

BUSINESS PLANS ARE MORE IMPORTANT NOW THAN EVER

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Small-business owners who need financing are smart to do their homework, and that includes creating a comprehensive business plan. Lenders in today's economy want to be assured that they are putting money into a sound venture, and they have to understand the business to make that determination. "It's extremely critical in dealing with a bank to have a business plan. It's the only way you'll get financing, unless you have substantial assets in the bank", says Bill Moss, a partner in the Phoenix accounting firm Henry & Horne. A business plan is much more important in today's tighter economy, Moss says. "Everybody got burned with the real estate market and the downturn in the economy, so the banks really pulled in the reins," he says. "I don't think it's all bad, but they don't want to get burned on these loans."

Unfortunately, not enough small businesses are equipped with business plans, says Brent Stewart, a partner in the accounting firm Stewart, Beebe & Co. "Many small businesses have not considered what it takes, and there aren't enough questions being asked by people who know what questions to ask," he says.

What the plan essentially does is force the business owner to spend some time thinking about the business, industry and

competition, and to determine the best direction for the business. "We think of the business plan as very basic," says Dennis Landauer, a partner in Gallant & Co. "Most people can't cook without a recipe or go to college without a curriculum. That's how we think of it" Typically included in a business plan are background information about the owner and key people within the company, a detailed explanation of the industry, and geographic and statistical data on which to base projections. "The business plan is the tool that helps the lender understand what the business does, how it makes money and how the borrower will pay back the loan," Landauer says. Sources agree that the plan shows the lender whether the owner understands the business well enough to make it a success and eventually, to pay back the loan.

While creating a business plan costs money, small businesses on a tight budget don't have to neglect the plan simply because of that factor. Business owners can turn to books or consultants, or even do much of the work themselves in order to keep costs down. "Most of the publications that I have seen are pretty well written" say Landauer. A more complex business requires a more sophisticated and possibly more expensive plan. But it might be able to recoup the cost in the future, he says. "The more sophisticated the borrower, the greater chance of negotiating a lower interest rate," Landauer says. "That can more than offset the cost of the business plan over a two or three year period of time." However the plan is prepared, the business owner needs to be a participant in the process, Stewart says. "You can hire someone to give you direction, and they can help you, but you need to have the answers," he says. You have to know what's going into the plan, and you have to address the issues."

**BUSINESS PLANNING
CHECKLIST - IS YOUR PLAN
COMPLETE?**

Description of Business

- ___1. Business form: proprietorship, partnership, corporation or cooperative?
- ___2. Type of business: retail, wholesale, manufacturing, service or consulting?
- ___3. What is the product and/or service? What makes it unique?
- ___4. Is it a new business? A takeover? An expansion? A franchise?
- ___5. When is your business open?
- ___6. Is it a seasonal business?
- ___7. How long have you been in business?
- ___8. What have you learned about your business from past operations or (if you're a start-up) from outside sources?
- ___9. Why will your business be profitable?
- ___10. What are your personal and business goals?

Product/Service

- ___1. What are you selling?
- ___2. What benefits are you selling?
- ___3. What is unique about your goods or services?
- ___4. If you are a consultant, what process will you use?

Market

- ___1. Who buys from you?
- ___2. Are your markets growing, steady or declining?

___3. Is your market share growing, steady or declining?

___4. Have you segmented your markets? How?

___5. Are your markets large enough for expansion?

___6. What social, political, regulatory, economic and technological changes are taking place that could impact your industry, your market or your market's perception of and desire for your products/services?

Competition

___1. Who are your-nearest direct competitors?

___2. Who are your indirect competitors?

___3. How are the businesses similar to and different from yours?

___4. What have you learned from their operations? From their advertisements?

Product Development Plan

___1. What other products/services (if any) are you currently considering?

___2. What is your time frame for developing and introducing them?

Marketing Plan

___1. Who will actually buy from you (e.g., do you sell to distributors, wholesalers, retailers, businesses, consumers?) And how does this impact your marketing plan?

___2. How will you attract and hold your target market and increase your market share?

___3. Are you planning to enter or leave any markets?

___4. How do you price your products?

___5. Where are you (will you be) located?

___6. Why is this a desirable area? A desirable building?

___7. What kind of space do you need?

___8. Are there any demographic or other market shifts going on in your area that could impact your marketing plan?

Sales Plan

___1. Who will do the selling in your business? (You? Company salespeople? Independent sales representatives?)

___2. What are your weekly, monthly and quarterly sales goals?

___3. What other checkpoints have you established for reaching those goals?

___4. What sales approach will you use?

Operations Plan

___1. How will you organize the flow of work through your business? (This is especially important if you have several people doing different parts of the overall tasks, such as in a factory or a farming operation.)

