

## Checklist

The following is a suggested checklist of steps to start a successful business:

- Survey the market you plan to serve to ascertain if you can achieve the level of sales needed to make your desired profit.
- Determine a realistic profit you want from this business. Recognize the time you will give and the investment that is needed. Complete a project income statement based on these factors.
- Prepare a written business plan: include (in narrative form) include the start-up plan, one-year and five-year plan.
- Prepare written goals and objectives for your business.
- Write job descriptions for all key persons who will be associated with your business.
- Obtain resumes for all key persons who will be associated with your business.
- Prepare a statement of assets that will be needed to start the business.
- Prepare an initial project balance sheet (pro forma statement).
- Establish personnel policies. Be sure all statements are nondiscriminatory.
- Establish an adequate system of accounting records. We suggest your work with a CPA or an accounting firm.
- Decide whether you wish to operate as a sole proprietor, partnership, or corporation.
- Be sure to file you business name with the county or the state.
- If filing with the state, file “Articles of Incorporation” with the North Carolina Secretary of State. We suggest working with an attorney to assist with the filing.
- Obtain an employer Federal Identification Number form the Internal Revenue Service
- All retailers (new and existing) must file for a retail license from each branch, establishment or agency.
- All employers with three or more employees are subject to compliance with the Workmen’s Compensation Law.
- Study the location, specific buildings, or sites chosen for your business in relation to local zoning and ordinance requirements and needs.

*Checklist (continued)*

- Prepare a layout of the space to be used for your business.
- Review all aspects of your merchandising and advertising plan.
- Analyze your estimated expense in terms of their fixed and variable nature.
- Determine your company's break-even point.
- Prepare a project cash flow statement.
- If you are considering a sales on account (i.e., accounts receivable), review the advantages, disadvantages, and administrative decisions involved. Then, establish a credit policy.
- Review any risks that your business will be subjected to and how you plan to cope with them.
- Obtain an application for a business license from the municipality or county where the business is to be located.
- If required, pursue a professional certification by an appropriate board. Most certifications required an examination, and/or education credits.
- Obtain the required permits from the local municipalities for any or all of the following: building permits, zoning approval, and subdivision approval.
- Obtain from the Department of Environmental Health Services all permits required for emitting any type of pollutant into the air or water.
- Check with the local fire department to ensure that your business will be in full compliance with the local fire ordinances.
- Check with the Employment Security Commission concerning Unemployment Tax requirements.

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## Entrepreneurship Profile

Many financial experts agree that successful small business entrepreneurs have certain characteristics in common. Take the test below, be honest with yourself. If you answer yes to most of these questions your profile matches other entrepreneurs.

\_\_\_\_\_ Are you an independent-type person that is not afraid to go in one direction while others go in another?

\_\_\_\_\_ Do you believe in yourself? When others ask, “why?” do you ask, “why not?”

\_\_\_\_\_ Do you know how to set goals for an objective and persevere until you achieve them, even if you make mistakes along the way?

\_\_\_\_\_ Are you well-organized? Can you juggle numerous projects simultaneously?

\_\_\_\_\_ Do you have experience and knowledge in the business you are pursuing? If not, are you willing to take the time to learn the needed skills?

\_\_\_\_\_ Do you know where you can get professional help in running your business?

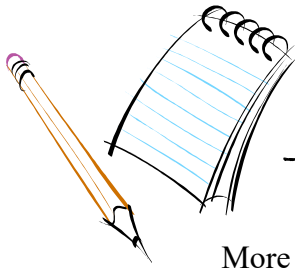
\_\_\_\_\_ Were you, or one of you parents, ever self-employed? Many people have a fear of starting their own business. Those who have grown up with self-employed family members usually understand what it means to run a business.

\_\_\_\_\_ Are you a good manager? Are you willing to start small and expand as you go along, instead of overextending your business before you become established?

\_\_\_\_\_ Do you have good people skills? Even though you work by yourself, you may be in the business of satisfying other people’s needs. Do you have the ability to understand, communicate, and deliver what each customer wants?

\_\_\_\_\_ Are you flexible and adaptable with your business goals? Many entrepreneurs start out in one direction with their business, only to go in another, unexpected direction later. Successful business owners are wise enough to recognize a promising trend and follow it.

\_\_\_\_\_ Do you have energy, drive, and patience to make your business work? The U.S. Small Business Administration estimates that the average small business takes on to two years to show a profit. Most likely you will have to make time for your business while trying to maintain your other activities (another job, family matters, etc.) You probably will end up working many hours over the “normal” 40 hours-a-week job.



