assumptions and projections. A clear, concise, and objective document allows an investor to perform due diligence.

# Chapter Five Executive Summary

The executive summary comes first, but you might want to write it last. It is a complete but short overview of your business plan. Its purpose is to tell your reader what is in your business plan and what you want from it, but also to convince your reader to keep reading. It is one of the most important sections because it is the first, and maybe the only, part your readers will read.

Keep your executive summary brief but clear. Balance economy of words with enough content to get the message across. The trick to writing a good executive summary is to make every word count. Once you get a first draft, go over it word by word, and consider the value of each word.

## Type of business

The executive summary tells what business you are in. It should include the SIC code (explained in the Standard Industrial Classification System Explained section later) if you know it. It should indicate whether you are starting up or operating an existing business.

## Business summary

The executive summary includes a brief description of your company. It explains the company's level of development: start-up, expansion, new division of a larger business, or launching a new product or service. It also indicates the organization: sole proprietorship, partnership, or corporation. It briefly describes the company's historical performance, if applicable.

## Business Summary Example:

*Outsiders Inc., founded in 1978 by a group of investors in Anytown, Oregon, specialized in selection of competitively priced backpacking, mountaineering, and hiking clothing and equipment. Today it has 7 locations in Oregon and Washington. The company has been profitable for most of its existence, and is now moving toward an Internet-only presence called Outsiders.com.*

*Outsiders.com will be a prominent internet site for rock climbing, backpacking, and mountaineering enthusiasts. It will provide commerce, community, and content as the first integrated outdoor website on the internet. Customers will be able to plan trips, reserve permits, purchase gear, get important tips on specific locations, chat with other enthusiasts, and more.*

## Business summary checklist

Use the following checklist as you write your business summary. Be sure to include as many of these elements as possible.

- n Names:
  - o Legal or Corporate name
  - o Doing Business As (DBA) name
  - o Brand names
  - o Subsidiary company names
- n Location
  - o Company headquarters
  - o Operations
  - o Branches
  - o Website URL
- n Legal Forms
  - o Legal form of business (propriety, partnership, corporation), including the state in which it is incorporated, if applicable
- n Lifecycle
  - o Level of development (start-up, existing business, expanding)
  - o Brief history, including when the company was founded and by whom
- n Management
  - o Name of CEO or president
  - o Names of other key personnel
- n Financial Objectives

The executive summary includes clearly stated sales and profitability objectives and explanations of your plans to meet them. You should project financial objectives for five years. You might state your goals in terms of cash flow using financial ratios, growth rates of sales, assets, profits, or by using relationships of cost and expenses.

Here is an example:

*Outsiders.com will earn \$23 million in revenue by the fifth year based on the following assumptions:*

- n *5% increase in visitors per month*
- n *6 page views per new visitor*
- n *5% conversion rate of new visitors*

- n \$80 per transaction for new visitors
- n 25% repeat visitors
- n 5% conversion rate of repeat visitors
- n \$130 per transaction for repeat visitors
- n 15 page views per repeat visitor
- n \$90 ad revenue per 1000 page views

## Management overview

One of your most important assets can be the people who run your business. Include a summary of your management expertise in your executive summary. Be sure to describe why your management stacks the odds of success in your favor. Reassure your readers that your management team is qualified to reach your financial goals.

Here is an example:

*The Best Golf Clubs, Inc. (TBGC) has been successful over the past 5 years mainly due to its stable team of seasoned professional managers. The CFO and the Vice President of Manufacturing bring track records that include operating businesses that went public. Mary Smith, the CEO, who had been working in senior management of a Fortune 500 company, took over operating control after Jack decided to devote his efforts to new product development. Earlier, Mary had helped establish the patented TBGC manufacturing process.*

*Now, with better structuring, the organization is accustomed to meeting monthly commitments and staying within budgets while maintaining the informal culture that makes TBGC, Inc. a great place to work.*

## Products and services

This is where you get to sell your product to your reader. Use your best sales techniques, but keep it clear and concise. Briefly describe your product or service, and state how it is unique, or explain why it can succeed if it is not unique.

Here is an example:

*The Nature & Bird Center occupies a unique niche as a nature center with a retail store. The franchisees and their retail staff are experts on bird feeding and nature enthusiasts trained to teach the hobby to customers. The Nature & Bird shopping experience includes an environment where customers can see and learn to identify birds from their local areas and get the best products, service, and advice in the industry.*

## Requesting funds

Your Executive Summary should include a formal request for funding if that is what you want from your reader. Be specific in your request with a total figure, and explain why you need that amount. Be sure to indicate whether the money you are raising is in the form of equity or debt. Remember, some investment companies avoid making equity investments while others specialize in them.

For debt financing, list all available collateral. For equity financing, list the percentages of ownership you are prepared to offer.

Here are some additional questions to consider for this section:

- n How much money do you need, and when do you need it?
- n How much of money are you asking for from the investors or lenders? What are your terms and security agreements? What are you offering in interest and repayment schedule?
- n What percentage of the company are you offering to equity investors if any? What is your proposed return on investment, and how do you plan to repay the investor (buy-back, public offering, and sale)?

Here is an example:

*Our company is seeking \$750,000 for proposed construction and \$250,000 for equipment to complete the \$1 million expansion project. Half of this money is to be raised via bank loans with equipment and accounts receivable as collateral. The other half is to be raised via equity from stock offered to senior management, key employees, and local investors.*



## Exit strategy

Your executive summary should also include an exit strategy detailing how you plan to leave the business: by selling it or by merging with another company. Most investors want to realize a gain over a medium term horizon. Be careful not to underestimate the time it takes to sell or have the company go public. Most investors should be willing to wait three years for payoff. If you are borrowing money, describe how and when you plan to pay it off.


Here is an example:

*We plan to sell stock to our employees at a substantial discount for incentives and to provide for growth capital. This will allow management to take the company public within 5 years. We are forecasting our total corporate value at \$50 million by 2006. This translates to better than 10x return on this stock.*

## One Page Executive Summary

A one page Executive Summary is often requested by investors (Venture Capital and Angel Investors) before they will read or even accept a full-blown Executive Summary. OfficeReady Business Plans includes a one page template for an Executive Summary. It includes the following:

- n Company contact information
- n Management
- n Industry
- n Number of employees
- n Banking relationships
- n Auditor
- n Lawyer
- n Financing requested
- n Use of funds
- n Investors
- n Business model
- n Products/services
- n Technologies
- n Target markets
- n Sales channels
- n Competition
- n Outlook

- 
- n Financial projections

## Executive summary checklist

After writing the executive summary, review it for the following characteristics:

- n Conciseness: Make sure it takes one or two minutes to tell someone about your business.
- n Excitement: Make sure your reader can feel your excitement for success. Make the reader want to dig into the details.
- n Clarity: Make sure your text is easy to understand. Leave out extra words and complicated phrases.
- n Completeness: Make sure you show the whole picture of your company. Your reader should know what you do and what you want without the details.
- n Highlights: Make sure you emphasize the company purpose, products, services, markets, and financial strengths.
- n Relevance: Make sure you cover what is important to the reader.

# Chapter Six - Company Background

The company background follows the executive summary to describe what you do, how you do it, where the company has been, where it is going, and who the key players are. You can also include your mission statement to define your company's purpose and to help guide your direction moving forward.

## Business history

Start your company background with a brief history. Tell when your product or service was introduced and touch on your key milestones or accomplishments. Keep this section brief. It is only for the interest of your reader, who is really only concerned with the future. Here is a list for your business history:

- n the foundation date of your company and the names of the founders
- n a list and summary of major milestones, stages, or accomplishments
- n significant changes or challenges the company has faced
- n other developmental indicators such as sales levels, net worth, market share, assets, and company valuation
- n mission statement

## Growth and financial objectives

Start your Growth and Objectives section with a short list of your goals and plans for the next year or so. Your list will vary according to your mission statement and where you are in your company's life cycle. For example, a start-up company could set a short-term goal of profitability by a certain time, or you might make it a long-term goal to build a competitive business model by the end of the year.

State your growth and financial objectives as clearly as possible. Start with a five-year projected sales chart followed by a sales table by product line. Explain how you plan to keep financial metrics and use a Financial Highlights table.

Here is an example:

*We base our growth objectives on past experience and industry forecasts. Here is a summary of sales growth objectives and assumptions:*

*While changing our direction toward virtual retailing, we expect the company to regain profitability within two to three years. This is due to expected costs for capital improvement to accommodate the e-commerce infrastructure and increased marketing costs associated with the change to a storefront website.*

### Legal structure and ownership

Use the Legal Structure and Ownership section to describe the legal organization of your company, whether it is a sole proprietorship, a partnership, or a corporation. You should have chosen your legal structure in the early stages of your company. Explain the reasons for your choice of structure.

Here are some examples:

*Six stockholders own the company as a limited liability corporation in Oregon. This provides us significant tax advantages, and it carries the transferability restriction limitation. Thus, our ownership interests can be traded only with certain restrictions.*

Legal Structure and Ownership example 2:

*TBGC, Inc. is incorporated in South Carolina. Mark Edwards and his family are the sole shareholders with 50,000 shares while our charter authorizes 100,000 shares of Class A common stock.*

Legal Structure and Ownership example 3:

*Wild Bird Group is a subchapter S corporation. Marty and Nancy Bruneau own 100% of the stock.*

### Company location and facilities

Your business location (or locations) can affect profitability, especially for retail stores and restaurants. It is important to treat this subject correctly to make your case for your readers. Be sure to cover how access, exposure, and traffic help you to attract customers, or explain why it is not important to your particular business. For instance, location is not as important to a company that does business only via the internet. Identify your company address, describe the type of facility it is, and explain all relevant zoning issues. You should also state whether you own the location, rent it, or lease it, and describe how you pay for it. Be sure to explain the costs and address how they affect profitability. Include photographs if they help to tell your story.

You should also address future space requirements and show how they might require you to expand or move.

Here is an example:

*The Wild Bird Group operates from the home of Marty and Nancy Bruneau. Once the Bruneaus purchase the FTB, Inc. franchise, the franchiser will assist them in selecting a retail site. The franchiser considers demographic factors, traffic patterns, parking facilities, neighborhood character, proximity to other businesses, purchase price or rental costs, size and appearance factors, and other characteristics to help choose the right location. They also provide specifications and advice for layout, decor, equipment, furnishings, and signs.*

Company Location and Facilities example 2:

*Hand Me Down Sports occupies 2,500 square feet at the Crossroads Plaza in Anytown, Indiana, a city of about 25,000. Anytown has three private prep schools with active sports programs that show interest in Hand Me Down Sports.*

*The Crossroads Plaza is an attractive, well-exposed strip mall with 2000 cars per hour passing by. It maintains a high customer volume at 250 per hour with other popular businesses such as Subway, Tri-town Cleaners, Tile World, Bagels West, and Mary Finley's Nails Express. It also has a McDonald's in the parking lot.*

*Hand Me Down Sports has three cash registers on separate counters, wall-to-wall carpeting, a variety of merchandizing fixtures, ample shelving, and professionally designed lighting. The storefront includes two large windows with theft-proof glass for seasonal displays. The building includes a 200-square foot storeroom for receiving and storage with a receiving dock at the rear. The store and its contents are also protected by an alarm system monitored by the Anytown police.*

*The store will be open from 10:00 am to 9:00 pm Monday through Friday, 9:00 am to 6:00 pm on Saturday, and 12:00 noon to 5:00 pm on Sunday. The store is closed on major holidays such as Christmas Day and Independence Day.*

### Location and facilities checklist for start-up businesses

Here is a list of questions to answer in the Location and Facilities section if you are starting a new business:

- n What type of location do you need?
- n What kind of space do you need?

- n Why is the location valuable?
- n Why is the building valuable?
- n How accessible is the location?

### Plans for financing

An investor usually wants to see a defined financing proposal that shows capital needs and proposed equity or debt agreements. Be sure to do the following:

- n list collateral or personal guarantees you are offering
- n refer to start-up costs as outlined in the appendix, if applicable
- n explain how you plan to use the proceeds from the financing

A good way to prepare this section is to divide it into steps:

### Preparing a financing proposal checklist

- n State the specific amount of funding required for your needs. Be careful to use exact figures. Ranges can confuse your readers, who might wonder if your business plan lacks careful analysis.
- n Identify how you want to set up the financing: debt versus equity. Break it down in dollars and percentages.
- n Explain how you plan to use the money. Potential investors and lenders will want to know exactly where their money is going. Provide descriptions, pictures, and other details on assets you are buying. You can use an appendix for exhaustive details, but refer to them here.
- n Provide a maturity schedule of debt financing. State how much is short-term or long-term. Provide a proposed amortization schedule in the appendix and refer to it here.
- n List all proposed collateral, and describe it in detail, including estimated market value.

# Chapter Seven - Organization

Use the Organization section to introduce your entire team to your readers, who believe that the quality of your management team is a key to your success. Be sure to show how your team will make this venture a success.

Quality in management means experience. Think of this section as a résumé. Explain the work experience, relevant education, and training of each member of your senior management team. Emphasize their achievements and show how their skills will give the company a competitive advantage.

The Organization section should also include a list of important positions yet to be filled. Explain your plans for filling them. Describe your process for recruiting.

Here is an example:

*Ralph Adams, 57, is Chairman of the Board and founder of R2X Golf with experience as a manufacturing engineer with a maker of professional quality golf clubs and accessories.*

*Mary Adams, 28, is Vice Chairman and the daughter of Ralph Adams. She holds an MBA from Stanford University and an undergraduate degree from Harvard. She worked as Director of Manufacturing at R2X Golf from 1991 until 1993, when she accepted a position as a division manager for W.R. Grace & Company. In 1996, she returned to R2X Golf.*

*Fred Phillips, 33, is Chief Financial Officer. He holds a master's degree in finance from Boston College, and has been with R2X Golf for two years. Prior to joining R2X Golf, Fred was treasurer of Grinnell Fire Protection. He also worked as golf pro in the Anytown area for 5 years.*

*Calvin Horton CPA, 45, is the Controller. He holds a degree from Kentucky State University. He worked for Andersen consulting for 12 years before joining R2X Golf.*

*Hank Franklin, 40, is Vice President of Manufacturing. He worked at Southern Manufacturing for 15 years in a variety of production and operations management positions. He is ISO 9000 certified and lectures at colleges, universities, and executive development programs on the topics of continuous improvement, quality control, and activity-based management.*

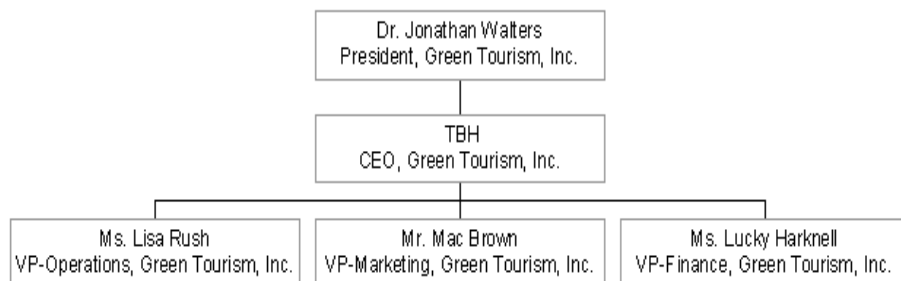
*Alice Smith, 37, is Vice President of Marketing. She holds a B.S. degree in Marketing from the University of North Carolina. Prior to joining R2X Golf, she was Manager of Sales for a golf ball and golf accessories manufacturer.*

### Team member information checklist

The following information should be included in your Organization section:

- n A summary of résumés or brief biographical sketches of senior management and owners. List education, skills, and experience, including past duties. Focus on important accomplishments. You should include a résumé for each member of the team in an appendix.
- n A list of functional responsibilities. Explain the responsibilities of each manager. Include anticipated changes.
- n Your management philosophy.
- n A list of the board of directors, including a brief description of each member's affiliations and experience. If the board has not yet been formed, (as in a new venture) discuss the plans for formation. If the company is incorporated, identify the Chairman of the Board and all the top officers, including the President, the Chief Executive Officer, and other top managers.
- n A list of advisory bodies or significant committees, such as an audit committee.

Use an organizational chart (see the figure below) to show your reader the structure of the company. You can insert an organizational chart into a Word document by using the Insert • Graphics • Draw Picture command.



The figure above graphically shows the organization of a company.

### Other valuable employees

You might include valuable employees who are not members of the senior management team, such as your creative spark, your technical developer, or your top sales closer. Address your program for retaining them.





## Principal stockholders

The Organization section is a good place to list your principal stockholders. Explain who owns the company, and how new investors might affect them. Include a chart that depicts the stockholders before and after you make the proposed changes to stock ownership. Potential investors might like to know who has already invested, what their contributions are, and what types of investments they have made.

# Chapter Eight - Market Analysis

The market analysis is one of the most important parts of your business plan. You need a clear sense of the market before you can show your ability to compete. This section can start with a summary, or it can go right into the industry analysis. A summary is often useful for readers who are new to the market. It should give a brief overview of the characteristics of the market, its growth prospects, and your target customers.

If the business plan is primarily for internal planning then, Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis could serve as the summary. It will get your management to think of creative solutions. It provides a look at internal factors to gauge the company's ability to compete in the outside world.

## Industry analysis

The challenge for the Industry Analysis section is to write it for all of your readers to understand. You might even have to define the term industry, which is often misunderstood in business plans. Here, an industry consists of companies that produce or supply products or services that are related and the environments in which they work.

You probably already have some industry data that you can gather and organize. For example, if you subscribe to trade and industry journals, review them for qualitative information, trends, analysis, and growth expectations for the industry. If you have some industry articles or relevant websites, use them.

Here are some tips on gathering industry data:

- Contact an appropriate trade association. Visit a library and review Gale's Encyclopedia of Associations published by Gale Research.
- Attend industry trade shows and obtain publications, white papers, and special reports that provide fresh industry data and analysis.
- Review Federal Government sources such as the following:
  - American Statistics Index (ASI), Congressional Information Service, a comprehensive index of U.S. government statistical publications available at many libraries
  - Census of Population: General Population Characteristics: US Summary, U.S. Department of Commerce, Bureau of Census, and Demographic data organized by Metropolitan Statistical Area (MSA). This publication might also be useful for other planning such as your customer profile, your market analysis, sales forecasting, and promotional strategies.
  - County Business Patterns, U.S. Department of Commerce, Bureau of Census. This contains data on employment, payroll, and the number of business establishments in the industry.

- o SIC Manual, U.S. Government Printing Office. This is an index of three and four-digit classification codes for U.S. industries.
- o U.S. Industrial Outlook, U.S. Department of Commerce. This contains data and explanations of historical trends and future growth prospects for U.S. industries.
- n Review the following publications:
  - o Census of American Business, Dunn & Bradstreet. This publication provides information on businesses by type of business, sales volume, employee size, and location.
  - o Guide to Consumer Markets, The Conference Board. This publication provides demographic and economic data by Standard Metropolitan Statistical Area (SMSA).
- n Search for industry-related articles on the internet and at the library.
- n Review Predicast Forecast, Predicasts, Inc. This publication provides an index of articles from trade association periodicals, newspapers, financial publications, and special reports often rich with industry and market analysis.
- n Visit your local Small Business Development Center (SBDC), and ask for help (a list of SBDC centers is in the Information Resources section).
- n Check out Hoover's Online ([www.hoovers.com](http://www.hoovers.com)). Hoover's Industry Sectors link includes Industries channel, which consists of 28 sectors that encompass more than 300 industries. Each company in this database is assigned an industry code based on its primary source of revenue. This resource has industry descriptions, analyses, news, industries, snapshots, and company lists.