___2. How will you assure that all tasks are performed? Performed on time?

___3. How will you monitor quality?

___4. How will you keep costs under control?

Personnel Plan

___1. What are your current personnel needs?

___2. What skills will your employees need in the near future? In three years?

___3. What are your plans for hiring and training personnel?

Management Plan

___1. How does your background/business experience help you in this business? For your own use: What weaknesses do you have and how will you compensate for them? What related work experience do you have?

___2. Who is on the management team?

___3. What are their strengths and weaknesses?

___4. What are their duties?

___5. Are these duties clearly defined? How?

___6. What additional resources are available to your business?

Application and Expected Effect of Loan (Investment)

___1. How will the loan (investment) make your business more profitable?

___2. Will you buy or lease your equipment, location or vehicles?

___3. Do you really need this money? Or can you make do without?

Financial

___1. Have you completed your financial projections? (As a minimum you should have profit and loss statements, cash flow and income projections for three years and a current balance sheet.)

___2. Will you need additional cash? If so, how will you get it?

___3. Have you shown that your business will be profitable?

START-UP EXPENSES

Start-up expenses are the various expenses it takes to open your doors for business. The majority of these expenses will be one-time expenditures, while others will occur every year. Examples of these expenses are listed on the next page. If you have an existing business, skip this work-sheet.

Step 1:

Fill in Total available cash for starting your business venture.

Step 2:

Review the expenses listed on the next page. You probably can use this list for the expenses for your business. You may have some expenses which are not listed here, write them under Other expenses.

Step 3:

Estimate your cost for each expense.

Step 4:

Calculate the total for your start-up expenses.

Step 5:

Calculate Beginning Cash Balance by subtracting Total Start-up Expenses from total available cash. This amount should be written on the Projected Cash Flow worksheet under each month on the Beginning Cash Balance line.

START-UP EXPENSES		
EXPENSE		COST
Total available cash		\$ _____
Total of capital equipment (find this total on next page)	\$ _____	
Beginning inventory of merchandise for retailing businesses	_____	
Legal fees	_____	
Accounting fees	_____	
Licenses & permits	_____	
Remodeling work	_____	
Deposits (public utilities, etc.)	_____	
Advertising (grand opening, etc.)	_____	
Promotions (door prizes, etc.)	_____	
Other expenses: _____		

TOTAL START-UP EXPENSES	_____	\$
Beginning Cash Balance	_____	\$

CAPITAL EQUIPMENT

Equipment	Cost	Acquisition Date	Useful Life (in months)	Monthly Depreciation

Total Costs Capital Equipment	\$	Total Monthly Depreciation	\$
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Projected Cash Flow

Cash flow projections are among the most critical financial projections you will make. You will calculate your cash receipts and the cash disbursements for each month. If the cash receipts are greater than the cash disbursements, you will have a positive cash flow. If the cash receipts are less than the cash disbursements, you will have a negative cash flow. Negative cash flows are enclosed in brackets. Here is an example: (\$5,218).

Step 1:

Fill in your beginning cash balance for the first month. This amount should be taken from the start-up expenses worksheet if your business plan is for a new business.

Step 2:

Fill in the various categories for Cash Receipts and total them for the first month only.

Step 3:

Fill in the various categories for Cash Disbursements and total them for the first month only.

Step 4:

Calculate the Net Cash Flow for the first months (Total Cash Receipts minus Total Cash Disbursements).

Step 5:

Calculate the Ending Cash Balance for the first month. (Beginning Cash Balance plus a positive Net Cash Flow (or minus a negative Net Cash Flow).

Step 6:

Fill in the Beginning Cash Balance for the second month, (which is the Ending Cash Balance for the first month).

Step 7:

Repeat the first six steps for each of the twelve months remember to complete one month at a time!