## The Business Plan

More often than not many people ask why write a business plan? It can be an arduous process, but soon you will realize it is a valuable instrument that will:

- Provide important data on your industry and the market.
- Help you obtain a loan from a bank or capital from an investor.
- Help you make crucial business decisions to realize your business goals.
- Realize your competition and help you develop the competitive advantage to succeed.
- Understand the financial aspects of your business, such as cash flow and break-even requirements.
- A good business plan helps you realize your dreams!

The business plan should lay out your basic idea for the venture and include a description of where you are now, where you want to go, and how you intend to get there.

The real value of creating a business plan is not in having the finished product in hand; rather, the value lies in the process of researching and thinking about your business in a systematic way. The act of planning helps you to think things through thoroughly, study and research if you are not sure of the facts, and look at your ideas critically. It takes time now, but avoids costly, perhaps disastrous, mistakes later.

## Opportunity

In the content of the business plan first and foremost Think:

### What is the Opportunity?

What will you sell (a service or a product)? Who will be your customers? How will you sell to them? How rapidly can you grow? The industry and market should be analyzed carefully consider what could go wrong and how you and your team will respond.

### Who are the Team Players?

This is one of the most important factors of starting and running a small business. Having the right people in the right place spells success. Who will be your management team and operations personnel? What are their qualifications and experience?

### What are the Resources?

The resources needed for a venture include more than money, it also includes resources such as accountants, attorneys, suppliers, investors, accounts receivable, inventories, etc. A small business individual must think about how to do the most with the least, minimize and control, not maximize and own.

### The Financing Structure?

What is the financial structure, will you need capital from investors, or a bank loan? If you have investors such as Venture Capitalist or Angel Investors how will you structure the percentage of ownership? Good rule to remember with investors is to hire a good attorney before signing any agreements in distribution of ownership.

### The Big Picture

What are the external factors of the opportunity, i.e., what is the regulatory environment like, interest rates, demographic trends, inflation, and remember these factors will inevitably change and cannot be controlled by the entrepreneur?

On the following pages list what your answers are:











## Business Plan Outline

### Cover Page

The cover page should have the Company name, address, phone number, fax number, and website address. Include a tagline and/or logo. The name of the contact person (preferably the president) with mailing address, phone number, fax number, and e-mail address. Include a date the plan was prepared, if the plan is going to be given to a bank or investors, a disclaimer that the plan is being provided on a confidential basis and is not to be reproduced should also be included.

### Executive Summary

The very first aspect of all Business Plans is the Executive Summary; but it is the very LAST part that you will write.

We suggest that you make it two pages or fewer.

Include everything that you would cover in a five-minute interview.

Explain the fundamentals of the proposed business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?

Make it enthusiastic, professional, complete, and concise.

If applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment.

### Table of Contents

List the contents of your business plan using the following as a general outline:

1. Business
  - A. General Company Description
  - B. Products and Services
  - C. Marketing Plan
    1. Economics
    2. Features/Benefits
    3. Customers
    4. Competition
    5. Strategy
    6. Promotion and Pricing
    7. Sales Forecast
  - D. Operation Plan
    1. Production
    2. Location
    3. Legal Environment
    4. Personnel
    5. Suppliers
    6. Inventory
    7. Credit Policies
    8. Accounting
  - E. Management and Organization
  - F. Financial Data
    1. Personal Financial Data
      - a. Tax Returns
      - b. Balance sheets – past 3 years
      - c. Income statement – past 3 years
    2. Startup Expenses & Capitalization
    3. Financial Projections
    4. Break-Even Analysis
    5. Balance Sheet
  - G. Appendices

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## General Company Description

What business will you be in? What will you do?

**Mission Statement:** Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:

**Company Goals and Objectives:** Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a leader in customer service and that has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.

**Business Philosophy:** What is important to you in business?

To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them?

Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

Legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?

## Products and Services

Describe in depth your products or services (technical specifications, drawings, photos, sales brochures, and other bulky items belong in *Appendices*).

What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique or proprietary features.

What are the pricing, fee, or leasing structures of your products or services?

## Marketing Plan

### *Market Research - Why?*

No matter how good your product and your service, the venture cannot succeed without effective marketing. And this begins with careful, systematic research. It is very dangerous to assume that you already know about your intended market. You need to do market research to make sure you're on track. Use the business planning process as your opportunity to uncover data and to question your marketing efforts. Your time will be well spent.

### *Market Research - How?*

There are two kinds of market research: primary and secondary.

Secondary research means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available in public libraries, industry associations, chambers of

commerce, from vendors who sell to your industry, and from government agencies.

Start with your local library. Most librarians are pleased to guide you through their business data collection. You will be amazed at what is there. There are more online sources than you could possibly use. Your chamber of commerce has good information on the local area. Trade associations and trade publications often have excellent industry-specific data.