Once you have gathered your industry data, you can start writing a detailed description of your industry. Present to your readers the current state of the industry and the prospects for the future. Show how industry growth or decline can affect the viability of your business. If the industry is growing, identify factors such as an improved economy, recent technological advances, research breakthroughs, or improved regulations. Discuss the history of your industry so your readers can see the cycles, such as seasonality. Convey an understanding of how the status of your industry affects your potential marketability.

#### Industry description checklist:

Use this checklist to make sure you include all relevant information:

- n Identify the SIC for your company (see the appendix).
- n Identify the primary products and services provided by your industry.
- n Identify the major companies and competitors in your industry.
- n Describe the major economic, competitive, and demographic factors that drive your industry.
- n Describe the life cycle of your industry.
- n Describe the outlook for sales, revenue growth, and profits for your industry.
- n Describe the barriers to entry into your industry.
- n Describe the barriers to growth within your industry.

- n Describe the barriers to exiting from your industry.
- n Explain economic developments that might affect your industry.
- n Explain the roles of innovation and technological change within your industry.
- n Explain how government regulation affects your industry.
- n Discuss financial characteristics of your industry including normal markup, standard credit terms, standard financial ratios (industry averages), and other financial patterns, such as diminishing inventory levels indicated by falling days of inventory.

### Using a table to summarize the industry

You can use a table to help summarize your industry. The example below summarizes recent and future growth in an industry:

| Industry Indicators  | 2 Years Ago | Last Year | This Year | Next Year | Next 5 Years (Average) |
|----------------------|-------------|-----------|-----------|-----------|------------------------|
| Total Revenue        |             |           |           |           |                        |
| Unit Volume          |             |           |           |           |                        |
| Total Employment     |             |           |           |           |                        |
| Industry Growth Rate |             |           |           |           |                        |
| GDP Growth Rate      |             |           |           |           |                        |

### Target market

No company can appeal to everyone, and most focus on target markets, which are subsets of the overall markets. Define your target market using factors such as population, the overall level of business activity, and geographic region. Write a brief summary of your target customers by demographics or by attributes.

### Target market checklist

Here are some questions you should consider when describing your target market:

- n How large is your potential market now? How large has it been? How large can it become?
- n What are the geographic boundaries of your market?
- n How many people are using products like yours?
- n How sensitive is your market to price?
- n What is the potential sales volume in your market?
- n What are the trends in your market?
- n How mature is your market (growing, stable, shrinking)?

## Customer profile

After you describe your target market, you should describe your potential customers. Answer these questions about the people who will buy (or are buying) your product or service:

- n Who will use it?
- n How will they use it?
- n Why will they buy it?

One way to write the customer profile is to organize it by demographics, lifestyles, or interests:

### Demographics:

- n Age range
- n Income range
- n Sex
- n Occupation
- n Marital status
- n Family size
- n Ethnic group
- n Level of education
- n Home ownership

### Lifestyles:

- n Technology-oriented
- n Seeking status or prestige
- n Trendsetter
- n Conservative
- n Liberal
- n Family-oriented
- n Thrill-seeking
- n Sports-oriented

### Interests:

- n Family or life stage
- n Hobbies
- n Sports
- n Publication subscriptions

- n Organizations and affiliations
- n Political affiliations

If the target market is business, then your customer profile should include the following:

- n Industry
- n Sector
- n Years in business
- n Company revenues
- n Number of employees
- n Major competitors and participants

You should also summarize the competitors and participants in your industry, unless you have a new market niche. Here are some questions to answer:


- n How big are your competitors (compared to your company)?
- n How profitable are your competitors?
- n What competitive advantages do you have?
- n What are your competitors' relative strengths and weaknesses?
- n What types of new competitors do you anticipate?

Discuss the current and expected competitive market. Explain how competitive it is. If it is not particularly competitive, explain why. Rate your competitors' market shares, their financial strengths and how their products compare to yours. List the barriers to entry into your market. Explain how easy it is to start in this business. This will help you to demonstrate your role in the market.

### Market segmentation

The Market Segmentation section is a subset of your target market section. It defines the part of your target market (such as region, age, income, or profession) you are after. Are they married, single, or retired? Where do they live? Are they businesses? How does your location affect your target segment? Keep in mind the general notion of market segmentation: you can alter your marketing mix (product, price, place, and promotion) to meet the needs of your potential customers. If you are selling to businesses, describe them. Use their SIC codes (see the appendix). What are their sales volumes? How many employees do they have?

You might also include your current and projected sales and profits by market segment.



## Projected market growth and market share objectives

List your market forecasts, and briefly comment on the social, geographic, and demographic trends that support your market forecasts. Use reports on your industry and other public or private economic data for further support.

If you are projecting sales forecasts using the market size and market share method, support your projections with the data from the workbook. Identify total market sales, and how much your business plans to capture. For example, if the total market sales are \$100 million, and you project \$10 million in sales, your expected market share is ten percent. You can find information on the size of your market from chambers of commerce, marketing consultants, or trade associations. You can find much of this information online.

# Chapter Nine -Products or Services

This chapter is for you to briefly and succinctly describe exactly what you offer your potential customers. This is like your executive summary in that every word counts. As a rule, you get 20 seconds or less to describe each product or service including the benefits. Try to use your customers’ perspective.

Briefly describe the features and benefits of your products or services. Include physical attributes, features, benefits, and product or service life cycles. Be sure to include pictures or other graphics, estimates of weight, material descriptions, and other details. Include attributes of your services, such as logical or conceptual descriptions. Describe how your customers view your products or services.

### Product and service uniqueness

Most new businesses sell products and services that are already available somewhere else with something new or unique. Describe the unique features of your product or service. What makes you different, and why will customers purchase your product or service? You can differentiate your product by the way you deliver it, price it, or package it. This difference must provide a tangible benefit to the buyer. If you have a proprietary advantage, explain it. Is there a quantifiable benefit associated with your product?

You might consider using a table like the one below to summarize the advantages of your product:

|                 | Your Product | Competitor 1 | Competitor 2 |
|-----------------|--------------|--------------|--------------|
| Product Quality |              |              |              |
| Price           |              |              |              |
| Image           |              |              |              |
| Target User     |              |              |              |
| Distribution    |              |              |              |
| Warranty        |              |              |              |
| Promotions      |              |              |              |



## Product and service description checklist

Use this checklist for each product and service that you sell:

- n What does it accomplish?
- n What type of person uses it?
- n How have neutral parties reviewed it?
- n What are the unique design features?
- n What are the proprietary features (trademarks, copyrights)?
- n What need does it fulfill?
- n What is its average life span?
- n How up-to-date is it? Is it state-of-the-art? Does it have potential obsolescence?
- n What is the warranty? Describe the warranty. What does it expressly cover? What does it generally cover? What does it omit?
- n How does it compare by price in the industry?
- n What is included with it (major components only, not too detailed)?
- n What service do you offer with it?

One way to organize this section is to begin with existing products and services and then describe your proposed products and services.

## Future products and services

Your readers will want to know your plans for future products and services since business is always dynamic. Business wants and needs change, and technology causes products and services to become obsolete. You have to show that you embrace change and look for growth via product refinements, product extensions, and new products and services. What are some of the coming attractions? Try to preview your product development plans without giving away too much.

## Competitive comparisons

Compare your company with your competitors' important attributes (quality, price, and image). Here is the place where you want to document your venture's sustainable competitive advantage. A sustainable competitive advantage is an advantage that one firm has relative to competing firms. It usually originates in a core competency – those strengths you have that you utilize to be in business. To be really effective, the sustainable advantage must be:

- n Valuable
- n Rare

- n Inimitable - defying imitation; matchless

There are things about your venture that help reveal the source of Clues as to your sustainable competitive advantage include:

- n customer focus, customer lifetime value
- n superior product quality
- n extensive distribution contracts
- n accumulated brand equity and positive company reputation
- n low cost production techniques
- n patents and copyrights
- n government protected monopoly
- n superior employees and management team

One approach is to write a narrative about each product and service that you sell and how it stands up against the competition. You might include a table:

|                 | Competitor 1 | Competitor 2 | Competitor 3 |
|-----------------|--------------|--------------|--------------|
| Product Quality |              |              |              |
| Price           |              |              |              |
| Image           |              |              |              |
| Target User     |              |              |              |
| Distribution    |              |              |              |
| Warranty        |              |              |              |
| Promotions      |              |              |              |

- n Companies succeed in establishing sustainable competitive advantage (SCA) by combining skills and resources that are unique and enduring. Capital providers and smart potential team members will be looking for evidence of competitive sustainable advantages throughout your business plan but it is often in this section that they really focus on that concept. However, profitability is affected by SCA and certainly long-term profitability is not possible without competitive advantages. It can come from:  
The development of extreme customer intimacy (knowing your customer's needs better than anyone else ever could)
- n Superior Quality
- n Extensive distribution contracts
- n Brand equity
- n Low cost production techniques
- n Intellectual property
- n Government protected markets (monopoly)
- n Superior employees and management team

Finally, you want your business plan to reveal that you have a type of alertness and agility that helps you continue to fine tune your SCA.

## Research and development

Your research and development process is also an important part of your business plan. Show your readers how you will remain competitive by eliminating obsolescence or heavy competition in your market. Detail the steps involved in your research and development process including extensions of products, improvements, and new designs. Discuss how much you spend on R&D and how it might change. Discuss your R&D priorities and how they fit your mission statement. Explain your plans for testing. Here are some points to include:

- n R&D work-to-date, including prototypes , lab results, and product testing results
- n Plans for future R&D
- n Comparisons to your competitors' R&D. How much are they spending compared to you?
- n Patents, trademarks, copyrights, and other forms of intellectual property protection
- n Describe your brand equity:
  - o Brand name awareness. Explain how your brands are easily recognizable and why customers will choose them.
  - o Brand associations. Explain how customers connect personality lifestyle with your brands.
  - o Brand quality. Describe how your customers connect a certain level of quality with your brands.
  - o Brand loyalty. Describe how loyalty reduces product vulnerability, increases visibility, and encourages intermediaries to carry your brand.

Here are some other questions to consider when writing this section:

- n Does the company have full assignment of all the patents, trademarks, and copyrights?
- n Does it have licensing agreements with other companies? Be sure to detail the agreements.

# *Chapter Ten - Manufacturing or Production Plan*

## Production and capacity

The Production and Capacity section describes your facilities and capabilities to produce what you sell. Describe how you plan to increase production and capacity to meet your projected growth plans. Discuss how they compare to those of your competitors.

## Production issues

Describe how you produce your products. If possible, provide a step-by-step process in a list or flowchart. Investors will want to know all significant risks with producing your product. Let them know whether you are adding significant value to the manufacturing process or assembling parts produced by others. Provide a rationale for producing the product rather than outsourcing it. What are your relationships with subcontractors and parts suppliers? What are the potential supply problems?

Describe your operational plan detailing how your business develops and creates products. Pay close attention to operational issues. Your operational plan should address how you will use the capital you are requesting for the following operational issues:

## Manufacturing process and capacity:

- n What are your proprietary techniques for your product or its development?
- n How will this affect production and the ability of competition to copy your products?
- n What are your processes for developing products?
- n How much work are you outsourcing?
- n What is the maximum output capacity of your manufacturing process and facilities?
- n How will your manufacturing process accommodate growth in sales volume?
- n What kinds of security measures do you have?
- n How can you anticipate defect rates in your manufacturing process?
- n How much overhead will you have?

Materials and equipment:

- n What machinery do you need?
- n What raw materials do you need?
- n How much do equipment and materials cost?
- n What is the availability of raw materials?
- n How stable are prices?

Labor requirements:

- n What human resources do you need?
- n How much will labor cost?
- n How will you distribute work?
- n How much can you automate?

Suppliers:

- n Who are your suppliers?
- n What is your business relationship with suppliers?

Product support services:

- n Who provides maintenance for your products?
- n How much does maintenance cost?
- n Will you offer support services or printed operational manuals?

Outside factors:

- n What federal, state, or local regulations will impact your work?
- n Will technological advancements affect your development or operations?
- n Consider these questions on facilities requirements:
  - n How much office, manufacturing, retail, warehouse, or parking space do you require?
  - n What are the zoning restrictions for your location?
  - n How does your location serve your target market?
  - n Is it better to rent or buy your location, and why?

Outsourcing:

- n What other businesses provide products or services for you? Discuss price, quality, expertise, and availability of the products and services you outsource.

Quality Control:

- n Since quality is critical to your success, reassure your readers that you cover it well. Briefly describe your quality control procedures and the expertise of your QC personnel. List the quality standards you use, and site your certifications.

Labor Force:

- n What is the percentage of labor content in each product produced?
- n How do you plan to hire and maintain a loyal workforce?
- n What is the availability of skilled personnel at competitive labor rates?

# Chapter Eleven - Marketing Plan

Your readers will often start reading at your marketing plan. It shows how you will fit into your industry and how you will find your customers. Since marketing is one of the most difficult parts of operating a business, readers will be curious about your approach.

## Creating and maintaining customers

Creating and maintaining customers is always the main goal of a business. One way to start thinking about addressing this issue in your business plan is to think about your product through the eyes of your target customers. Figure out how they would find you, and fill in the details. Create an integrated approach to your pricing, promotion, and distribution plans. Introduce your mix of marketing plans here as you have tailored it to your industry and to your customers. Then expand on it.

## Pricing strategy

Your pricing strategy should demonstrate how your product fits into the market with your competition. You should explain your pricing rationale and philosophy. Show how your pricing policies affect your target market, and your competition. Keep in mind that your location might be a factor in pricing. For instance, convenience stores take an increased markup to compensate for smaller inventories and higher costs per square foot. You should also consider your cost structure and how your pricing strategy supports it.

Above all, your pricing strategy should show how it supports your profitability. Here are some questions to consider:

- n What are the objectives of your pricing?
- n How does your pricing strategy increase market share or maximize profits?
- n What is the basis for your pricing policy (cost plus markup, for instance)?
- n How does your pricing policy differ from that of your competitors? Is your product or service price-sensitive? How does your pricing policy give you an advantage over your competition?
- n How does seasonality affect your pricing?
- n How do your product promotions affect your average sales prices?

## Product positioning

Your product positioning affects your success. Your business plan should include an analysis of your product as it relates to competitive products. You should identify your product positioning in terms of the following:

- n By product differentiation
- n By benefit
- n By type of user
- n By comparing to competitors

### Sales and distribution plan

Your sales and distribution strategy should identify how you plan to sell and distribute your products or services. You have to demonstrate that you can deliver them economically, efficiently, and effectively.

Your marketing plan should outline your sales force. Explain how it is organized and how it is compensated. Include the number of people working in your sales force and list their sales techniques. You should also include your method of charging your customers (cash or credit). Explain how it will work and describe the advantages of your plan.

Your marketing plan should also discuss your distribution channels. For example, you might distribute directly to end users, or you might use middlemen, wholesalers, or distributors. Remember to include the channels for compensation.

### Sales force plan checklist

- n Describe your inside and outside sales forces, including the number of people, where they are, how they are paid, and how they are trained. List their experience and skills.
- n Describe the organization of your sales forces. List supervisors and their experience, education, and skills. Also describe how they are paid.
- n List productivity incentives such as quotas and bonuses.
- n Explain sales projection data, such as percentages of cold calls that result in appointments and percentages of appointments that are closed.



## Promotional strategy

Your promotional strategy section should sell your readers as much as it sells your products. Make sure it sounds plausible and profitable. Explain how you will communicate with your target market:

- ☐ Advertising
- ☐ Public Relations
- ☐ Publicity
- ☐ Internet
- ☐ Networking

You should include a description of your marketing campaign. Show that your promotional strategy is effective.

Answer the following questions:

- ☐ Who are you targeting?
- ☐ What is your message?
- ☐ When and where do you place your message?

Use a worksheet to address and plan for all of your ideas in this area. Set up three columns, label them as follows, and therefore provide a summary list of the promotional activities for which you will engage during the upcoming year.

| Promotional Vehicle | Frequency of use during the Year | Budget Annual Cost |
|---------------------|----------------------------------|--------------------|
|---------------------|----------------------------------|--------------------|

# Chapter Twelve - Financial Plan and Analysis

The financial plan reveals the amount of financing (internal and external) required to meet your operating and marketing goals. It presents your start-up capital requirements, and it includes comprehensive data to project your financial performance. Your readers will use this information to determine your potential return on investment. They can decide if your funding requests are reasonable and serviceable.

Your financial information must be accurate and comprehensive because it is the basis for your business plan; however, you should keep the figures at a high level. Keep detailed figures available for discussion, but leave them out of your business plan to avoid overwhelming your readers.

Use financial forecasts to demonstrate to your readers that you have thought through the financial implications of your company's growth plans. Integrate goals and objectives into the forecasts.

Here are some tips to help you prepare your financial plan:

- n Keep it consistent with your business plan. Don't risk losing your credibility.
- n Demonstrate whether your strategy is financially feasible.

Make sure your projections answer the following questions:

- n How will the company perform financially (profit and loss projections)?
- n What are your cash flow projections (will your business remain solvent)?
- n Are you creating wealth (what is the return on investment)?

Your financial plan should include at least the following:

- n Income statements for 24 months and 5 years
- n Cash budgets for 24 months and 5 years
- n Balance sheets for 5 years
- n Financial ratios

These statements are included in the Integrated Financials template. In addition, you may wish to include other workbooks to help potential investors understand how your business will generate profit and how much capital you will need:

- n Detailed sales forecasts

- n Start-up capital required and sources
- n Statements on how the capital will be spent
- n Break-even point

### Financial plan as a modeling tool

As you develop your financial plan, use the Integrated Financials workbooks included with the templates that accompany this e-book. You can use it for modeling a variety of scenarios. You will be able to answer questions like “What if we increase the advertising budget by 15% and sales increase by 20%; what impact will that have on cash flow and net income?” Use your financial plan to support your business plan as well as for contingency planning.

### Financial plan as a control tool

Your business plan can help managers in the area of control. It can help with company budgets and with tracking financial progress. As your business grows, you should revisit your initial financial model to monitor your progress.

### Some basic steps

Here are some basic steps to help you complete your financial plan:

- n Decide on assumptions. To prepare pro forma financials and other projections, you will need to make assumptions. Does it make sense to project your accounts receivable based on some average collection period? Should you project sales as some percentage of an overall market (market share)? What rates should you assume for income taxes, sales returns, and allowances? Do you want to project balance sheet items as a percentage of sales or something else?
- n Gather past performance data and analyze it. If your business is established, you should have at least three years of financial data to include and analyze. What does the data tell you about the future? What assumptions can you extract from it? You may find that some past financial ratios have been stable and you can project that they will remain stable through your planning period. Perform time series analysis and cross sectional analysis of the past data to see what assumptions you can support. Time series analysis involves comparing your ratios over time. For example, if you compare the current ratios (current assets/current liabilities) from this year to the current ratios of last year and the year before, you may see a trend in liquidity.