PROJECTED CASH FLOW

MONTHS	1	2	3	4	5	6	7	8	9	10	11	12	Yearly Totals
Beginning Cash Balance													
CASH RECEIPTS													
Cash Sales													
Collect Account Receivables													
Loans from Banks, Etc.													
Other Receipts													
Total Cash Receipts													
CASH DISBURSEMENTS													
Purchases (merchandise)													
Salaries													
Payroll Benefits													
Occupancy Expenses													
Insurance													
Interest													
Other:													
Other:													
Purchase Capital Equipment													
Loan Principal Repayment													
Owner's Withdrawals													
Total Cash Disbursed													
Net Cash Flow													
Ending Cash Balance													

PROJECTED INCOME STATEMENT

You are now ready to assemble the data for your projected income statement. This statement will calculate you net profit or net loss (before income taxes) for each month.

Step 1:

Fill in the sales for each month. You already estimated these figures; just recopy on the work sheet.

Step 2:

Fill in the cost of goods sold for each month. You already estimated these figures; just recopy on the work sheet.

Step 3:

Calculate the Gross Margin for each month (Sales minus Cost of Goods Sold).

Step 4:

Fill in the three categories of labor-related operating expenses (salaries, mandatory benefits, optional benefits). You estimated these figures already; just recopy them on the work sheet.

Step 5:

Fill in the Operating Expenses — Non-labor. You estimated these figures; just recopy them.

Step 6:

Fill in the Monthly Depreciation Expense. You estimated this figure already; just recopy them for each of the 12 months.

Step 7:

Calculate the Total Operating Expenses for each month by adding all operating expenses.

Step 8:

Calculate the Net Profit or Net Loss (before income taxes) for each month (Gross Margin minus Total Operating Expenses).

PROJECTED INCOME STATEMENT

MONTHS	1	2	3	4	5	6	7	8	9	10	11	12	Yearly Totals
Sales													
Cost of Goods Sold													
Gross Margin													
OPERATING EXPENSES													
Salaries & Wages													
Mandatory Benefits													
Optional Benefits													
Occupancy Expenses													
Car/Delivery													
Supplies													
Advertising													
Legal/Accounting													
Insurance													
Bad Debts													
Interest													
Other													
Depreciation													
Total Operating Expenses													
Net Profit (or Loss) Before Income Taxes													

BALANCE SHEET

The balance sheet can be compared to a picture of your financial condition on a particular day. This statement is a list of your assets (at your cost), your liabilities (your debts), and your equity in those assets.

You are going to prepare a balance sheet as of the end of your last fiscal year or as of the start-up date of your business. You should include all the assets and liabilities as of the appropriate date. You will also be preparing a projected balance sheet for a date one year in the future.

Step 1:

Fill in the amounts for each of the Current Assets and calculate the Total Current Assets.

Step 2:

Fill in the amount for Fixed Assets, (Land, Buildings and Equipment), less accumulated depreciation.

Step 3:

Calculate the Total Assets (Total Current Assets + Total Fixed Assets).

Step 4:

Fill in the amounts for current and long-term liabilities and calculate the required totals.

Step 5:

Calculate the Owner's Equity (Total Assets - Total Liabilities).

Step 6:

Fill in the amount of Total Liabilities + Owner's Equity. This amount should equal the amount for Total Assets.

Step 7:

Repeat Steps 1 through 6 for the end of the year projections.

BALANCE SHEET

Assets	As of	As of
Current Assets		
Cash	\$ _____	\$ _____
Accounts receivable	\$ _____	\$ _____
Inventory	\$ _____	\$ _____
Prepaid expenses	\$ _____	\$ _____
Other current assets	\$ _____	\$ _____
TOTAL CURRENT ASSETS		
Fixed Assets		
Land	\$ _____	\$ _____
Buildings (Less Accum. Depr.)	\$ _____	\$ _____
Equipment (Less Accum. Depr.)	\$ _____	\$ _____
Other fixed assets	\$ _____	\$ _____
TOTAL FIXED ASSETS		
Total Assets	\$ _____	\$ _____
Liabilities		
Current Liabilities		
Accounts payable	\$ _____	\$ _____
Federal & State taxes owed	\$ _____	\$ _____
Other current liabilities	\$ _____	\$ _____
TOTAL CURRENT LIABILITIES	\$ _____	\$ _____
Long-term Liabilities		
Notes payable to bank	\$ _____	\$ _____
Mortgages payable	\$ _____	\$ _____
Other long-term liabilities	\$ _____	\$ _____
TOTAL LONG-TERM LIABILITIES	\$ _____	\$ _____
Total Liabilities	\$ _____	\$ _____
Owner's Equity		
Owner's Equity	\$ _____	\$ _____
Total Liabilities + Owner's Equity	\$ _____	\$ _____

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