Primary research means gathering your own data. For example, you could do your own traffic count at a proposed location, use the yellow pages to identify competitors, and do surveys or focus-group interviews to learn about consumer preferences. Professional market research can be very costly, but there are many books that show small business owners how to do effective research themselves.

In your marketing plan, be as specific as possible; give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important sales projection.

### *Economics*

Facts about your industry:

- What is the total size of your market?
- What percent share of the market will you have? (This is important only if you think you will be a major factor in the market.)
- Current demand in target market.
- Trends in target market—growth trends, trends in consumer preferences, and trends in product development.

- Growth potential and opportunity for a business of your size.
- What barriers to entry do you face in entering this market with your new company? Some typical barriers are:
  - High capital costs
  - High production costs
  - High marketing costs
  - Consumer acceptance and brand recognition
  - Training and skills
  - Unique technology and patents
  - Unions
  - Shipping costs
  - Tariff barriers and quotas
- And of course, how will you overcome the barriers?
- How could the following affect your company?
  - Change in technology
  - Change in government regulations
  - Change in the economy
  - Change in your industry

### *Products and Services: Features and Benefits*

In the *Products and Services* section, you described your products and services as you see them. Now describe them from your customers' point of view.

List all of your major products or services.

For each product or service:

- Describe the most important features. What is special about it?
- Describe the benefits. That is, what will the product do for the customer?

Note the difference between features and benefits, and think about them. For example, a house that gives shelter and lasts a long time is made with certain materials and to a certain design; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so that you can sell the benefits.

What after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

### *Customers*

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.

The description will be completely different depending on whether you plan to sell to other businesses or directly to consumers. If you sell a consumer product, but sell it through a channel of distributors,

wholesalers, and retailers, you must carefully analyze both the end consumer and the middleman businesses to which you sell.

You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class and occupation
- Education
- Other (specific to your industry)
- Other (specific to your industry)

For business customers, the demographic factors might be:

- Industry (or portion of an industry)
- Location
- Size of firm
- Quality, technology, and price preferences
- Other (specific to your industry)
- Other (specific to your industry)

*Competition*

What products and companies will compete with you?

List your major competitors: (Names and addresses)

Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?

Will you have important indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)

How will your products or services compare with the competition?

Use the Competitive Analysis table below to compare your company with your two most important competitors. In the first column are key competitive factors. Since these vary from one industry to another, you may want to customize the list of factors.

In the column labeled **Me**, state how you honestly think you will stack up in customers' minds. Then check whether you think this factor will be a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, trying to be causes many business failures because efforts become scattered and diluted. You want an honest assessment of your firm's strong and weak points.

Now analyze each major competitor. In a few words, state how you think they compare.

In the final column, estimate the importance of each competitive factor to the customer. 1 = critical; 5 = not very important.

Table 1: Competitive Analysis

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Products						
Price						
Quality						
Selection						
Service						
Reliability						
Stability						
Expertise						
Company Reputation						
Location						
Appearance						
Sales Method						
Credit Policies						
Advertising						
Image						

Now, write a short paragraph stating your competitive advantages and disadvantages.

### *Niche*

Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world.

In one short paragraph, define your niche, your unique corner of the market.

### *Strategy*

Now outline a marketing strategy that is consistent with your niche.

### *Promotion*

How will you get the word out to customers?

Advertising: What media, why, and how often? Why this mix and not some other?

Have you identified low-cost methods to get the most out of your promotional budget?

Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?

What image do you want to project? How do you want customers to see you?

In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures, signage, and interior design (if customers come to your place of business).

Should you have a system to identify repeat customers and then systematically contact them?

### *Promotional Budget*

How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

### *Pricing*

Explain your method or methods of setting prices. For most small businesses, having the lowest price is not a good policy. It robs you of needed profit margin; customers may not care as much about price as you think; and large competitors can under price you anyway. Usually you will do better to have average prices and compete on quality and service.

Does your pricing strategy fit with what was revealed in your competitive analysis?

Compare your prices with those of the competition. Are they higher, lower, the same? Why?

How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?

What will be your customer service and credit policies?



### *Proposed Location*

Probably you do not have a precise location picked out yet. This is the time to think about what you want and need in a location. Many startups run successfully from home for a while.

You will describe your physical needs later, in the *Operational Plan* section. Here, analyze your location criteria as they will affect your customers.

Is your location important to your customers? If yes, how?

If customers come to your place of business:

Is it convenient? Parking? Interior spaces? Not out of the way?

Is it consistent with your image?

Is it what customers want and expect?

Where is the competition located? Is it better for you to be near them (like car dealers or fast food restaurants) or distant (like convenience food stores)?

### *Distribution Channels*

How do you sell your products or services?