Cross sectional analysis is comparing your company's ratios to those of the industry. Data on financial ratios is available from a variety of sources, such as the internet or the library. Here are two useful publications:

*Annual Statement Studies*, published by Robert Morris and Associates and  
*The Almanac of Business and Industrial Financial Ratios*, published by Prentice Hall.

- n Prepare the Integrated Financials workbook. This workbook contains worksheets that are generally applicable to all business plans. It includes the following sheets:
  - o 24-Month Income Statements
  - o 5-Year Income Statements
  - o 24-Month Sales Forecast
  - o 5-Year Sales Forecast
  - o 24-Month Cash Budgets
  - o 5-Year Cash Budgets
  - o 5-Year Balance Sheets
  - o Financial Ratios
- n If applicable, prepare the Sales Forecast workbook. If you need a more detailed sales forecast analysis, you can use the Sales Forecast template. It gives you space to prepare forecasts for up to 20 products or services.
  - o Start-Up Capital. If your business plan is for a new business, use this template to estimate your Start-Up Capital and Capitalization.
- n Break-Even Analysis. Use this template to demonstrate the fundamental economics of your business venture.

## Income Statements

- n The Income Statement sheets allow you to prepare projected monthly income statements for 24-months and annually for a five-year period. An income statement summarizes your revenues and expenses. Projections show how much you believe you will sell and what costs will be incurred to achieve those sales.
- n A common method of forecasting operating expenses is by percentage of sales. For example, if sales were \$1,000,000 and selling expenses were \$150,000, then selling expenses as a percentage of sales would be 15%. You could use this figure to predict the selling expenses at 15% of the projected sales.

## Cash Budgets

- n The Cash Budget section presents one of the most important elements of your business plan projections: how your operations generate cash. Begin by completing the 24-month and then the five-year cash budgets.
- n Start by entering the beginning cash balance from ongoing business operations. The data that needs to be entered on the year 1 cash budget includes projected capital expenditures, changes in other assets, short-term loans, changes in other liabilities, long-term liabilities, and capital stock issues. Once you complete the first 24-months, move to the five-year cash budget and complete it.

## Balance Sheet

- n A balance sheet shows what you own (assets), owe (liabilities), and the equity of the owners. The balance sheet is structured by what is called the balance sheet formula:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . Because the balance sheet reveals financial position, including projected balance sheets in your business plan is critical.
- n The cash balance is determined by the cash budget sheets. Similarly, all Retained Earnings figures after the first year are calculated from prior sheets. All other lines are entered manually. Be sure to carefully consider the natural relationships that exist between sales, inventory, accounts receivable, accounts payable, etc. It is important that your projections be practical and believable.
- n The balance sheets should always be in equilibrium ( $\text{Assets} = \text{Liabilities} + \text{Equity}$ ).

## Financial Ratios

The last sheet in the Integrated Financials workbooks is Financial Ratios.

After you enter your financial projections, review the ratios in the Financial Ratios sheet to determine if they are consistent with industry averages. If a ratio varies greatly from an industry average, be able to explain why. If several ratios vary greatly from industry averages, you are risking the credibility and integrity of your business plan.

Here are the four categories of financial ratios:

- n Liquidity ratios -These ratios help determine a company's ability to pay bills. The liquidity ratios include the current ratio and the acid-test ratio. The current ratio is calculated by dividing current assets by current liabilities. The acid-test ratio is calculated with the following formula:  $(\text{current assets} - \text{inventory}) / \text{current liabilities}$ .
- n Leverage ratios -These ratios indicate the degree to which a company is financed with debt. Leverage ratios include debt ratio, debt-to-equity ratio, and times interest earned. The debt ratio is calculated by dividing total liabilities by total assets. The debt-to-equity ratio is calculated by dividing total liabilities by total equity. The times interest earned ratio is net income before taxes and interest divided by interest.
- n Efficiency ratios -These ratios indicate how well management is using resources. The efficiency ratios include inventory turnover and total asset turnover. Inventory turnover is calculated by dividing cost of sales by inventory. One caution: if a company does not sell merchandise or produce products, the inventory turnover is irrelevant.
- n Profitability ratios -These ratios indicate the types of returns or yields generated for the owners of the company. They include gross margin percentage, return on assets, and return on equity. The gross margin percentage is the gross margin divided by net sales. Return on assets is net income divided by total assets. Return on equity is calculated by dividing net income by total equity.

## Sales Forecast

The sheets in this workbook give you the flexibility to forecast 20 products or services across 24-months and five years. The first step in preparing a sales forecast is to select one of many possible methods. Three common methods are Simple, Market Size and Share, and Percentage Growth.

Projecting sales is difficult, particularly for a new business. The best advice is to be flexible. Project sales, but continuously update the forecast. Here are a few suggestions for sales forecasting source data:

- n Product vendors. If you are selling inventory, suppliers and wholesalers can provide projected demand for the product.
- n Trade publications and trade associations
- n The U.S. Bureau of the Census
- n Your own historical sales data compared to data from product vendors and trade associations. Note dramatic changes that will affect your sales forecast. For example, changing demographics or competitive factors can affect actual sales.

## Estimating Start-up Capital

Accurately estimating start-up costs is critical for launching a new business or a new venture. Think carefully and realistically about all the costs involved for the first six to twelve months. Remember that under-capitalization is a common cause of failure. The Integrated Financials template includes a start-up capital sheet to help you project your start-up costs. Use it carefully to ensure that you are projecting accurately.

Your first step is to think about the multiples to use to estimate the start-up capital for monthly expense contingencies. These multiples are cash flow contingencies or safety cushion factors. For example, if you want three months of rent in start-up costs, multiply your projected monthly rent expense by 3. Therefore, if you are projecting \$1,500 a month for rent, then you would include \$4,500 of rent expense ( $\$1,500 \times 3$ ) as part of your start-up costs.

Use the multiples to provide contingency padding. Otherwise, you could miss hidden costs such as the property owner asking for the first six months of rent in advance.

Here's how you complete this sheet. In the Monthly Costs section, enter the expenses for each item. The Cash Needed to Start and the % of Total columns is automatically calculated. In the One-Time Costs section, enter the expenses for each item in the Cash Needed to Start column.

Next, scroll down to the Start-Up Capital Assumptions table. For each monthly expense item, enter the number of months you would like to include in the start-up capital. This multiple increases the amounts in the Cash Needed to Start column of the Monthly Costs table and represents a realistic total for start-up capital.

Once you have completed this sheet, you can complete the next sheet: Start-up Capitalization. The Total Estimated Start-Up Capital is used in the Start-Up Capitalization worksheet.

### Start-up Capitalization

Start-up capitalization includes the sources and amounts of equity and debt you want. Use the Start-Up Capitalization sheet in the template set to identify where you are expecting to get the funds.

In the Owners' Investments section, enter the name of each owner and the amount of capital they are contributing. In the Bank Loans and Other Liabilities section, enter the name of each loan or capital source and the amount of capital they are providing. If there is a capitalization deficit at the bottom of the report, more capital is needed to fund your business.

### Break-even Analysis

The break-even point for a business is achieved the moment the sales volume covers all costs (both fixed and variable). Unfortunately, the break-even point is difficult to calculate when you have multiple products and services, typical of most businesses. If you have only one product or service, it is easy to calculate the break-even point. The higher the break-even point, the greater the operating risks.

Lenders, investors, and other providers of capital look at the break-even point as an indicator of risk. If the break-even point is relatively high, it may be unrealistic to assume that the company will meet its sales and profit objectives. First, enter the fixed costs, and then enter the variable costs. Fixed costs are constant costs. They do not change in total with changes in sales or production volume. Variable costs change in total with changes in sales or production volume. After you enter the selling price per unit, the template calculates the number of units needed to break even.

### More on Pro Forma Financial Statements

Pro forma is a Latin term meaning "as a matter of form". Preparing financial reports in a pro forma manner means to present financial projections. Businesses use pro forma statements for decision-making in planning and control. The exercise of preparing a pro forma income statement is the key in developing a business plan. Pro forma financials are also prepared in larger corporations for external reporting to owners, investors, and creditors. Both the American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (SEC) require standard formats for businesses in constructing and presenting pro forma statements.

Pro forma statements can be the final output of a budget system; used as the basis of comparison and analysis to provide management, investment analysts, and credit officers with a feel for the particular nature of a business's financial structure under various conditions. In that way, pro forma financials are both a quantitative model of the business and a means of assuring some control over the operations.

As a vital part of the planning process, pro forma financials help minimize the risks of launching and operating a new business. They can also provide lenders and investors to provide financing for a start-up firm. Angel investors and venture capitalists put a great deal of emphasis (they call it due diligence) on pro forma statements. Capital providers attempt to discover the assumptions upon which the pro forma statements are based. Be sure to base your assumptions upon objective and reliable information. You need to do your homework in order to create a reasonable and logical projection of your small business's profits and financial needs for the first year and beyond.

A company uses pro forma statements in the process of business planning and control. Because pro forma statements are presented in a standardized, columnar format, management employs them to compare and contrast alternative business plans. By arranging the data for the operating and financial statements side-by-side, management analyzes the projected results of competing plans in order to decide which best serves the interests of the business.

As you prepare the projected financials of your business plan you need to follow some steps:

1. Clearly state the assumptions upon which your financials are based.
2. Develop the various sales and budget (revenue and expense) projections.
3. Assemble the results in profit and loss projections.
4. Translate income statement projections into cash budgets.
5. Prepare the balance sheets.
6. Perform ratio analysis to compare projections against each other and against those of similar companies.
7. Review proposed decisions in marketing, production, research and development, etc., and assess their impact on profitability and liquidity.

### **State Your Assumptions**

To build your numbers; you need to make some initial assumptions. These assumptions need to be integrated into your financials, incorporated into formulas, and clearly presented for all to see. You don't want anyone who reviews your pro forma financials and reads the financial sections of your plan to be confused about the assumptions. Nothing should be hidden; transparency should be the goal. For example, some business plan software packages make it difficult to determine how the numbers are being calculated. In some cases, you



can't readily determine the assumptions or even the formulas utilized. Don't make it a hassle for anyone to determine the basis for your numbers.

### **Develop Straight Forward and Reasonable Sales and Expense Budgets**

Spend the time develops budgets that make sense. Budgets, despite short cut rules of thumb or fancy formulas, are the only reasonable way to produce pro forma financials. The cornerstone upon which all the expense and capital budgets lay is the revenue or sales budget. Sales budgets, especially for a new venture, are very difficult to prepare. They are a forecasting challenge that in difficulty ranks up there with long-term weather forecasts.

Although there are many sales forecasting techniques taught in quantitative business courses in undergraduate and MBA programs across the world, nothing beats the bottom up approach of sales forecasting. Bottom-up methods use information generated by those closest to the customer to generate the data used to forecast the sales. One complaint of bottom-up revenue predictions do not take into account the overall effects of the economy, seasonal trends, and other variables that can influence revenues.

One thing that reviewers of revenue forecasts (within business plans) complain about is what's called hockey stick revenue forecasts. Be careful not to develop overly optimistic "hockey stick projections" of sales taking off in the near future. Sales projections that move along at a moderate pace and then all of a sudden jump up are hard to believe. Investors and lenders are not going to believe that your sales will be somewhat flat for a while and then once you have their money, your sales are going to go through the roof. If you've really created that once-in-a-generation business whose sales will take off, then you'd better build so much bottom-up detail into that forecast that even the most cynical or skeptical capital provider will believe it.

Avoid quick-fix forms of projecting sales and expenses especially for the first twelve months of your plan. Many business finance courses teach methods like the "percentage of sales" method of preparing pro forma financials. With that method, many elements of a financial statement is calculated as a percentage of revenues. For example, inventory might be 30% of sales or cost of sales might be based on a target profit margin that is also based on an assumed percentage of sales (i.e., if the target gross margin is 40% then cost of sales percentage would be calculated as  $100\% - 40\% = 60\%$  of sales). Some reasonable rules of thumb, like percentages of sales may play out as useful over a long-planning horizon but for the first 12 months of your plan, you need to dig deeply into the numbers; support your pro forma financial statement line items with budget details that make sense and show thoughtfulness on your part. On the other hand, expense projections after the first twelve months of the planning period can be based on reasonable percentages and quick rules of thumb. That's because the future is so uncertain and the further out you go into the future with your plans, the more uncertain things become. Your pro forma financial are about planning, not as much of a science as

GAAP accounting. You are only guessing the future in a system full of uncertainties and risks. As important as monthly details are in the beginning, they become a waste of time the further you extend out. Remember that much hinges on the sales forecast so how can you predict monthly cash balances for three years from now, when your sales forecast is so uncertain? It is wise to do your best to plan in five-year horizons in the major conceptual sense, but monthly details past the first year are difficult to do.

### **Show Results in Profit and Loss Projections and Cash Flow**

The pro forma financials of your business plan should show the following:

1. 24 months of revenues and expenses for the first two years.
2. Summary income statements for the first five years (consolidating the data from #1 above – the first 24 months are folded into the first two years of these statements).
3. 24 months of cash budget (showing the details of cash receipts and expenditures for the first two years – month-by-month.)
4. Summary cash budgets for the first five years (consolidating the data from #3 above – the first 24 months are folded into the first two years of these statements).
5. Projected balance sheets for the end of each year for each of the first five years.
6. Ratios based on the projected balance sheets and income statements for the five years. The ratios (unless not applicable) should include at a minimum the following:

a. Liquidity Ratios such as:

- i. Current Ratio
- ii. Acid-Test Ratio

b. Leverage Ratios such as:

- i. Debt Ratio
- ii. Debt / Equity Ratio
- iii. Times Interest Earned

Efficiency Ratios such as:

- i. Inventory Turnover
- ii. Average Collection Period
- iii. Total Asset Turnover

Profitability Ratios such as:

- i. Gross Margin
- ii. Return on Assets
- iii. Return on Equity

Keep in mind that the above list is the bare minimum list of ratios that you should utilize in your integrated financials. More ratios may be applicable for your type of business. A review of the many types of financial analysis reports available from financial publishers (Standard and Poor's, The Risk Management Association, BizMinder, Intergra, Hoovers, etc.) may provide you with some reasonable targets. Once you have taken your first pass at your pro forma financials, you must review your ratios to determine if they are reasonable. To do that, you will need to "benchmark" against some reasonable external data, like the average for the ratio within your industry or peer group ratios (companies of similar size within your industry). If your first pass at the financials results in some strange looking ratios (ie. a current ratio of 50 – which means you will be astonishingly flush with cash), then you need to rework your numbers to get the "bugs" out. If you don't, no one is going to believe your projections.

Web resources and business reference publications in your library may be of help in identifying the reasonable ratio benchmarks to use. Rules of thumb are hard to define for a book like this because every industry is different and the acceptable range of ratios can vary considerably from industry to industry.


### **Pro Forma Financials as Financial Models**

Pro forma statements that have been developed in an Excel workbook provide data for calculating financial ratios and for performing other mathematical calculations. They can also receive the results of subsidiary worksheets such as detailed budgets or sales forecasts. Pro forma statements, linked to one another and with links to supporting details create not only a necessary tool for your business plan but also a dynamic financial model that can contribute to the achievement of company goals if they help you to:

- i. Test the goals of the plans
- ii. Allow you to develop findings that are readily understandable

Financial modeling tests the assumptions and relationships of proposed plans by studying the impact of variables (this is also called "what-if" or sensitivity analysis) in the prices of labor, materials, and overhead; cost of goods sold; cost of borrowing money; sales volume; and inventory valuation on the company in question.

Pro forma statements are an integral part of business planning and control. Owners use them to get money (as part of the business plan) and managers use them in the decision-making process when building an annual



budget (also called the Master Budget), developing long-range plans, and choosing among capital expenditures. Pro forma statements are also valuable in external reporting. Public accounting firms find pro forma statements indispensable in assisting users of financial statements in understanding the impact on the financial structure of a business due to changes in the business entity, or in accounting principles or accounting estimates.

# Chapter Thirteen – Other Related Communications

There are other ways to communicate your story other than the business plan. The business plan is a critical document for reasons noted in other chapters of this book. There are other documents, PowerPoint, and “pitches” that you will want to create to help you get the word out about your venture.

## Executive Summary

A separate executive summary should be developed that you can bring to meetings, give to potential investors, and handout at management meetings. It can be anywhere from one to five pages in length. Many venture capitalists and angel investors prefer the one page version.

It is very common for a potential investor to say, “Send me the Executive Summary, and if that interests us, we’ll get back to you.” Or the investor requests an MS Word or PDF version of the executive summary.

The executive summary summarizes the main points of the business plan. It is a powerful selling tool and it may be your only chance to catch an investor’s attention. Keep it up-to-date (it is a “living document” like the business plan) so you will always be ready to present.

## The PowerPoint Show

The PowerPoint Show is your business plan in a PowerPoint presentation. It is wise to develop your business plan into PowerPoint slides so that you can present it to potential investors or team members.

As with any PowerPoint show, keep your business plan presentation short – both in the number of slides and the length of time. Many experts believe that more than 10 slides create a “pitch” that is too lengthy. Like an executive summary, your PowerPoint presentation it needs to be concise but offer a tease. If it is a good tease, the audience will ask lots of questions and that type of interaction will reveal much about your ultimate business plans. Promoting interaction is the key. Your goal is to make the presentation interesting enough so that people learn and ask questions. The goal is to provide just enough information to make the audience want more and to do it in under thirty minutes.

It would be wise to study up on what makes for a good PowerPoint presentation. There’s a real art to making good looking slides and to balance the need to show lots of information with the needs of the audience to

simply see what's up there. Many professionally prepared PowerPoint presentations are done in 30 point font size (with titles done in 36 font. Stay away from high tech jargon unless there is a techie in the room who asks specific questions. Even then, be careful not to leave your audience in the dark.

### Elevator Pitch

Then there is the elevator pitch. This is a 30 to 60 second sales pitch designed to convey your idea. It is, like the executive summary, a way to get the listener to ask for more information or schedule a meeting to learn more about your company. It is called an elevator pitch because you may have no more time to describe your company than you would on an elevator ride. You must be quick, concise, and make your point. Not easy to do. In your pitch you should describe:

- n The need or problem your venture addresses
- n Why your solution is effective
- n The benefits
- n Who you are and how to contact you

You need to have your business card ready to hand out at the end of this short pitch – just the reverse of a baseball pitcher, you pitch and “wind up” by handing your business card ( if you are not a baseball fan, in baseball the pitcher winds up and pitches – here you pitch and then wind up).

If you think it is impossible to make an effective quick pitch, consider the Gettysburg address – considered by many one of the greatest speeches of all time. Mr. Lincoln made a compelling case for the civil war and it lasted two minutes – only 278 words – less than most letters to the editor of your local newspaper.

Use your business plan to glean the words for your pitch. Work to make it real economical. Write it down, revise, revise, practice, practice until it is perfect. Get advice from mentors, advisors and other entrepreneurs. And everyone who speaks about the venture should know the pitch (just as they should have copies of the business plan). All team members should know it like the back of their hands.

# Chapter Fourteen – Financing: Seed Capital

The business plan may help you get the financing you need to launch your business, move it beyond the early stages, or in the case of an established business, expand your markets. But the business plan must make the case that your business model will work. Financing will not flow to an entity without making that case.

In the early days of a business venture, you need start up capital. Start-up capital can come in many forms: bootstrapping is one way but you may also look to angel investors and even the U.S. Government (in the case of innovative and technical type inventions and product improvements).

## Bootstrapping

But who will provide the financing? There are many sources of funds for new ventures. Some of it is what it is called bootstrap financing. Use your own money to get your business off the ground. This is one of the most popular forms of internal funding because it relies on your ability to utilize all your company's resources to free additional capital to launch a venture, meet operational needs or expand your business.<sup>1</sup>

There are sources of bootstrap financing that you can exploit before you look to external sources. They include:

- n Personal savings
- n Credit cards
- n Loans from family and friends
- n Loans against property
- n Leasing
- n Trade credit

Bootstrapping is especially important for small firms due to their lack of access to capital markets and difficulty of raising capital. Bootstrap capital can complement or even reduce dependence on traditional sources of capital. Bootstrap financing becomes available through normal business operations, such as accounts payable, while other sources must be planned, such as sharing equipment, bartering, and leasing.

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<sup>1</sup> 6 Sources of Bootstrap Financing, Entrepreneur.com, October 04, 2005, the article was excerpted from: excerpted from The Small Business Encyclopedia:

Some small business experts believe that the entrepreneur's ability to raise nontraditional sources of capital (bootstrapping) often identifies the entrepreneurial character and ability of the new business owner. The use of bootstrap financing can force firms to solve problems that otherwise would remain hidden and unresolved while bootstrapping is another form of creative problem solving – something all successful entrepreneurs must master.

Bootstrap financing often has advantages that include easily obtainable (for example, credit cards), convenient (for example, loans from life insurance), and minimal requirements (for example, home equity loans).

### Angel Financing

For ventures that may take a while to get going, such as high tech firms that need time to develop their product and or to penetrate new markets, early financing may involve bootstrapping but then may need to come from angels. Angels are high net-worth individuals – freelancers of sorts who are looking for to invest relatively small amounts of money (\$25,000 to \$500,000 in early stage-ventures).

The angels provide the seed capital in hopes that once the ideas, inventions, and the venture itself become more mature and successful, formal outside financing will become feasible and the angel will be able to cash out – harvesting an acceptable return on investment.

Angels are usually people who have made it as entrepreneurs and want to become involved in new ventures – both by contributing their money and by giving advice. Angels like to work alone but sometimes they are part of an angel network. For example, on Cape Cod, Massachusetts, there is a group of investors called the Bay Angels who look to provide early stage capital to high tech companies that will be located on the Cape. Angels like the Bay Angles often provide more than just capital, through their contacts, experience and expertise they add value to the enterprises that they invest. And they are, needless to say, affluent. Bay Angel's members need to have a net worth of at least \$1 million.

Business plans are important documents to Angels. To even consider a potential investment, angels will want to first see an executive summary of a business plan and may eventually want to study the entire plan.

### Characteristics of Angel Investors

Angels are hard to find because they are silent and private. They don't take out ads in newspapers or push their services through many media channels.

Angels provide seed money for firms too young or too small to qualify for bank loans, venture capital, or public offerings; they prefer to invest at the early stage of a venture. They work within networks or “clusters”



(a term that Michael Porter has made famous). These networks are often oriented to bio-tech and other high-tech companies. But the real commonality of angel networks is that they typically invest in ventures involving markets and technologies with which they are familiar.

Proximity also places a part since Angels typically invest in ventures close to home within one day's drive; so they can quickly check up on their investment. Angels work in groups, are active investors, serving on a working Board of Directors or providing guidance through an informal consulting/monitoring role.

There is a social aspect to the angels. They tend to meet periodically for breakfast or lunch and to co-invest with trusted friends and business associates.

### **How are Angel Investors Different from Venture Capital Investors?**

The primary differences between angels and venture capitalists (VCs) are in three areas expected rates of return, financing amount, and exit horizons.

- Angels will accept a longer payback horizon and are willing to settle for a smaller return - 20% to 25%/year compared to the VCs expected ROI of 30% to 35% or more per year.
- A round of angel financing is typically less than \$1M and more usually less than \$500K.
- Venture exit horizons for angels tend to be 5 years to 10 years or more.

In addition, it is common (but not always the case) those angels' investment terms and conditions tend to be briefer and more informal than those of venture capitalists.

### **Finding Angels**

Angels are not easy to find. There are private investor angels without much fanfare or publicity. No public records of their investment transactions exist. The private investor angel market tends to be regional rather than local or national.

But they do “connect with” college campuses (often business schools and engineering programs), business incubators, state economic development agencies, and other nonprofit entities.

### **Small Business Innovation Research Program**

The Small Business Innovation Research (SBIR) program is a highly competitive, U.S. federal program that helps small business to explore their technological potential and provides the incentive to profit from converting its technology to commercial products. By including qualified small businesses in the nation's R&D arena, high-tech innovation is stimulated and the United States gains entrepreneurial spirit as it meets its specific research and development needs.

SBIR targets the entrepreneurial sector because that is where most innovation and innovators thrive. However, the risk and expense of conducting serious R&D efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal R&D funds for small business, SBIR protects the small business and enables it to compete on the same level as larger businesses. SBIR funds the critical startup and development stages and it encourages the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy.

Since 1982, as part of the Small Business Innovation Development Act, SBIR has helped thousands of small businesses to compete for federal research and development awards. Their contributions have enhanced the nation's defense, protected our environment, advanced health care, and improved our ability to manage information and manipulate data. Every year, federal department and agencies set aside a portion of their R&D funds to fund SBIR grants to small business. These departments include: Department of Agriculture, Department of Commerce, Department of Education, Department of Energy, Department of Health and Human Services, Department of Transportation, Environmental Protection Agency, NASA, and the National Science Foundation.

There are qualification requirements for a U.S small business to compete for SBIR funds. Visit the U.S. Small Business Administration website ([www.sba.gov](http://www.sba.gov)) for more details on qualifications. But briefly, the small business must be

- n American-owned and independently operated
- n For-profit
- n Principal researcher employed by business
- n Company size limited to 500 employees

The SBIR process works like this: submit an SBIR proposal (including a business plan) to the appropriate agency and the agency awards based on:

- n Small business qualifications
- n Degree of innovation
- n Technical merit
- n Future market potential

Small businesses that receive awards or grants then begin a three-phase program.

Phase I is the startup phase. Awards of up to \$100,000 for approximately 6 months support exploration of the technical merit or feasibility of an idea or technology.

Phase II awards of up to \$750,000, for as many as 2 years, expand Phase I results. During this time, the R&D work is performed and the developer evaluates commercialization potential. Only Phase I award winners is considered for Phase II.

Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase. The small business must find funding in the private sector or other non-SBIR federal agency funding.

SBIR programs are an excellent way to get the seed money to do the advanced R&D. There is a connection between SBIR programs and business plans. If you are attempting to win an SBIR award start by creating up a business plan as a business plan is necessary when trying to attract any type of collateral.

The US Small Business Administration plays an important role as the coordinating agency for the SBIR program. It directs the various federal agencies' implementation of SBIR, reviews their progress, and reports annually to Congress on its operation. The SBA accumulates information on SBIR programs and makes that information through their web site ([www.sba.gov](http://www.sba.gov))

For more information on the SBIR Program, please contact: US Small Business Administration Office of Technology 409 Third Street, SW Washington, DC 20416 (202) 205-6450.

### Small Business Administration

The mission of SBA is to maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters. The SBA offers a number of programs that can help your small business gain financing.

The Small Business Investment Companies (SBIC) program was established by federal government and is made up of private investment companies that provide venture financing and management assistance to small companies.

The SBA also guarantees loans up to 85% of a private loan with maximum guarantee amount of \$750K and 25 years to pay. SBA is attempting to make more credit available to small companies with less paperwork. The SBA LowDoc program offers a simple one page application to minimize paperwork requirements and loan processing time for small businesses on loans up to \$100K. Then there are the SBA MicroLoan program with loans up to \$25K to startup companies in inner cities and rural areas, a large percentage of which are owned by women and minorities

## Commercial Banks

Commercial banks are one of the cheapest sources of borrowing for small companies, typically charging interest rates just one to two points above prime for small business loans. However, as one venture capitalist told me, many banks want to sell umbrellas on sunny days. They want to give money to entities that really don't need it.

If you do want to approach commercial banks, look for banks where small business loans are a priority, not a sideline. Those types of banks are better at evaluating and managing the risk of business loans. Once again, your business plan will be the starting point; an essential loan document.

The downside to seeking funds from commercial banks is that commercial banks typically seek security in the form of the business owner's personal assets.

Most start up firms cannot attract bank loans because they cannot demonstrate sufficient assets and a healthy financial track record or any financial history at all. If that's the case, you will probably need to be creative by bootstrapping your venture until you are successful enough to get bank financing.

## Strategic Alliances

An alternative to angel, VC financing or more debt is a strategic alliance with another firm. It might be that another business with which you do business might have different but complementary strengths and that excellent match might lead to benefits such as capital infusions.

A strategic alliance, as a source of financing, can benefit both firms. For example, it can be an access to new markets for one, and access to production capabilities, knowledge and skills for the other. Microsoft is an excellent case. They work with smaller partners and eventually buy into smaller corporate partners and in essence use them as R&D arms.

# Chapter Fourteen Venture Capital

Preparing your plan for venture capital (VC) investors requires some knowledge of the information needs of that group. But before you consider those needs it might first be wise to evaluate the appropriateness of seeking VC financing in the first place.

Although VCs invest in all areas, there is a tendency to invest in high technology ventures and VCs are not interested in companies on the verge of a start-up. They are interested in financing established, ongoing firms in which they can invest at least \$2 million to \$5 million.

As with any capital provider, VCs want to understand the composition of your management team and they want assurances that you will have a strong management team in place. How can you demonstrate that in your business plan? That's a key question. You must find a way to show that you have a capable and experienced management team in place. VCs have no desire to run a company. They want you and your team to do that and do it in such a way as to provide good stewardship of the VC funds and healthy ROIs.

VCs invest in portfolios of businesses and they are not likely to know as much about each particular business as the management team in those firms in which they invest. However, VCs do play a role but that role is more advisory in nature. They tend to act as a sounding board, critic, and try to ask the right questions regarding: strategic planning, operations, and hiring key talent.

Also keep in mind that the due diligence of a VC will be extensive; going way beyond a review of your business plan. They will:

- n Analyze your pro forma financial data and estimate potential value of the investment at the time of expected VC exit from the investment.
- n Tour your facilities.
- n Query your existing and potential customers.
- n Consult technology experts regarding your company's technology.
- n Contact your existing outside investors.
- n Perhaps commission formal market studies by outside consultants.
- n Contact your suppliers.
- n Contact your legal counsel.
- n Contact your competitors.
- n Check your references regarding prior positions with other firms, and contact people involved with your other former business associates.

- n Query your bankers

## VC Oversight

VCs will not give you money and then forget about you. They will provide strong oversight after giving you the money. That oversight can be quite intensive. One VC recently told me that if you don't like us looking over your shoulder, then you might want to get a bank loan and be happy just paying the principal and interest.

Oversight will happen in a variety of ways. Often VCs serve on the firm's boards of directors. VCs involve themselves in the firm's strategic decisions. VCs frequently contact the firm's key personnel on operations issues and pay informal visits to firms in the VC's portfolio. They might periodically meet with the firm's customers and suppliers.


## VC Exit Strategy

VCs eventually leave. They are less patient than other equity investors. They seek to 'exit' an investment within 3 to 5 years. Exiting the investment is how the VC makes its money and is usually achieved by the company going public, being acquired, being re-capitalized, finding a substitute investor for the VC, or buyback of the VC's investment by the firm.

## VC Investment Criteria

Here is a quick checklist to help you understand the investment criteria used by VCs.

- n VCs seek uniqueness in the product/service concept.
- n Product/service must offer a significant competitive advantage.
- n Product/service concept must already work or can be brought to market within 2 to 3 years.
- n Must be significant potential for earnings growth.
- n VC expects minimum return on investment (ROI) of over 30%/year.
- n Earnings growth potential may come from rapidly growing market, increasing market share, or significant cost cutting.
- n The venture must demonstrate a high absolute potential return (i.e., volume of dollars) in addition to a percentage ROI in excess of 30%/year.
- n VCs key on the capabilities and track record of the firm's management team. Specifically, VCs invest in people rather than in ideas or physical assets.
- n Key management must objectively demonstrate high personal integrity.
- n Key management must demonstrate success in similar positions at prior firms if seeking early stage financing.

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- n Key management must demonstrate success in current position if seeking later stage financing.
  - n Key management must demonstrate a thorough understanding of the business and the particular venture.
  - n Key management must demonstrate ability to identify risk and develop plans to deal with risk.
  - n Key managers must exhibit leadership and appropriate management experience.

# Chapter Fifteen – Business Plan Appendices

In the process of writing your business plan, you will come across information that is too important to be left out, but too detailed to be in the body of the plan. It helps to support your claims and can answer many of your reader's questions. This information belongs in an appendix.

An appendix can contain exhibits, figures, charts, important documents, and worksheets – anything that can help your case. It can also include supporting materials such as your mission statement, photographs, sample marketing materials, product reviews, product specifications, résumés, and website documents. Don't go overboard, though. Include information only if it adds value or helps clarify major points.

## Business plan appendix checklist

- n Market analysis data prepared by a third party consultant
- n Exhibits outlining expected timing of product development, hiring, or other significant corporate events
- n Product specifications, photographs, and brochures
- n Samples of advertising
- n Organizational chart and list of job responsibilities
- n Detailed résumés or biographical sketches of owners and managers
- n Personal financial statements, tax returns, and credit reports
- n Copies of contractual agreements
- n Commitment letters from major customers, suppliers, and lenders
- n References (either letters or contact names) from lawyers, accountants, suppliers, and banks
- n Hardcopies of websites
- n Mission statement
- n Vision statement
- n Résumés
- n Product reviews
- n Photographs of facilities
- n Copies of logos or trademarks



# Appendix A - Information Resources

## U.S. Small Business Administration (SBA):

The SBA offers extensive information about many business management topics from how to start a business to exporting products. The SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. The SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs, and contract assistance. For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

The SBA maintains a useful website at [www.sba.gov](http://www.sba.gov). It contains an online library with information on starting a business, writing a business plan, and on SBA loan programs.

## Service Corps of Retired Executives (SCORE):

The Service Corps of Retired Executives (SCORE) is a national organization sponsored by SBA. It is comprised of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Contact your local SBA office for more information about SCORE assistance in your area.

## Small Business Development Centers (SBDCs):

The SBA, in partnership with state and local governments, the educational community, and the private sector, sponsors SBDCs. Many colleges and universities partner with SBDCs to assist local entrepreneurs and companies. An SBDC acts as a catalyst for the interaction between small businesses and sources of capital.

An SBDC can help with the following:

- n Assist the small business in preparing its business plan and presenting it to potential investors.
- n Suggest to the entrepreneur additional resources to strengthen his presentation.
- n Recommend to the entrepreneur possible sources of capital, and coordinate approaches to the various sources.
- n Bring investment opportunities to the attention of appropriate sources of capital.
- n Provide an objective third party viewpoint to help the parties work towards a mutually satisfactory plan.
- n Provide general assistance to the small business.

Each state has at least one SBDC (called a lead office) with many States having several satellite SBDCs. A list of SBDC lead offices by state follows:

- n Univ. of Alaska/Anchorage, Anchorage, AK (907) 274-7232
- n Maricopa County Community College, Tempe, AZ (480) 731-8720
- n University of Arkansas, Little Rock, AR (501) 324-9043
- n California Trade and Commerce Agency, Sacramento, CA (916) 324-5068
- n Office of Business Development, Denver, CO (303) 892-3809
- n University of Connecticut, Storrs, CT (203) 486-4135
- n University of Delaware, Newark, DE (302) 831-2747
- n Howard University, Washington, DC (202) 806-1550
- n Economic Development Council, Indianapolis, IN (317) 264-6871
- n Iowa State University, Ames, IA (515) 292-6351
- n Wichita State University, Wichita, KS (316) 689-3193
- n University of Kentucky, Lexington, KY (606) 257-7668
- n Northeast Louisiana University, Monroe, LA (318) 342-5506
- n University of Southern Maine, Portland, ME (207) 780-4420
- n University of Massachusetts, Amherst, MA (413) 545-6301
- n University of Mississippi, University, MS (601) 232-5001
- n Department of Commerce, Helena, MT (406) 444-4780
- n University of Nebraska at Omaha, Omaha, NE (402) 554-2521
- n University of Nevada in Reno, Reno, NV (702) 784-1717
- n University of New Hampshire, Durham, NH (603) 862-2200
- n State University of New York, Albany, NY (two Locations) (518) 443-5398
- n University of North Carolina, Raleigh, NC (919) 571-4154
- n University of North Dakota, Grand Forks, ND (701) 777-3700
- n Department of Development, Columbus, OH (614) 466-2711
- n University of Pennsylvania, Philadelphia, PA (215) 898-1219
- n Bryant College, Springfield, RI (401) 232-6111
- n University of South Carolina, Columbia, SC (803) 777-4907
- n Memphis State University, Memphis, TN (901) 678-2500
- n University of Houston, Houston, TX (713) 752-8444
- n Texas Tech University, Lubbock, TX (806) 745-3973
- n University of Utah, Salt Lake City, UT (801) 581-7200
- n Vermont Technical College, Randolph Center, VT (802) 728-9101

- n University of the Virgin Islands, St. Thomas, US VI (340) 776-3206
- n Department of Economic Development, Richmond, VA (804) 371-8258
- n Washington State University, Pullman, WA (509) 335-1576
- n Governor's Office of Community and Industrial Development, Charleston, WV (304) 558-2960
- n University of Wisconsin, Madison, WI (608) 263-7794.

#### Small Business Institutes (SBIs):

SBIs are organized through the Small Business Administration (SBA) and operate on more than 500 college campuses nationwide. The institutes' students and faculty counsel small business clients. If you are interested in the services of an SBI, contact a local business college or the nearest Small Business Development Center to get a referral.

#### Other U.S. Government Resources:

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. You can request a Subject Bibliography by writing to Government Printing Office, Superintendent of Documents, and Washington, DC 20402-9328.

#### Sources of Free or Low Cost Government Information:

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to this address:

#### Consumer Information Center (CIC)

P.O. Box 100  
Pueblo, CO 81002

The CIC offers a consumer information catalog of federal publications.

The CIC also maintains a website at [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov).

#### Your Library:

A visit to your local library, or even better, the library of a college or university (particularly one that has a business school) could reveal many more useful publications and digital resources. If you are not familiar with the efficient means for finding business information in your library, discuss your needs with the librarian. A helpful librarian can locate the information you need and point you to valuable resources to simplify your

research. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics.

#### Trade Association Information:

Libraries have directories of trade associations where you can locate one or two pertinent to your business.

Trade associations provide a valuable network of resources to their members through magazines, newsletters, websites, trade shows, conferences and seminars.

#### Small Business Books:

Many guidebooks, textbooks and manuals on small business are published each year. To generate ideas, go to [www.amazon.com](http://www.amazon.com) or [www.barnesandnoble.com](http://www.barnesandnoble.com) and search using keywords such as business plan, business planning, starting a business, and venture capital. Here is a list of some useful business plan books:

- *Writing a Convincing Business Plan* by Arthur R. DeThomas, Ph.D. and William B. Fredenberger, Ph.D.  
This book is published by Barron's Educational Series, Inc. It is an excellent reference book for any businessperson, but particularly useful for compiling a business plan. The book provides excellent guidance on how to gather information, research an industry, and write an effective marketing plan. The book effectively covers the elements of a financial plan.
- *The Art of the Start: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything* by Guy Kawasaki. Terrific book about starting a business. Has a chapter on business plans but most of this book's value is found in the tips provided regarding getting your business launched.
- *The McGraw-Hill Guide to Writing a High-Impact Business Plan* by James B. Arkebauer  
Concise and full of examples, guidelines, and checklists, this book provides the basics of business plan preparation. The author is an entrepreneurial investment banker who has reviewed and/or prepared over 5,000 business plans.
- *The McGraw-Hill Guide to Starting Your Own Business: A Step-By-Step Blueprint for the First-Time Entrepreneur* by Stephen C. Harper  
This book shows new and prospective business owners how to beat the odds and join the select few who follow their dreams to financial reward, job satisfaction, and self-reliance.
- *Your First Business Plan* by Joseph Covello and Brian Hazelgren  
This book uses a workbook approach to preparing a business plan. The reader is presented with information, examples, advice, tips, and questions to guide him through the plan preparation. As the title suggests, the book takes a simple approach; for more complex business ventures, look for other books and information resources.
- *Business Plan in a Day* by Rhonda Abrams.  
This book uses an outline and forms approach to help you prepare a barebones business plan in a 24 hour period.
- *Business Plans that Work* Edited by Susan M. Jacksack, J.D.  
This book is part of The Commerce Clearing House Business Owner's Toolkit series

(www.toolkit.cch.com or on America Online keyword: CCH). CCH is a leading provider of high-quality business information. All the books in their toolkit series are compiled by editors who draw upon a team of experts in the field. This book provides guidelines, checklists, business documents, and examples to help you prepare a complete business plan.

- n *E-Shock: The Electronic Shopping Revolution: Strategies for Retailers and Manufacturers* by Michael De Kare-Silver. A textbook for understanding the e-commerce explosion and tapping into your share of the online customer base.
- n *Strikingitrich.com (Striking It Rich.com): Profiles of 23 Incredibly Successful Websites you've probably never heard Of* by Jaclyn Easton, Jeff Bezos  
This book gives accounts of little known web enterprises that are very successful.
- n *Angel Investing: Matching Start-Up Funds With Start-Up Companies* by Mark Van Osnabrugge and Robert J. Robinson. This comprehensive guide is a reference for people on both sides of angel investment. Entrepreneurs get practical advice on how to attract and pitch to investors, what to include in a business plan, and how to value a business. Angels can learn about connecting with startups, choose questions to ask before committing capital, and find out how to make their first investments.
- n *America's Business Funding Directory* (www.businessfinance.com) is an online resource to assist companies in obtaining capital, gaining support, finding government programs, getting expert help, and much more.
- n *Entrepreneur.com*. (www.entrepreneurmag.com)  
Maintained by Entrepreneur Magazine, this website has content related to how to start a business, run a business, and buy a franchise. The site ranks the most popular franchises.
- n *Microsoft's bCentral* (www.bcentral.com). This website provides information and resource links to help you promote your business online including how to get listed on search engines, advertise across the web, and use email to market your products and services.
- n *Startup.wsj.com* (startup.wsj.com). Website from the publishers of the Wall Street Journal that provides information and tools, such as a database of Venture Capital firms, Start-up Q&A, businesses for sale, and articles on franchising.
- n *Yahoo! Small Business* (smallbiz.yahoo.com). Website maintained by Yahoo! that provides business guides, tools, and other services that help you take your business online.

# *Appendix B - The Standard Industrial Classification System*

The Standard Industrial Classification (SIC) System specifies a name and number for the industry in which the company operates. The most widely used method for coding industry characteristics is SIC. The SIC is a uniform number-coding and verbal-description created by the U.S. federal government to classify businesses by the specific business activities that they engage in. As per the Standard Industrial Classification Manual, the major industry groups are as follows:

- n Agriculture, forestry, fishing
- n Mining
- n Construction
- n Manufacturing
- n Transportation, communication, electric, gas, and sanitary services
- n Wholesale trade - durable goods
- n Retail trade
- n Finance, insurance, and real estate
- n Services
- n Public administration
- n Non-classifiable establishment

Within each major industry category are major industry groups and subgroups that let you further refine and clearly identify the industry or industries your company operates in.

# Appendix C – Excel Workbooks

The developers of OfficeReady Business Plan had prepared a group of Excel workbooks, designed to help you create the pro-forma financials and supporting reports necessary for a solid business plan. This appendix provides descriptions and details about those workbooks. Keep in mind that although these workbooks provide the basic building blocks needed for the financial part of your business plan, you may need to tailor them or devise new worksheets to meet the needs of your business plan readers. Additional Excel templates can be purchased by visiting: [www.templatezone.com](http://www.templatezone.com)

## Break-Even Analysis (Break-Even Analysis.xls)

Use this workbook to calculate the break-even point. The break-even point is the sales volume needed to exactly cover all costs. At the break-even point there is no profit or loss. This template calculates the monthly break-even point in units and sales dollars (revenue).

### How to Begin

Start by entering the cost of the product followed by the fixed and variable costs. The fixed costs are monthly selling and general costs that do not vary with sales (or production) volume. A variable cost is one that does vary. For example, if a commission of \$2 is paid on each sale, then commission expense will be higher with higher sales. It moves in tandem with sales.

# Break-Even Analysis

|   | Fixed Costs      | Variable Costs   |
|---|------------------|------------------|
| <b>Product costs:</b>                     |                  |                  |
| Average Cost of Product                   |                  | \$ 20.00         |
| <b>Monthly Selling expenses:</b>          |                  |                  |
| Sales salaries & commissions              | \$ 10,000        | \$ 2.00          |
| Advertising                               | \$ 20,000        |                  |
| Miscellaneous selling expense             | \$ 2,000         |                  |
| <b>Monthly General expenses:</b>          |                  |                  |
| Office salaries                           | \$ 10,000        |                  |
| Supplies                                  | \$ 4,000         |                  |
| Miscellaneous general expense             | \$ 5,000         |                  |
| <b>Totals</b>                             | <u>\$ 51,000</u> | <u>\$ 22.00</u>  |
| Average Selling price per unit            |                  | \$ 45.00         |
| <b>Results:</b>                           |                  |                  |
| Contribution margin per unit              |                  | <u>\$ 23.00</u>  |
| Monthly unit sales at break-even point    |                  | <u>2,217</u>     |
| Monthly Sales Dollars at break-even point |                  | <u>\$ 99,783</u> |

Once you enter the selling price per unit, the worksheet calculates:

- n Contribution margin per unit (selling price less variable cost per unit)
- n Monthly unit sales at break-even point
- n Monthly sales dollars at break-even point (monthly break-even point in units x selling price)

## Using the Worksheet

Include the break-even point analysis as part of the appendix of your business plan. Include the numbers in your financial plan narrative as some readers will want to know your break-even point as the gap between where you believe you will be with sales volume and the break-even point is an indication of risk.

## Integrated Financials (Integrated Financials.xls)

Every business plan has a financial element to it. At a minimum, your business plan should show your projected sales, financial position, and cash flow. The Integrated Financials workbook consists of the following worksheets to help you get started on your way to preparing a financial plan:



| <b>Financials</b>                    | <b>Worksheet Names</b>           | <b>Description</b>  |
|--------------------------------------|----------------------------------|---|
| Sales Forecast (24-month and 5-year) | 24 Mth Forecast<br>5 Yr Forecast | Worksheets to help you organize your sales forecasts (by month for the first 24 months and by year for the first 5 years)                                       |
| 24-Month Income Statements           | 24 Mth Inc Stmt                  | Income statement template that helps you prepare an pro-forma income statement for each month for the first 24 months of your planning period.                  |
| 5-Year Income Statements             | 5 Yr Inc Stmt                    | Income statement template that helps you prepare pro forma income statement for each of the 5 years in your planning period.                                    |
| 24-Month Cash Budgets                | 24 Mth Cash Bdgt                 | Cash budget template that helps you prepare a pro forma cash budgets for each of the first 24 months in your planning period.                                   |
| 5-Year Cash Budgets                  | 5 Yr Cash Bdgt                   | Cash budget template that helps you prepare a pro forma cash budget for each of the 5 years in your planning period.  |
| 5-Year Balance Sheets                | 5 Yr Bal Sheet                   | A business balance sheet template that helps you prepare pro-forma balance sheets as of the end of the fiscal year for each year of the 5 year planning period. |
| Financial Ratios                     | Ratios                           | A summary of financial ratios, based on the numbers in the financials, for the end of the year for each of the 5 years in the planning period.                  |

### **How to Begin**

The first thing you should do is to enter (in the Intro worksheet) the end date of the first fiscal year of your business plan. This date is used to set up the starting month and the year-end dates for both the monthly and annual projections. You may also enter text describing the units used in your plan. If you do not wish to state numbers in thousands, you can simply clear the contents of the notation cell. Continue by completing the worksheets in the order they appear in the workbook. The table of contents of the workbook offers hyperlinks to each worksheet.

The preparation of Pro-forma financials begins with a solid sales forecast. So spend a considerable amount of time crafting your sales forecast.

## Integrated Financials

Use this workbook to prepare the financial projections to accompany your business plan document. Begin by completing the sheets in the order they appear in the workbook. The table of contents below offers hyperlinks to each worksheet.

In the cell below, enter the end date of the first fiscal year of your business plan. This date is used to set up the starting month and the year-end dates for both the monthly and annual projections. You may also enter text describing the units used in your plan. If you do not wish to state numbers in thousands, you can simply clear the contents of the notation cell.

**Date of First Year-end:**

12/31/06

**Units Notation:**

(all numbers in \$000s)

To use the template, click a sheet tab at the bottom of the screen or press Ctrl-PgDn. Data entry cells are unprotected and highlighted in yellow. All other cells are protected.

### Table of Contents

#### **Sales Forecast**

[24 Month Sales Forecast](#)

[5 Year Sales Forecast](#)

#### **Pro-Forma Income Statements**

[Income Statements: First 24 months](#)

[Income Statements: 5 Years](#)

#### **Cash Flow**

[Cash Budgets: First 24 months](#)

[Cash Budgets: 5 Years](#)

#### **Pro-Forma Financial Position**

[Balance Sheets: 5 Years](#)

[Ratios](#)

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## Sales Forecast (24 Mth Forecast and 5 Yr Forecast)

You start by preparing the 24 months sales forecast (worksheet named: 24 Mth Forecast). Enter the names of your products/services in the first column and then enter your sales forecast by month. The template will total the sale in the last column.

| Sales Forecast   |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| First 12 Months  |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| For the year ended Dec 31, 2006<br>(all numbers in \$000s) |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|  | Jan             | Feb             | Mar             | Apr             | May             | Jun             | Jul             | Aug             | Sep             | Oct             | Nov             | Dec             | Total            |
| Skates   | \$ 2,000        | \$ 2,020        | \$ 2,040        | \$ 2,061        | \$ 2,081        | \$ 2,102        | \$ 2,123        | \$ 2,144        | \$ 2,166        | \$ 2,187        | \$ 2,209        | \$ 2,231        | \$ 25,365        |
| Boards   | 500             | 510             | 520             | 531             | 541             | 552             | 563             | 574             | 586             | 598             | 609             | 622             | 6,706            |
| Skis   | 800             | 808             | 817             | 825             | 834             | 843             | 852             | 861             | 870             | 879             | 888             | 897             | 10,174           |
| Boots  | 550             | 550             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 7,100            |
| Shoes  | 300             | 300             | 301             | 301             | 301             | 302             | 302             | 302             | 302             | 303             | 303             | 303             | 3,620            |
| Gloves   | 250             | 254             | 258             | 261             | 265             | 269             | 273             | 277             | 282             | 286             | 290             | 294             | 3,260            |
| Hats   | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 481              |
| Coats  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Pants  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Misc   | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 600              |
| <b>Total Sales</b>   | <b>\$ 4,650</b> | <b>\$ 4,694</b> | <b>\$ 4,789</b> | <b>\$ 4,834</b> | <b>\$ 4,880</b> | <b>\$ 4,926</b> | <b>\$ 4,973</b> | <b>\$ 5,021</b> | <b>\$ 5,069</b> | <b>\$ 5,118</b> | <b>\$ 5,167</b> | <b>\$ 5,217</b> | <b>\$ 59,336</b> |

| Sales Forecast   |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Second 12 Months   |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| For the year ended Dec 31, 2007<br>(all numbers in \$000s) |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|  | Jan             | Feb             | Mar             | Apr             | May             | Jun             | Jul             | Aug             | Sep             | Oct             | Nov             | Dec             | Total            |
| Skates   | \$ 2,000        | \$ 2,020        | \$ 2,040        | \$ 2,061        | \$ 2,081        | \$ 2,102        | \$ 2,123        | \$ 2,144        | \$ 2,166        | \$ 2,187        | \$ 2,209        | \$ 2,231        | \$ 25,365        |
| Boards   | 500             | 505             | 510             | 515             | 520             | 526             | 531             | 536             | 541             | 547             | 552             | 558             | 6,341            |
| Skis   | 800             | 808             | 816             | 824             | 832             | 841             | 849             | 858             | 866             | 875             | 884             | 893             | 10,146           |
| Boots  | 550             | 556             | 561             | 567             | 572             | 578             | 584             | 590             | 596             | 602             | 608             | 614             | 6,975            |
| Shoes  | 300             | 303             | 306             | 309             | 312             | 315             | 318             | 322             | 325             | 328             | 331             | 335             | 3,805            |
| Gloves   | 250             | 253             | 255             | 258             | 260             | 263             | 265             | 268             | 271             | 273             | 276             | 279             | 3,171            |
| Hats   | 40              | 40              | 41              | 41              | 42              | 42              | 42              | 43              | 43              | 44              | 44              | 45              | 507              |
| Coats  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Pants  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Misc   | 50              | 51              | 51              | 52              | 52              | 53              | 53              | 54              | 54              | 55              | 55              | 56              | 634              |
| <b>Total Sales</b>   | <b>\$ 4,650</b> | <b>\$ 4,697</b> | <b>\$ 4,743</b> | <b>\$ 4,791</b> | <b>\$ 4,839</b> | <b>\$ 4,887</b> | <b>\$ 4,936</b> | <b>\$ 4,985</b> | <b>\$ 5,035</b> | <b>\$ 5,086</b> | <b>\$ 5,136</b> | <b>\$ 5,188</b> | <b>\$ 58,974</b> |

Your next step is to complete the five year forecast in the worksheet named: 5 Yr Forecast. The first two years are automatically consolidated from the 24 Mth Forecast worksheet. You will need to enter formulas or numbers to complete the forecast for the last three years.

| Sales Forecast   |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
| For the years 2007 through 2011<br>(all numbers in \$000s) |                  |                  |                  |                  |                  |
|  | 2007             | 2008             | 2009             | 2010             | 2011             |
| Skates   | \$ 25,365        | \$ 25,365        | \$ 26,633        | \$ 27,965        | \$ 29,363        |
| Boards   | \$ 6,706         | \$ 6,341         | \$ 6,658         | \$ 6,991         | \$ 7,341         |
| Skis   | \$ 10,174        | \$ 10,146        | \$ 10,653        | \$ 11,186        | \$ 11,745        |
| Boots  | \$ 7,100         | \$ 6,975         | \$ 7,324         | \$ 7,690         | \$ 8,075         |
| Shoes  | \$ 3,620         | \$ 3,805         | \$ 3,995         | \$ 4,195         | \$ 4,404         |
| Gloves   | \$ 3,260         | \$ 3,171         | \$ 3,329         | \$ 3,496         | \$ 3,670         |
| Hats   | \$ 481           | \$ 507           | \$ 533           | \$ 559           | \$ 587           |
| Coats  | \$ 1,015         | \$ 1,015         | \$ 1,065         | \$ 1,119         | \$ 1,175         |
| Pants  | \$ 1,015         | \$ 1,015         | \$ 1,065         | \$ 1,119         | \$ 1,175         |
| Misc   | \$ 600           | \$ 634           | \$ 666           | \$ 699           | \$ 734           |
| <b>Total Sales</b>   | <b>\$ 59,336</b> | <b>\$ 58,974</b> | <b>\$ 61,922</b> | <b>\$ 65,018</b> | <b>\$ 68,269</b> |

## Adapting the Sales Forecast Worksheets

Since by default these worksheets allow for up to 20 products and/or services, if you are going to forecast for more than 20 items, you will need to more insert rows, both into the 24 Mth Forecast worksheet and the 5 Yr Forecast worksheet. If you do that, you will also need to copy formulas down column O, in the 24 Mth Forecast, column B in the second 24 month sales forecast (24 Mth Forecast), and in columns B, C, and D of the 5 Yr Forecast. The worksheets use cell references to link both text and numbers to subsequent sections of the worksheets so you may want to become familiar with those “linkages” prior to inserting or deleting rows.

Also, if you forecast less than 20 items, you may want to delete (Edit Delete Entire row) the extra rows. If you do that on the first worksheet (24 Mth Forecast) keep in mind you will need to also delete the extra rows in the second section of the 24 Mth Forecast and in the 5 Yr Forecast worksheet. If you don't the MS Excel #REF! error message will appear.

## Income Statements (24 Mth Inc Stmt and 5 Yr Inc Stmt)

Like the sales forecast, two worksheets make up the projected income statements. The worksheet named: 24 Mth Inc Stmt is a template that allows you to prepare an income statement for each of 24 months (the first two years of your 5 year planning period).

| Income Statement   |          |          |          |          |          |          |          |          |          |          |          |          |           |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| First 12 Months  |          |          |          |          |          |          |          |          |          |          |          |          |           |
| For the year ended Dec 31, 2006<br>(all numbers in \$000s) |          |          |          |          |          |          |          |          |          |          |          |          |           |
| Revenue  | Jan      | Feb      | Mar      | Apr      | May      | Jun      | Jul      | Aug      | Sep      | Oct      | Nov      | Dec      | Total     |
| Gross sales  | \$ 4,650 | \$ 4,694 | \$ 4,769 | \$ 4,834 | \$ 4,880 | \$ 4,926 | \$ 4,973 | \$ 5,021 | \$ 5,069 | \$ 5,118 | \$ 5,167 | \$ 5,217 | \$ 59,336 |
| Less returns & allowances                                  | 47       | 47       | 48       | 48       | 49       | 49       | 50       | 51       | 51       | 52       | 52       | 52       | 593       |
| Net Sales  | 4,604    | 4,647    | 4,741    | 4,786    | 4,831    | 4,877    | 4,923    | 4,970    | 5,018    | 5,066    | 5,115    | 5,165    | 58,742    |
| Cost of Sales  | 1,381    | 1,394    | 1,422    | 1,436    | 1,449    | 1,463    | 1,477    | 1,491    | 1,505    | 1,520    | 1,535    | 1,549    | 17,623    |
| Gross Profit (Loss)  | \$ 3,222 | \$ 3,253 | \$ 3,319 | \$ 3,350 | \$ 3,382 | \$ 3,414 | \$ 3,446 | \$ 3,479 | \$ 3,513 | \$ 3,546 | \$ 3,581 | \$ 3,615 | \$ 41,120 |
| Operating Expenses   |          |          |          |          |          |          |          |          |          |          |          |          |           |
| Selling  |          |          |          |          |          |          |          |          |          |          |          |          |           |
| Salaries & wages   | \$ 64    | \$ 66    | \$ 68    | \$ 70    | \$ 73    | \$ 75    | \$ 77    | \$ 79    | \$ 82    | \$ 84    | \$ 87    | \$ 89    | \$ 915    |
| Commissions  | 233      | 237      | 242      | 247      | 252      | 257      | 262      | 267      | 272      | 278      | 283      | 289      | 3,118     |
| Advertising  | 47       | 47       | 48       | 49       | 50       | 51       | 52       | 53       | 54       | 56       | 57       | 58       | 624       |
| Depreciation   | 100      | 102      | 104      | 106      | 108      | 110      | 113      | 115      | 117      | 120      | 122      | 124      | 1,341     |
| Other  | 100      | 102      | 104      | 106      | 108      | 110      | 113      | 115      | 117      | 120      | 122      | 124      | 1,341     |
| Total Selling Expenses                                     | \$ 543   | \$ 555   | \$ 567   | \$ 579   | \$ 591   | \$ 604   | \$ 616   | \$ 629   | \$ 643   | \$ 657   | \$ 671   | \$ 685   | \$ 7,339  |
| General & Administrative                                   |          |          |          |          |          |          |          |          |          |          |          |          |           |
| Salaries & wages   | \$ 64    | \$ 65    | \$ 66    | \$ 66    | \$ 67    | \$ 68    | \$ 68    | \$ 69    | \$ 70    | \$ 70    | \$ 71    | \$ 72    | \$ 817    |
| Employee benefits  | 42       | 42       | 43       | 43       | 44       | 44       | 44       | 45       | 45       | 46       | 46       | 47       | 531       |
| Payroll taxes  | 13       | 13       | 13       | 13       | 13       | 14       | 14       | 14       | 14       | 14       | 14       | 14       | 163       |
| Insurance  | 10       | 10       | 10       | 10       | 10       | 11       | 11       | 11       | 11       | 11       | 11       | 11       | 127       |
| Rent   | 10       | 10       | 10       | 10       | 10       | 11       | 11       | 11       | 11       | 11       | 11       | 11       | 127       |
| Utilities  | 6        | 6        | 6        | 6        | 6        | 6        | 6        | 6        | 6        | 7        | 7        | 7        | 76        |
| Depreciation & amortization                                | 10       | 10       | 10       | 10       | 10       | 11       | 11       | 11       | 11       | 11       | 11       | 11       | 127       |
| Office supplies  | 2        | 2        | 2        | 2        | 2        | 2        | 2        | 2        | 2        | 2        | 2        | 2        | 25        |
| Travel & entertainment                                     | 4        | 4        | 4        | 4        | 4        | 4        | 4        | 4        | 4        | 4        | 4        | 4        | 51        |
| Postage  | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 13        |
| Furniture & equipment                                      | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 38        |
| Repairs & maintenance                                      | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 3        | 38        |
| Interest   | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 1        | 13        |
| Total G&A Expenses   | \$ 169   | \$ 171   | \$ 173   | \$ 174   | \$ 176   | \$ 178   | \$ 180   | \$ 181   | \$ 183   | \$ 185   | \$ 187   | \$ 189   | \$ 2,146  |
| Total Operating Expenses                                   | \$ 713   | \$ 726   | \$ 739   | \$ 753   | \$ 767   | \$ 781   | \$ 796   | \$ 811   | \$ 826   | \$ 842   | \$ 857   | \$ 874   | \$ 9,485  |
| Net Income Before Taxes                                    | \$ 2,510 | \$ 2,527 | \$ 2,579 | \$ 2,597 | \$ 2,614 | \$ 2,632 | \$ 2,650 | \$ 2,668 | \$ 2,686 | \$ 2,705 | \$ 2,723 | \$ 2,742 | \$ 31,634 |
| Taxes on income  |          |          |          |          |          |          |          |          |          |          |          |          | 0         |
| Net Income After Taxes                                     | \$ 2,510 | \$ 2,527 | \$ 2,579 | \$ 2,597 | \$ 2,614 | \$ 2,632 | \$ 2,650 | \$ 2,668 | \$ 2,686 | \$ 2,705 | \$ 2,723 | \$ 2,742 | \$ 31,634 |
| Extraordinary gain or loss                                 |          |          |          |          |          |          |          |          |          |          |          |          | \$ 0      |
| Income tax on exit gain                                    |          |          |          |          |          |          |          |          |          |          |          |          | 0         |
| Net Income (Loss)  | \$ 2,510 | \$ 2,527 | \$ 2,579 | \$ 2,597 | \$ 2,614 | \$ 2,632 | \$ 2,650 | \$ 2,668 | \$ 2,686 | \$ 2,705 | \$ 2,723 | \$ 2,742 | \$ 31,634 |

Once you have completed the 24 Mth Inc Stmt worksheet, go to the 5 Yr Inc Stmt worksheet and complete it. The first two years will be consolidated from the 24 Mth Inc Stmt worksheet, therefore, you will need to concentrate on the last 3 years.

## Income Statement

**For the years 2006 through 2010**  
(all numbers in \$000s)

| <b>Revenue</b>                  | <b>2006</b>      | <b>2007</b>      | <b>2008</b>      | <b>2009</b>      | <b>2010</b>      |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Gross sales                     | \$ 59,336        | \$ 58,974        | \$ 58,974        | \$ 61,922        | \$ 65,018        |
| Less returns & allowances       | 593              | 590              | 590              | 619              | 650              |
| Net Sales                       | 58,742           | 58,384           | 58,384           | 61,303           | 64,368           |
| Cost of Sales                   | 17,623           | 17,515           | 17,515           | 18,391           | 19,310           |
| <b>Gross Profit (Loss)</b>      | <b>\$ 41,120</b> | <b>\$ 40,869</b> | <b>\$ 40,869</b> | <b>\$ 42,912</b> | <b>\$ 45,058</b> |
| <b>Operating Expenses</b>       |                  |                  |                  |                  |                  |
| Selling                         |                  |                  |                  |                  |                  |
| Salaries & wages                | \$ 915           | \$ 915           | \$ 915           | \$ 933           | \$ 952           |
| Commissions                     | 3,118            | 3,118            | 3,118            | 3,181            | 3,244            |
| Advertising                     | 624              | 624              | 624              | 636              | 649              |
| Depreciation                    | 1,341            | 1,341            | 1,341            | 1,368            | 1,395            |
| Other                           | 1,341            | 1,341            | 1,341            | 1,368            | 1,395            |
| <b>Total Selling Expenses</b>   | <b>\$ 7,339</b>  | <b>\$ 7,339</b>  | <b>\$ 7,339</b>  | <b>\$ 7,486</b>  | <b>\$ 7,636</b>  |
| General & Administrative        |                  |                  |                  |                  |                  |
| Salaries & wages                | \$ 817           | \$ 817           | \$ 826           | \$ 834           | \$ 842           |
| Employee benefits               | 531              | 531              | 537              | 542              | 547              |
| Payroll taxes                   | 163              | 163              | 165              | 167              | 168              |
| Insurance                       | 127              | 127              | 128              | 129              | 131              |
| Rent                            | 127              | 127              | 128              | 129              | 131              |
| Utilities                       | 76               | 76               | 77               | 78               | 78               |
| Depreciation & amortization     | 127              | 127              | 128              | 129              | 131              |
| Office supplies                 | 25               | 25               | 26               | 26               | 26               |
| Travel & entertainment          | 51               | 51               | 51               | 52               | 52               |
| Postage                         | 13               | 13               | 13               | 13               | 13               |
| Furniture & equipment           | 38               | 38               | 38               | 39               | 39               |
| Repairs & maintenance           | 38               | 38               | 38               | 39               | 39               |
| Interest                        | 13               | 13               | 13               | 13               | 13               |
| <b>Total G&amp;A Expenses</b>   | <b>\$ 2,146</b>  | <b>\$ 2,146</b>  | <b>\$ 2,168</b>  | <b>\$ 2,189</b>  | <b>\$ 2,211</b>  |
| <b>Total Operating Expenses</b> | <b>\$ 9,485</b>  | <b>\$ 9,485</b>  | <b>\$ 9,507</b>  | <b>\$ 9,675</b>  | <b>\$ 9,847</b>  |
| <b>Net Income Before Taxes</b>  | <b>\$ 31,634</b> | <b>\$ 31,383</b> | <b>\$ 31,362</b> | <b>\$ 33,237</b> | <b>\$ 35,211</b> |
| Taxes on income                 | 0                | 0                |                  |                  |                  |
| <b>Net Income After Taxes</b>   | <b>\$ 31,634</b> | <b>\$ 31,383</b> | <b>\$ 31,362</b> | <b>\$ 33,237</b> | <b>\$ 35,211</b> |
| Extraordinary gain or loss      | \$ 0             | \$ 0             |                  |                  |                  |
| Income tax on ext gain          | 0                | 0                |                  |                  |                  |
| <b>Net Income (Loss)</b>        | <b>\$ 31,634</b> | <b>\$ 31,383</b> | <b>\$ 31,362</b> | <b>\$ 33,237</b> | <b>\$ 35,211</b> |

## Cash Budgets (24 Mth Cash Bdgt and 5 Yr Cash Bdgt)

The next logical step in the preparation of the integrated financials is the cash budget. This is done in two parts: budgets for the first two years (by month for 24 months) and for the last 3 years of the 5 year planning period.

Your very first step is to enter the beginning cash balance in cell D9 of the worksheet named: 24 Mth Cash Bdgt.

Enter the beginning cash balance here

| <b>Cash Budget</b><br>First 12 Months                      |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
|--|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| For the year ended Dec 31, 2006<br>(all numbers in \$000s) |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
|  | Jan             | Feb             | Mar             | Apr             | May              | Jun              | Jul              | Aug              | Sep              | Oct              | Nov              | Dec              |
| Beginning cash balance                                     | \$ 1,000        | \$ 2,004        | \$ 4,016        | \$ 5,571        | \$ 7,583         | \$ 9,654         | \$ 11,733        | \$ 13,810        | \$ 15,912        | \$ 18,013        | \$ 20,122        | \$ 22,239        |
| Cash from operations                                       | 2,620           | 2,629           | 2,693           | 2,713           | 2,733            | 2,753            | 2,773            | 2,794            | 2,814            | 2,835            | 2,856            | 2,877            |
| <b>Total Available Cash</b>                                | <b>\$ 3,620</b> | <b>\$ 4,643</b> | <b>\$ 6,710</b> | <b>\$ 8,284</b> | <b>\$ 10,316</b> | <b>\$ 12,407</b> | <b>\$ 14,506</b> | <b>\$ 16,612</b> | <b>\$ 18,726</b> | <b>\$ 20,848</b> | <b>\$ 22,978</b> | <b>\$ 25,116</b> |
| <b>Less:</b>   |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital expenditures                                       | \$ 1,000        |                 | \$ 500          | \$ 50           |                  |                  |                  |                  |                  |                  |                  |                  |
| Operating Expenses   | 603             | 614             | 625             | 637             | 648              | 661              | 673              | 685              | 698              | 711              | 725              | 738              |
| Interest   | 2               | 2               | 2               | 2               | 2                | 2                | 2                | 2                | 2                | 2                | 2                | 2                |
| Dividends  |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
| Debt retirement  | 10              | 10              | 11              | 11              | 11               | 11               | 12               | 12               | 12               | 12               | 12               | 13               |
| Other  | 1               | 1               | 1               | 1               | 1                | 1                | 1                | 1                | 1                | 1                | 1                | 1                |
| <b>Total Disbursements</b>                                 | <b>\$ 1,616</b> | <b>\$ 627</b>   | <b>\$ 1,129</b> | <b>\$ 701</b>   | <b>\$ 662</b>    | <b>\$ 676</b>    | <b>\$ 688</b>    | <b>\$ 700</b>    | <b>\$ 713</b>    | <b>\$ 726</b>    | <b>\$ 740</b>    | <b>\$ 754</b>    |
| <b>Cash Surplus (Deficit)</b>                              | <b>\$ 2,004</b> | <b>\$ 4,016</b> | <b>\$ 5,571</b> | <b>\$ 7,583</b> | <b>\$ 9,654</b>  | <b>\$ 11,733</b> | <b>\$ 13,810</b> | <b>\$ 15,912</b> | <b>\$ 18,013</b> | <b>\$ 20,122</b> | <b>\$ 22,239</b> | <b>\$ 24,362</b> |
| <b>Add:</b>  |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
| Short-term loans   |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
| Long-term loans  |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital stock issues                                       |                 |                 |                 |                 |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Total Additions</b>                                     | <b>\$ 0</b>     | <b>\$ 0</b>     | <b>\$ 0</b>     | <b>\$ 0</b>     | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      |
| <b>Ending Cash Balance</b>                                 | <b>\$ 2,004</b> | <b>\$ 4,016</b> | <b>\$ 5,571</b> | <b>\$ 7,583</b> | <b>\$ 9,654</b>  | <b>\$ 11,733</b> | <b>\$ 13,810</b> | <b>\$ 15,912</b> | <b>\$ 18,013</b> | <b>\$ 20,122</b> | <b>\$ 22,239</b> | <b>\$ 24,362</b> |

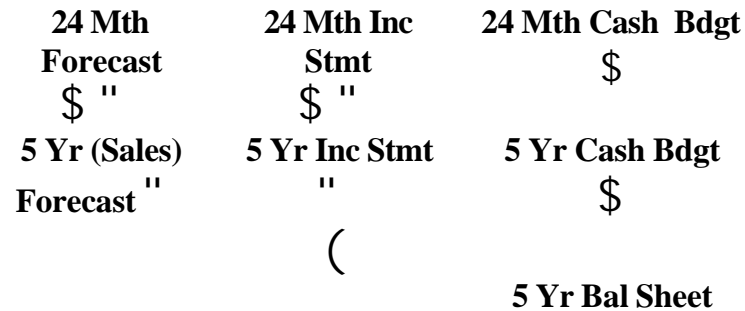
  

| <b>Cash Budget</b><br>Second 12 Months                     |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| For the year ended Dec 31, 2007<br>(all numbers in \$000s) |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|  | Jan              | Feb              | Mar              | Apr              | May              | Jun              | Jul              | Aug              | Sep              | Oct              | Nov              | Dec              |
| Beginning cash balance                                     | \$ 24,362        | \$ 26,982        | \$ 29,623        | \$ 32,285        | \$ 34,968        | \$ 37,673        | \$ 40,399        | \$ 43,147        | \$ 45,917        | \$ 48,708        | \$ 51,521        | \$ 54,357        |
| Cash from operations                                       | 2,620            | 2,641            | 2,662            | 2,683            | 2,705            | 2,726            | 2,748            | 2,770            | 2,791            | 2,813            | 2,835            | 2,857            |
| <b>Total Available Cash</b>                                | <b>\$ 26,982</b> | <b>\$ 29,623</b> | <b>\$ 32,285</b> | <b>\$ 34,968</b> | <b>\$ 37,673</b> | <b>\$ 40,399</b> | <b>\$ 43,147</b> | <b>\$ 45,917</b> | <b>\$ 48,708</b> | <b>\$ 51,521</b> | <b>\$ 54,357</b> | <b>\$ 57,214</b> |
| <b>Less:</b>   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital expenditures                                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Operating Expenses   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Interest   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Dividends  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Debt retirement  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Other  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Total Disbursements</b>                                 | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      |
| <b>Cash Surplus (Deficit)</b>                              | <b>\$ 26,982</b> | <b>\$ 29,623</b> | <b>\$ 32,285</b> | <b>\$ 34,968</b> | <b>\$ 37,673</b> | <b>\$ 40,399</b> | <b>\$ 43,147</b> | <b>\$ 45,917</b> | <b>\$ 48,708</b> | <b>\$ 51,521</b> | <b>\$ 54,357</b> | <b>\$ 57,214</b> |
| <b>Add:</b>  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Short-term loans   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Long-term loans  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital stock issues                                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Total Additions</b>                                     | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      | <b>\$ 0</b>      |
| <b>Ending Cash Balance</b>                                 | <b>\$ 26,982</b> | <b>\$ 29,623</b> | <b>\$ 32,285</b> | <b>\$ 34,968</b> | <b>\$ 37,673</b> | <b>\$ 40,399</b> | <b>\$ 43,147</b> | <b>\$ 45,917</b> | <b>\$ 48,708</b> | <b>\$ 51,521</b> | <b>\$ 54,357</b> | <b>\$ 57,214</b> |

Once you are finished with the first 24 months of cash flow projections, move onto the worksheet entitled: 5 Yr Cash Bdgt and complete that. Like with the sales forecasts and the income statements, the 24 month projections supply numbers to the 5 Yr Cash Bdgt, therefore, you will need to complete the last three years of the 5 Year Cash Budget worksheet.

### Worksheet Financial Integration

The term “integration” means that these worksheets are linked in a number of ways. Sales forecast feed into income statements and cash budgets. Income statements supply the cash budgets and balance sheets with critical numbers (revenues, expenses, increases in retained earnings etc.). Below is a simple diagram that summarizes the links between the worksheets in the Integrated Financials workbook.



### Using the Worksheets

The worksheets of the Integrated Financials workbook are a critical element of your business plan. In your business plan Word document, refer to the financials and include them in their entirety as an appendix to your business plan. The pro-formas are necessary documentation for business loans, venture capital, and top management decision making.

#### Projected Personal Financial Condition (Personal Balance Sheet.xls)

This worksheet allows you to prepare a personal balance sheet. Enter cost basis and current values for all your assets. Also enter your total liabilities to calculate a projected net worth.

# Personal Balance Sheet

Jim Smith

December 31, 2006

|                                     | Cost Basis | Estimated Current | % of Assets |
|-------------------------------------|------------|-------------------|-------------|
| <b>Liquid Assets</b>                |            |                   |             |
| Savings                             | \$10,000   | \$10,000          | 1%          |
| Money market                        | 5,000      | 5,000             | 1%          |
| CDs                                 | 5,000      | 5,000             | 1%          |
| Other                               | 1,000      | 1,000             | 0%          |
| <b>Total liquid assets</b>          |            | \$21,000          | 2%          |
| <b>Marketable Investments</b>       |            |                   |             |
| Stocks                              | 4,000      | 8,000             | 1%          |
| Mutual funds                        | 3,000      | 50,900            | 5%          |
| Corporate bonds                     | 2,000      | 2,400             | 0%          |
| Municipal bonds                     | 10,000     | 12,000            | 1%          |
| Government bonds                    | 2,000      | 2,300             | 0%          |
| Other                               | 1,000      | 1,000             | 0%          |
| <b>Total marketable investments</b> |            | \$76,600          | 8%          |
| <b>Other Investments</b>            |            |                   |             |
| Business interests                  | 10,000     | 100,000           | 10%         |
| Partnership interests               | 10,000     | 12,000            | 1%          |
| Real estate                         | 15,000     | 20,000            | 2%          |
| Retirement accounts                 | 3,000      | 5,000             | 1%          |
| Other                               | 1,200      | 13,000            | 1%          |
| <b>Total other investments</b>      |            | \$150,000         | 15%         |
| <b>Personal assets</b>              |            |                   |             |
| Residence                           | 120,000    | 250,000           | 25%         |
| Vacation home                       | 130,000    | 450,000           | 45%         |
| Autos                               | 25,000     | 20,000            | 2%          |
| Furniture etc.                      | 12,000     | 13,000            | 1%          |
| Other                               | 12,000     | 14,000            | 1%          |
| <b>Total personal assets</b>        |            | \$747,000         | 75%         |
| <b>Total assets</b>                 |            | \$994,600         | 100%        |
| <b>Liabilities</b>                  |            |                   |             |
| Credit Cards                        |            | 3,000             | 0%          |
| Education loans                     |            | 5,000             | 1%          |
| Automobile loans                    |            | 10,000            | 1%          |
| Mortgages                           |            | 150,000           | 15%         |
| Other Debts                         |            | 9,000             | 1%          |
| <b>Total liabilities</b>            |            | \$177,000         | 18%         |
| <b>Net Worth</b>                    |            | \$817,600         | 82%         |

## Using the Worksheet

Sometimes the personal balance sheet is a requirement of the reader of the business plan (bankers, venture capitalists, etc.). In that case, include the personal balance sheet as part of the business plan appendix.



## Sales Forecast (Sales Forecast.xls)

When preparing pro-forma financial statements for your business plan, you may want to prepare a detailed sales forecast. Use this workbook to prepare a detailed Sales Forecast. The templates accommodate up to 20 products or services, and are designed for maximum flexibility. Enter numbers directly into cells or create formulas incorporating monthly or annual growth rates. The workbook summarizes monthly sales forecast results for 24 months and annual sales forecasts for 5 years.

This workbook has two worksheets:

24 Mth Forecast – which contains a worksheet you can use to prepare the first two years of sales forecasts (by product or service)

5 Yr Forecast – which contains a worksheet that shows five years of sales forecasts by consolidating the first 24 months (from the worksheet named: 24 Mth Forecast) and adding 3 more years.

### How to Begin

You start by preparing the 24 months sales forecast (worksheet named: 24 Mth Forecast). Enter the names of your products/services in the first column and then enter your sales forecast by month. The template will total the sale in the last column.

| <b>Sales Forecast</b>                                      |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| First 12 Months  |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| For the year ended Dec 31, 2007<br>(all numbers in \$000s) |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|  | Jan             | Feb             | Mar             | Apr             | May             | Jun             | Jul             | Aug             | Sep             | Oct             | Nov             | Dec             | Total            |
| Skates   | \$ 2,000        | \$ 2,020        | \$ 2,040        | \$ 2,061        | \$ 2,081        | \$ 2,102        | \$ 2,123        | \$ 2,144        | \$ 2,166        | \$ 2,187        | \$ 2,209        | \$ 2,231        | \$ 25,365        |
| Boards   | 500             | 510             | 520             | 531             | 541             | 552             | 563             | 574             | 586             | 598             | 609             | 622             | 6,706            |
| Skis   | 800             | 808             | 817             | 825             | 834             | 843             | 852             | 861             | 870             | 879             | 888             | 897             | 10,174           |
| Boots  | 550             | 550             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 600             | 7,100            |
| Shoes  | 300             | 300             | 301             | 301             | 301             | 302             | 302             | 302             | 302             | 303             | 303             | 303             | 3,620            |
| Gloves   | 250             | 254             | 258             | 261             | 265             | 269             | 273             | 277             | 282             | 286             | 290             | 294             | 3,260            |
| Hats   | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 40              | 481              |
| Coats  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Pants  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Misc   | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 50              | 600              |
| <b>Total Sales</b>   | <b>\$ 4,650</b> | <b>\$ 4,694</b> | <b>\$ 4,789</b> | <b>\$ 4,834</b> | <b>\$ 4,880</b> | <b>\$ 4,926</b> | <b>\$ 4,973</b> | <b>\$ 5,021</b> | <b>\$ 5,069</b> | <b>\$ 5,118</b> | <b>\$ 5,167</b> | <b>\$ 5,217</b> | <b>\$ 59,336</b> |

| <b>Sales Forecast</b>                                      |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Second 12 Months   |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| For the year ended Dec 31, 2008<br>(all numbers in \$000s) |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
|  | Jan             | Feb             | Mar             | Apr             | May             | Jun             | Jul             | Aug             | Sep             | Oct             | Nov             | Dec             | Total            |
| Skates   | \$ 2,000        | \$ 2,020        | \$ 2,040        | \$ 2,061        | \$ 2,081        | \$ 2,102        | \$ 2,123        | \$ 2,144        | \$ 2,166        | \$ 2,187        | \$ 2,209        | \$ 2,231        | \$ 25,365        |
| Boards   | 500             | 505             | 510             | 515             | 520             | 526             | 531             | 536             | 541             | 547             | 552             | 558             | 6,341            |
| Skis   | 800             | 808             | 816             | 824             | 832             | 841             | 849             | 858             | 866             | 875             | 884             | 893             | 10,146           |
| Boots  | 550             | 556             | 561             | 567             | 572             | 578             | 584             | 590             | 596             | 602             | 608             | 614             | 6,975            |
| Shoes  | 300             | 303             | 306             | 309             | 312             | 315             | 318             | 322             | 325             | 328             | 331             | 335             | 3,805            |
| Gloves   | 250             | 253             | 255             | 258             | 260             | 263             | 265             | 268             | 271             | 273             | 276             | 279             | 3,171            |
| Hats   | 40              | 40              | 41              | 41              | 42              | 42              | 42              | 43              | 43              | 44              | 44              | 45              | 507              |
| Coats  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Pants  | 80              | 81              | 82              | 82              | 83              | 84              | 85              | 86              | 87              | 87              | 88              | 89              | 1,015            |
| Misc   | 50              | 51              | 51              | 52              | 52              | 53              | 53              | 54              | 54              | 55              | 55              | 56              | 634              |
| <b>Total Sales</b>   | <b>\$ 4,650</b> | <b>\$ 4,697</b> | <b>\$ 4,743</b> | <b>\$ 4,791</b> | <b>\$ 4,839</b> | <b>\$ 4,887</b> | <b>\$ 4,936</b> | <b>\$ 4,985</b> | <b>\$ 5,035</b> | <b>\$ 5,086</b> | <b>\$ 5,136</b> | <b>\$ 5,188</b> | <b>\$ 58,974</b> |

Your next step is to complete the five year forecast in the worksheet named: 5 Yr Forecast. The first two years are automatically consolidated from the 24 Mth Forecast worksheet. You will need to enter formulas or numbers to complete the forecast for the last three years.

| <b>Sales Forecast</b>  |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
| <b>For the years 2007 through 2011</b><br><b>(all numbers in \$000s)</b> |                  |                  |                  |                  |                  |
|  | <b>2007</b>      | <b>2008</b>      | <b>2009</b>      | <b>2010</b>      | <b>2011</b>      |
| Skates   | \$ 25,365        | \$ 25,365        | \$ 26,633        | \$ 27,965        | \$ 29,363        |
| Boards   | 6,706            | 6,341            | \$ 6,658         | \$ 6,991         | \$ 7,341         |
| Skis   | 10,174           | 10,146           | \$ 10,653        | \$ 11,186        | \$ 11,745        |
| Boots  | 7,100            | 6,975            | \$ 7,324         | \$ 7,690         | \$ 8,075         |
| Shoes  | 3,620            | 3,805            | \$ 3,995         | \$ 4,195         | \$ 4,404         |
| Gloves   | 3,260            | 3,171            | \$ 3,329         | \$ 3,496         | \$ 3,670         |
| Hats   | 481              | 507              | \$ 533           | \$ 559           | \$ 587           |
| Coats  | 1,015            | 1,015            | \$ 1,065         | \$ 1,119         | \$ 1,175         |
| Pants  | 1,015            | 1,015            | \$ 1,065         | \$ 1,119         | \$ 1,175         |
| Misc   | 600              | 634              | \$ 666           | \$ 699           | \$ 734           |
| <b>Total Sales</b>   | <b>\$ 59,336</b> | <b>\$ 58,974</b> | <b>\$ 61,922</b> | <b>\$ 65,018</b> | <b>\$ 68,269</b> |

### Adapting the Workbook

Since by default these worksheets allow for up to 20 products and/or services, if you are going to forecast for more than 20 items, you will need to more insert rows, both into the 24 Mth Forecast worksheet and the 5 Yr Forecast worksheet. If you do that, you will also need to copy formulas down column O, in the 24 Mth Forecast, column B in the second 24 month sales forecast (24 Mth Forecast), and in columns B, C, and D of the 5 Yr Forecast. The worksheets use cell references to link both text and numbers to subsequent sections of the worksheets so you may want to become familiar with those “linkages” prior to inserting or deleting rows.

Also, if you forecast less than 20 items, you may want to delete (Edit Delete Entire row) the extra rows. If you do that on the first worksheet (24 Mth Forecast) keep in mind you will need to also delete the extra rows in the second section of the 24 Mth Forecast and in the 5 Yr Forecast worksheet. If you don't the #REF! error message will appear.

### Using the Worksheets

The total sales forecasted for each year of the planning period are an important element of both the business plan and a marketing plan. These same worksheets are also part of the Integrated Financials workbook; the heart of the financial plan.

## Start-Up Capital and Capitalization (Start-Up Capital and Capitalization.xls)

This workbook contains two worksheets to help you estimate start-up capital and start-up capitalization. Start-up capital is the amount of money you need to start the business. It includes some monthly costs that you will need to cover from start up investment and one-time start-up costs.

| <b>Estimated Start-Up Capital</b>       |                         |                             |                         |
|---|-------------------------|-----------------------------|-------------------------|
|   | <b>Monthly Expenses</b> | <b>Cash Needed to Start</b> | <b>Percent of Total</b> |
| <b>Monthly Costs</b>                    |                         |                             |                         |
| Salary of owner-manager                 | \$ 4,000                | \$ 24,000                   | 25.6%                   |
| All other salaries and wages            | 1,000                   | 3,000                       | 3.2%                    |
| Rent                                    | 900                     | 3,600                       | 3.8%                    |
| Advertising                             | 1,200                   | 3,600                       | 3.8%                    |
| Delivery expense                        | 500                     | 1,000                       | 1.1%                    |
| Supplies                                | 1,000                   | 2,000                       | 2.1%                    |
| Telephone                               | 200                     | 400                         | 0.4%                    |
| Other utilities                         | 300                     | 600                         | 0.6%                    |
| Insurance                               | 500                     | 1,000                       | 1.1%                    |
| Taxes, including social security        | 1,000                   | 2,000                       | 2.1%                    |
| Interest                                | 500                     | 1,000                       | 1.1%                    |
| Maintenance                             | 400                     | 800                         | 0.9%                    |
| Legal and other professional fees       | 1,200                   | 2,400                       | 2.6%                    |
| Miscellaneous                           | 500                     | 1,000                       | 1.1%                    |
| <b>Subtotal</b>                         |                         | <b>\$ 46,400</b>            | <b>50%</b>              |
| <b>One-time Costs</b>                   |                         |                             |                         |
| Fixtures and Equipment                  |                         | \$ 9,000                    | 9.6%                    |
| Decorating and remodeling               |                         | 10,000                      | 10.7%                   |
| Installation charges                    |                         | 4,000                       | 4.3%                    |
| Starting inventory                      |                         | 5,000                       | 5.3%                    |
| Deposits with public utilities          |                         | 2,000                       | 2.1%                    |
| Legal and other professional fees       |                         | 1,000                       | 1.1%                    |
| Licenses and permits                    |                         | 400                         | 0.4%                    |
| Advertising and promotion for opening   |                         | 500                         | 0.5%                    |
| Cash                                    |                         | 15,000                      | 16.0%                   |
| Other                                   |                         | 500                         | 0.5%                    |
| <b>Subtotal</b>                         |                         | <b>\$ 47,400</b>            | <b>51%</b>              |
| <b>Total Estimated Start-Up Capital</b> |                         | <b>\$ 93,800</b>            |                         |

### How to Begin

To estimate start-up capital, begin by entering the monthly costs that you will incur to run your business. These costs are multiplied by a factor to give you the estimated cash you will need. Those factors are shown in a table below the Start-Up Capital report; as shown below:

### Start-Up Capital Assumptions

Enter in the "Multiples" column below, the number of times of the monthly expenses you would like to include in the start-up capital.

| Monthly Expense Items             | Multiples |
|-----------------------------------|-----------|
| Salary of owner-manager           | 6.00      |
| All other salaries and wages      | 3.00      |
| Rent                              | 4.00      |
| Advertising                       | 3.00      |
| Delivery expense                  | 2.00      |
| Supplies                          | 2.00      |
| Telephone                         | 2.00      |
| Other utilities                   | 2.00      |
| Insurance                         | 2.00      |
| Taxes, including social security  | 2.00      |
| Interest                          | 2.00      |
| Maintenance                       | 2.00      |
| Legal and other professional fees | 2.00      |
| Miscellaneous                     | 2.00      |

If you want to change any of the multipliers for the "Cash Needed to Start" estimates, go to B39 and enter your own multiples in column D.

The Capitalization sheet (the second worksheet in the workbook) allows you to determine the sources of cash to help pay for the start-up expenses. For example, some start-up capital will come from owner investment while other capital might be raised from loans. As you enter the sources and amounts of capital, the worksheet will calculate a deficit or surplus based on your estimates from the Start-up Capital worksheet.

### Start-Up Capitalization

|  | Amounts    | % of Total |
|--|------------|------------|
| <b>Owners' Investments</b>                 |            |            |
| Owner 1                                    |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| <b>Bank Loans</b>                          |            |            |
| Bank 1                                     |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| <b>Other Loans</b>                         |            |            |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| Other                                      |            | #N/A       |
| <b>Total Capitalization</b>                | \$ 0       | #N/A       |
| <b>Capitalization Surplus or (Deficit)</b> | -\$ 93,800 |            |

### **Using the Worksheets**

The worksheets of the Start-Up Capital workbook are a critical element of your business plan. In your business plan Word document, refer to the estimates for start-up capital and the sources of capital and include them in their entirety as an appendix to your business plan.

#### **Balance Sheet (Balance Sheet.xls)**

This worksheet is a basic balance sheet (statement of financial position) for a business. It is primarily used to report the financial condition of the firm to the owners. It is also presented to lenders to obtain financing.

Please note that "accumulated depreciation" and "doubtful accounts" must be entered as negative numbers. The Retained Earnings figure for each year is calculated, to insure that Assets equal Liabilities plus Equity.

### **How to Begin**

You begin by entering an "as of date" for the balance sheet. Then enter the book value of assets, liabilities, and equities in the unprotected (yellow) data entry cells of the worksheet.

### **Using the Worksheet**

Your financial plan should show pro-forma financials (see Integrated Financials.xls). If your business has been in existence for some time, you may also want to include a copy of your most current balance sheet (historical values). Refer to your balance sheet in the business plan and include it in the appendix.

#### **Personnel Plan (Personnel Plan.xls)**


The Personnel Plan helps you estimate your payroll expenses in three categories:

Direct Payroll, Selling Payroll, and General & Administrative Payroll. The totals from this report can be carried over to the income statements.

Direct Payroll represents the wages and salaries of employees who are directly involved with making a product, providing a service, or performing activities that produce revenue. Direct payroll costs become part of the Cost of Sales forecast.

Selling Payroll consists of the wages and salaries paid to the sales staff. It does not include sales commissions - which is a separate line item on the Income Statement. The projections you make on this sheet for Selling Payroll are utilized on the Income Statement under Selling expenses - Salaries and wages.

General and Administrative Payroll consists of salaries paid to Officers, general managers, administrators, and wages paid to office staff. It includes all wages and salaries other than direct payroll and selling payroll.



### **How to Begin**

On the Intro sheet, enter the end date of the first fiscal year of your business plan. This date is used to set up the starting month and the year-end dates for both the monthly and annual projections. You may also enter text describing the units used in your plan. If you do not wish to state numbers in thousands, you can simply clear the contents of the notation cell.

Next, go to the first work sheet: Personnel Plan 24 Months. This sheet allows you to estimate your personnel expenses by month for the first two years. Once you have completed the first worksheet, go to the second worksheet: Personnel Plan 5 Years. The first two years of costs estimates are taken from the first worksheet. You must complete the estimates for the last three years.

### **Using the Worksheets**

The Personal Plan worksheets can be included as part of the appendix of the business plan. More importantly, the totals from the Personnel Plan should be incorporated into the income statement worksheets of your business plan.

# Glossary

## Accounts Payable

A current liability representing the amount owed to a creditor for items purchased.

## Accounts Receivable

Money owed to a firm for goods or services sold on credit shown as a current asset on the balance sheet.

## Acid-test Ratio

also called the quick ratio, the ratio of current assets minus inventories, accruals, and prepaid items to current liabilities.

## Advertising

any paid form of non-personal message delivered through mass media.

## Advertising Agency

A third party firm that assists businesses with the advertising and promoting of products and services.

## Amortization

is a payment plan that enables the borrower to reduce debt gradually through periodic payments of principal and interest.

## Amortized Loan

A loan to be repaid, interest and principal, by a series of regular payments that are equal or nearly equal, without any special balloon payment prior to maturity.

## Annual Report

Yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, its balance sheet and income statement. SEC rules require that it be distributed to all shareholders. A more detailed version is called a 10-K.

## Asset

Owned by and is of value to the business.

## Auditor's Report

Document issued by the company's independent auditing (public accounting) firm that expresses an opinion about the fairness of the entity's financial statements and adherence to Generally Accepted Accounting Principles.

## Balance Sheet

A report that shows the financial standing of a business as of a particular time. It includes the assets, liabilities and equity of the business as of a certain date.

## Break-even Point

The level of operations where sales revenue equals expenses (costs); the volume of sales that results in a net operating income of zero.

## Budget

Projected financial reports. A quantifiable plan that shows expected revenues, costs, expenses, units produced, and a set of pro forma financial statements.

## Business Model

Another name for the business plan. It can also refer to the basic business concept.

## Business Plan

A detailed written study of what the business is, where and to whom the business will market its products or services, and how it will conduct its operations. It is often written to gain funding, also can be used as an internal planning document.

## Capital Expenditures

A amount used during a particular period to acquire or improve long-term assets such as property, plant, or equipment.

### Capital Structure

The mix or proportion of long-term debt and owner's equity capital used to finance the firm's fixed assets.

### Cash Budget

Plan that projects cash inflows and outflows for a business over some period.

### Cash Flow

Investments those represent earnings before depreciation amortization and non-cash charges, also known as cash earnings. Cash flow from operations (called funds from operations, FFO) by real estate and other investment trusts is important because it indicates the ability to pay dividends.

### Collateral

Assets that have been pledged to secure a loan.

### Contingency Factors

Factors or multiples used to add a safety cushion to projections such as start-up costs.

### Control

Management function that involves comparing actual events to plans to determine whether corrective action is necessary.

### Corporation

An entity which is legal and taxable also has a life, existence, duties, and responsibilities separate and distinct from its stockholders (owners).

### Cost of Sales

Also called cost of goods sold. It refers to the cost of acquiring or making a good.

### Credit History

Record of how a person borrowed and repaid debts.

### Credit Report

Report documenting the credit history and status of a borrower's credit standing.

### Current Assets

Total assets for the borrower or company at the current moment in time.

### Current Liabilities

Amount owed for salaries, interest, accounts payable and other debts due within one year.

### Current Ratio

An indicator of short-term debt-paying ability. Determined by dividing current assets by current liabilities. The higher the ratio, the more liquid the company.

### Customer Profile

The geographic, demographic, psycho-graphic, and behavioral characteristics that define a group of customers.

### Depreciation

A non-cash expense that provides a source of free cash flow. Amount allocated during the period to amortize the cost of acquiring long term assets over their useful life. In real estate, it is the decline in value of a house due to wear and tear, adverse changes in the neighborhood, or any other reason.

### Directing

Lead and motivate employees to achieve the goals and objectives of the company.

### Earnings

Net income for the company during the period.

### Earnings Per Share

EPS, as it is called, is a company's profit divided by its number of shares. If a company that earned two million dollars in one year had two million shares of stock outstanding, its EPS would be one dollar per share. The company often uses a weighted average of shares outstanding over the reporting term.

### e-Business Software

Commerce software for both business-to-consumer and business-to-business commerce. It is usually designed to integrate with existing back office systems.



#### e-Commerce

Also called electronic commerce. The melding of traditional fast business processes with internet- and web-based technologies, creating a complete, fast, and seamless business system.

#### Economic Order Quantity

An order quantity of inventory that helps minimize the costs of holding inventory and being out-of-stock.

#### Efficiency Ratios

Indications of how well management is utilizing resources. The efficiency ratios include Inventory Turnover, Average Collection Period, and Total Asset Turnover.

#### Equity

Assets less liabilities. Also, the ownership interest in a company or personal property. The value of the common stockholders' equity in a company as listed on the balance sheet.

#### Equity Capital

Ownership funds that represent a proportionate claim on the firm's cash flows and profits as well as a proportionate voting right.

#### Equity Market

It is also called stock market. Market for shares of stock in corporations.

#### Exit strategy

Detailed plans for how the business will be sold, how the current owners will dispose of their equity, or how venture capital providers will be paid back their investment.

#### Financial Statements

Collection of financial reports, required by bankers, regulators, auditors, and investors, that reveal the entire financial picture of a company. This includes balance sheet, income statement, and Statement of Cash Flows.

#### Fixed Assets

A firm's long-term assets, such as land, buildings, and equipment.

#### Franchisee

An individual or group who purchases a franchise. The franchisee usually operates the franchised operation.

#### Gross Margin

The difference between net sales and the cost of sales during a particular time frame (such as a month, quarter or year).

#### Gross Profit Percentage

Gross margin divided by net sales.

#### Income Statement

The financial statement that shows revenues and expenses of the business during a particular time frame (such as a month, quarter, or year).

#### Industry

The category describing a company's primary business activity. This is usually determined by the largest portion of revenue. A group of companies supplying related products and services and the businesses that support them.

#### Industry Analysis

A study that defines a group of businesses that supply related products and services. An industry analysis is often part of a business plan.

#### Initial Public Offering

A company's first sale of stock to the public. Securities offered in an IPO are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock. Investors purchasing stock in IPOs generally must be prepared to accept very large risks for the possibility of large gains. IPOs by investment companies (closed end funds) usually contain underwriting fees that represent a load to buyers.

#### Intellectual Property

Intangible property that is the result of creativity (such as patents, trademarks, or copyrights).

#### Inventory

Raw materials, items available for sale or being made ready for sale. They can be individually valued by

several different means, including cost or current market value, and collectively by FIFO, LIFO or other techniques. The lower value of alternatives is usually used to preclude overstating earnings and assets. For security firms, securities bought and held by a broker or dealer for resale.

#### Investment Banker

A company that acts as an underwriter, agent, or intermediary between the issuer of securities (shares of stock, bonds, or commercial paper) and the investing public.

#### ISP

Internet Service Provider. A company that sells access to the Internet to users.

#### Leverage Ratios

Indicates the degree to which debt is used to finance a company. The leverage ratios include debt ratio, debt-to-equity ratio, and times interest earned.

#### Limited Liability Company

Hybrid form of business. Tax benefits of a partnership and the liability protection of a corporation are provided.

#### Limited Partner

A co-owner with a special type of partnership. The limited partner's liability is limited to his or her investment in the firm. The limited partner has no voice in management.

#### Liquidity Ratios

It is the information that determines a company's ability to pay its bills. The liquidity ratios include the Current Ratio and the Acid-Test Ratio.

#### Market Analysis

A study of the basic factors that define the market for a company's products or services and how the firm must be positioned to reach this market.

#### Market Segmentation

Divide into small sub-markets the target market that you have identified as your customer base.

#### Market Share

The percentage of your customers that represent the total number of customers available in the market.

#### Marketing Mix

The combination of product or service, price, distribution, and promotion orchestrated to reach the target market (group of customers).

#### Marketing Plan

Plan to achieve the company's target markets and motivating the customers to purchase the products and services.

#### Mass Media

Contact potential customers through broadcast, printed, billboard, or mailed advertising.

#### Mission

A documentation of the basic purpose of the company. A vision from the management team of what the company should be and whom it should serve.

#### Opt-in Email

Email, such as special announcements, promotions, coupons, and e-newsletters that people have requested (subscribed to, as opposed to junk or spam email).

#### Organizing

The grouping and allocating of resources and activities to accomplish a goal efficiently and effectively.

#### Outsourcing

Contacting with outside vendors to perform tasks or produce goods and services.

#### Partnership

A legal form of business that is an association of two or more persons who act as co-owners of the business.

#### Partnership Agreement

A legal agreement between partners that specifies the role, involvement, duties, and responsibilities of each.

#### Planning

A function of management. Deciding and documenting

tasks the company will complete to meet goals and objectives and the company's mission statement.

#### Plant

Long-term assets include land, buildings, machinery, and fixtures. These assets usually give the firm productive capacity.

#### Positioning

To develop a certain image of your products and services in the mind of the consumer.

#### Pro forma Balance Sheet

A projected balance sheet used in financial planning and business plans.

#### Pro forma Income Statement

A projected income statement used in financial and business planning.

#### Production

Activities that produce goods and services.

#### Profit and Loss

A synonym for income statement

#### Profitability Ratios

Indications of the types of returns or yields generated for the owners of the company.

#### Promotion

Techniques used to communicate information about the product and service to the potential customer. This includes advertising, personal selling, and public relations.

#### Promotional Strategy

The way you plan to use personal selling, public relations, publicity, advertising, and other promotional activities to inform potential customers about your products and services.

#### Public Relations

These are company activities that involve the public, such as charitable activities and environmental policies.

#### Quality Control

Policies, procedures, and activities designed to assure a certain level of quality in the production and delivery of products and services.

#### R&D Costs

Research and development costs.

#### Ratio Analysis

A collection of financial ratios (one financial statement item divided by another) that reveal the financial strengths and weaknesses of a company.

#### Resources

The assets used in a business to add or create value in a product and service. This includes tangible assets (materials) and intangible assets (money, information, and humans).

#### Return on Investment

A financial ratio that reveals the percentage of income produced from each dollar invested in the company's assets.

#### S Corporation

A business organized under subchapter S of the Internal Revenue Code to be treated as a partnership for income tax purposes.

#### Sales Forecast

An estimate based on assumptions about the future units sold during some specific period.

#### Scenario

Alternative assumption or assumptions and their impact on your business (and financial) plan.

#### SEC

Stands for the Securities and Exchange Commission, a federal agency that administers statutes and rules designed to promote full public disclosure. It also protects the investing public against malpractice in the securities market.

#### SEC Filings

Financial statements and other information filed with the Securities and Exchange Commission.

#### SIC System

Stands for Standard Industrial Classification system, a uniform number-coding and verbal-description system that classifies businesses according to their activities.

#### Sole Proprietorship

A business owned and usually operated by one person.

#### Start-Up Capital

Financing needed to launch a business.

#### Start-Up Costs

Costs incurred or projected to start a business.

#### Stockholders

Owners of the corporation.

#### Supply Chain

Network of suppliers, transportation firms, and brokers that combine to provide a good or service.

#### Supply Chain Management

Taking an active role in working with suppliers and other participants in the supply chain to improve products and processes.

#### SWOT

An acronym for Strengths, Weaknesses, Opportunities, and Threats. A SWOT analysis is often included in the Industry Analysis section of a business plan.

#### Target Market

A group of potential customers identified by the business as having common characteristics.

#### Venture Capital

A source of financing for start-up companies or companies embarking on a new venture. Companies financed via venture capital often carry relatively high risks.

#### Venture Capital Fund

A firm that raises large sums of money from wealthy investors, banks, and other corporations to invest in high growth/high risk start-up companies or high growth enterprises.

#### Venture Capitalists

Financiers who provide equity financing to ventures that promise above normal growth in sales and profits and relatively high return on capital.

#### Website Statistics

Information and numbers that reveal the number of visitors, repeat visitors, page views, purchases, and hits experienced by a particular website during a certain time period.

#### Working Capital

Current assets expected to turn over or convert to cash within a short time.

# The Templates

The Business Plans Template Pack includes several helpful templates and instructional files to help you with a complete professional business plan. Use these materials as helpful references and tools, but do not rely on them for everything. Use your local library, the Internet, and the government for information to help make the best possible business plan for your situation.

## A few helpful hints for editing your business plan documents

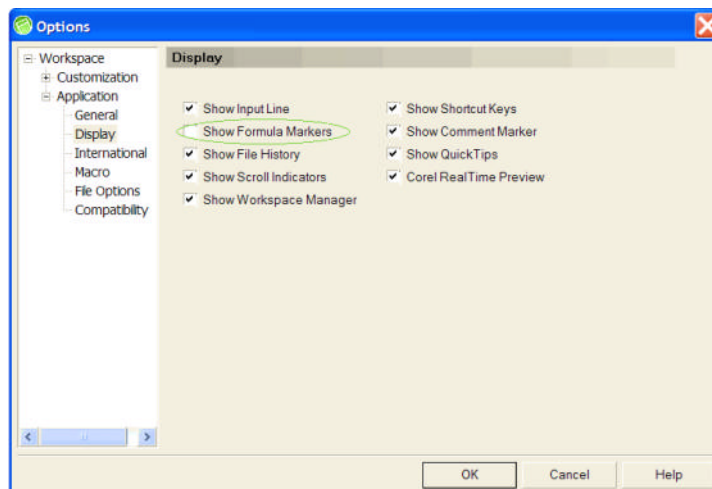
The main template in this template pack is the Business Plan (Business Plan.dot). It is a Word document that contains all the appropriate information. You might want to include data from other programs such as Excel.

## Inserting Excel workbooks and sheets

This section gives you three ways to insert Excel workbooks into your Business Plan Word document. First, here is a tip to get the best look for your workbooks selection:

If you want to insert Excel sheets into your business plan (in Word), you can improve the appearance by turning off Formula Marks. Here is how to do it:

1. While the sheet is still in Excel, click Tools in the menu bar, and select Settings. The Options dialog box will appear.
2. Click Display in the Options dialog box. Several check boxes will appear to the right.
3. Clear the check box in Show Formula Markers (See Figure below):



Here are three methods for inserting Excel sheets into your business plan document:

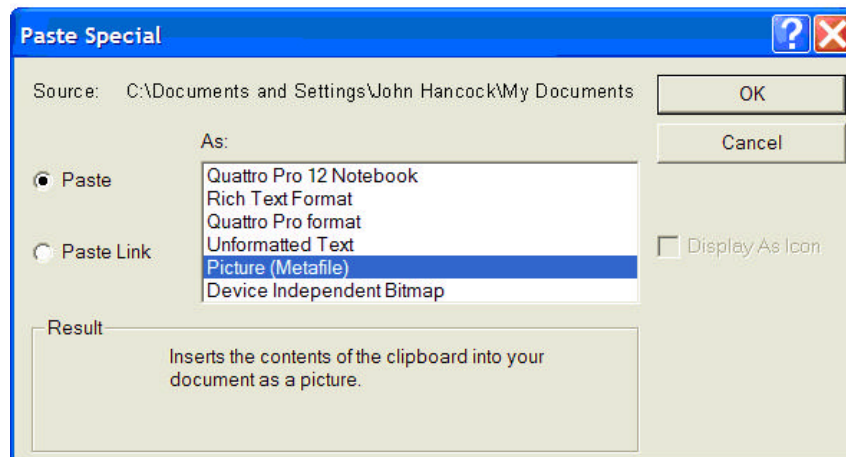
### Manual

The manual method is an easy way to bypass the complexity of combining various types of files together. Get your business plan file ready separately from your workbooks files, and print them individually. Then you can combine them once they are printed.

### Cut and paste

The cut and paste method allows you to have all of your information within a single Word document:

1. Open the Word document and the Excel workbooks at the same time.
2. Switch to Excel, and select the sheet you wish to copy.
3. Turn off highlighting in the sheet by clicking the Highlight button at the top.
4. Starting at row 2, highlight the portion of the sheet you wish to copy, and include an extra blank row at the bottom.
5. Copy the highlighted area (click Edit and Copy or press Ctrl-C).
6. Switch to Word, and locate the page where you want to paste the sheet image.
7. Delete the placeholder image (if you are replacing one) by selecting it and pressing DELETE.
8. Click the place where you want the sheet, and paste it using the Paste Special feature: Click Edit and Paste Special. A dialog box will appear (see the figure below).



The figure above shows the Paste Special dialog box with the Paste radio button and Picture (Metafile) selected.

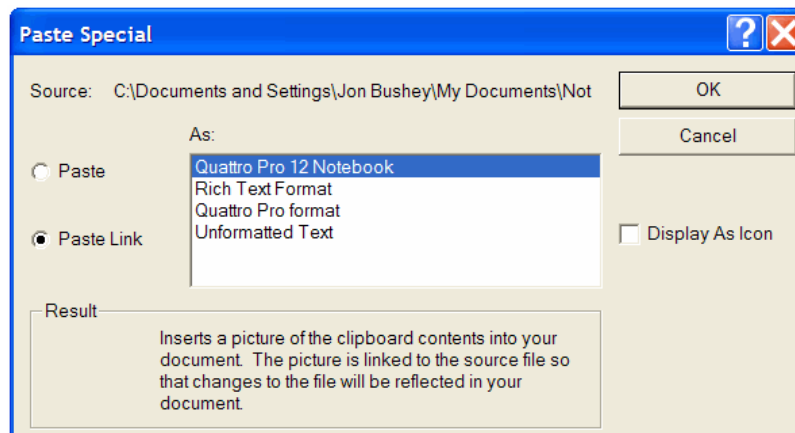
9. Select the Paste radio button at the left (see figure above), and select Picture (Metafile) near the center.
10. Click OK. The sheet will appear as an image object at the location you selected. You can re-size the image to fit the page.

Note that you must repeat this process to update the sheet if you edit the original in Excel.

### Creating a link

You can also add an Excel sheet to your Word document by creating a link to it. This method allows you to update the original in Excel, and it will automatically be updated in the Word document. Be sure to save the workbooks before you start this process. Here is how to link a workbooks sheet:

1. Open the Word document and the Excel workbooks at the same time.
2. Switch to Excel and select the sheet you wish to copy.
3. Turn off highlighting in the sheet by clicking the Highlight button at the top of the sheet.
4. Starting at row 2, highlight the portion of the sheet you wish to copy, and include an extra blank row at the bottom.
5. Copy the highlighted area (click Edit and Copy or press Ctrl-C).
6. Switch to Word, and locate the page where you want to paste the sheet image.
7. Delete the placeholder image (if you are replacing one) by selecting it and pressing DELETE.
8. Click the place where you want the sheet, and paste it using the Paste Special feature: Click Edit and Paste Special. A dialog box will appear (see the figure below).



The figure above shows the Paste Special dialog box with the Paste Link radio button and Excel 12 Workbooks selected.

9. Click OK. The workbooks will open in your Word document. This is actually the original workbooks file.

**Caution:** you must be careful to avoid renaming your workbooks file. If you rename it, it will no longer appear in your Word document.



## About Workbooks macros

When you are working with workbooks templates, avoid changing the names of the sheets. The sheet names are referenced in the macros, and changing the names can disable the macros.



# A List of Templates

Here is a list of the Business Plans Template Pack templates:

## Business plan materials (Core folder)

Business Plan (Business Plan. dot), this template covers a complete business plan. Use it for formatting and for ideas on filling in your business plan. Be sure to add sections or leave out sections depending on what is relevant to your business. Also, be sure to use the other templates (described below) to help complete your business plan.

Business Plan (Business Plan.pot), this template gives you a way to present your business plan as a slide set. This will be useful in many ways, helping you to put your business plan into ideas outlined for discussion. Even if you are not using this template for a formal presentation, you should fill it out to help organize your ideas.

Integrated Financials (Integrated Financials.xlt), this template helps you to create important data required for your business plan. Use it to help with your Income Statement, Balance Sheet, and Financial Ratios. You can also use it for financial projections.

## Reference and other documents (Extra folder)

Break-Even Analysis (Break-Even Analysis.xlt)  
This template helps to calculate your break-even point. This can be an important part of a good

business plan because investors want to know when you think you will start earning a profit.

Sales Forecast (Sales Forecast.xlt), this template provides some advanced formulas to supplement your Integrated Financials. This template also allows you to make contingency plans and speculative forecasts.

Start-up Capital (Start-up Capital.xlt), this template provides a method to figure the amount of capital required to start your business, and it helps to identify your sources and destinations for the money.


## Sample business plans (Sample Plans folder)

Brick and Mortar to Internet Plan. (Brick and Mortar to Internet Plan.pdf) This file is a complete sample business plan for an online business.

Manufacturer Plan (Manufacturer Plan.pdf) This file is a complete sample business plan for a manufacturing business.

Restaurant Plan (Restaurant Plan.pdf) This file is a complete sample business plan for a restaurant.

Service Plan (Service Plan.pdf) This file is a complete sample business plan for a service business.



Franchisee Plan (Franchisee Plan.pdf), this file is a complete sample business plan for a retail business that is looking for a franchise opportunity.

Change of Business Plan (Change of Business Plan.pdf), this file is a complete sample business plan for a travel agency that is expanding its operations.

Distributor Plan (Distributor Plan.pdf), this file is a complete sample business plan for a company involved in mail-order merchandising of fine quality spices to the restaurant industry. The company wishes to raise \$1.5 million for expansion.



### **About the Developer**

KMT Software, Inc. is the developer of OfficeReady Business Plans. For over a decade, KMT Software has been the leading provider of Office templates and productivity tools for home and small business.

KMT is also the developer of High Impact eMail, a low-cost tool for small business users who want to leverage the amazing power of email.

Located in Cambridge, MA, KMT also provides corporate consulting and custom development to some of the most respected companies in technology. For more information, see [www.kmt.com](http://www.kmt.com) or visit their retail software site, [www.templatezone.com](http://www.templatezone.com)