Retail

Direct (mail order, Web, catalog)

Wholesale

Your own sales force

Agents

Independent representatives

Bid on contracts

### *Sales Forecast*

Now that you have described your products, services, customers, markets, and marketing plans in detail, it's time to attach some numbers to your plan. Use a [sales forecast spreadsheet](#) to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described your market research, and industry data, if available.

You may want to do two forecasts: 1) a "best guess", which is what you really expect, and 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

## Operational Plan

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.

### Production

How and where are your products or services produced?

Explain your methods of:

- Production techniques and costs
- Quality control
- Customer service
- Inventory control
- Product development

### Location

What qualities do you need in a location? Describe the type of location you'll have.

Physical requirements:

- Amount of space
- Type of building
- Zoning
- Power and other utilities

Access:

Is it important that your location be convenient to transportation or to suppliers?

Do you need easy walk-in access?

What are your requirements for parking and proximity to freeway, airports, railroads, and shipping centers?

Include a drawing or layout of your proposed facility if it is important, as it might be for a manufacturer.

Construction? Most new companies should not sink capital into construction, but if you are planning to build, costs and specifications will be a big part of your plan.

Cost: Estimate your occupation expenses, including rent, but also including maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.

What will be your business hours?

### Legal Environment

Describe the following:

- Licensing and bonding requirements
- Permits
- Health, workplace, or environmental regulations
- Special regulations covering your industry or profession
- Zoning or building code requirements
- Insurance coverage
- Trademarks, copyrights, or patents (pending, existing, or purchased)

*Personnel*

- Number of employees
- Type of labor (skilled, unskilled, and professional)
- Where and how will you find the right employees?
- Quality of existing staff
- Pay structure
- Training methods and requirements
- Who does which tasks?
- Do you have schedules and written procedures prepared?
- Have you drafted job descriptions for employees? If not, take time to write some. They really help internal communications with employees.
- For certain functions, will you use contract workers in addition to employees?

*Suppliers*

Identify key suppliers:

- Names and addresses
- Type and amount of inventory furnished
- Credit and delivery policies
- History and reliability

Should you have more than one supplier for critical items (as a backup)?

Do you expect shortages or short-term delivery problems?

Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing costs?

*Inventory*

- What kind of inventory will you keep: raw materials, supplies, finished goods?
- Average value in stock (i.e., what is your inventory investment)?
- Rate of turnover and how this compares to the industry averages?
- Seasonal buildups?
- Lead-time for ordering?

*Credit Policies*

- Do you plan to sell on credit?
- Do you really need to sell on credit? Is it customary in your industry and expected by your clientele?
- If yes, what policies will you have about who gets credit and how much?
- How will you check the creditworthiness of new applicants?
- What terms will you offer your customers; that is, how much credit and when is payment due?
- Will you offer prompt payment discounts? (Hint: Do this only if it is usual and customary in your industry.)
- Do you know what it will cost you to extend credit? Have you built the costs into your prices?

**Managing Your Accounts Receivable**

If you do extend credit, you should do an aging at least monthly to track how much of your money is tied up in credit given to customers and to alert you to slow payment problems. A receivables aging looks like the following table:

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Receivable Aging						

You will need a policy for dealing with slow-paying customers:

- When do you make a phone call?
- When do you send a letter?
- When do you get your attorney to threaten?

**Managing Your Accounts Payable**

You should also age your accounts payable, what you owe to your suppliers. This helps you plan whom to pay and when. Paying too early depletes your cash, but paying late can cost you valuable discounts and can damage your credit. (Hint: If you know you will be late making a payment, call the creditor before the due date.)

Do your proposed vendors offer prompt payment discounts?

A payables aging looks like the following table.

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Payable Aging						

## Management and Organization

Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What special or distinctive competencies? Is there a plan for continuation of the business if this person is lost or incapacitated?

If you'll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Include position descriptions for key employees. If you are seeking loans or investors, include resumes of owners and key employees.

### *Professional and Advisory Support*

List the following:

- Board of directors
- Management advisory board
- Attorney
- Accountant
- Insurance agent
- Banker
- Consultant or consultants
- Mentors and key advisors

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## Personal Financial Statement

Include [personal financial statements](#) for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the business, and these statements will show what is available. Bankers and investors usually want this information as well.

## Startup Expenses and Capitalization

You will have many [startup expenses](#) before you even begin operating your business. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them.

Even with the best of research, however, opening a new business has a way of costing more than you anticipate. There are two ways to make allowances for surprise expenses. The first is to add a little "padding" to each item in the budget. The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item, called contingencies, to account for the unforeseeable. This is the approach we recommend.

Talk to others who have started similar businesses to get a good idea of how much to allow for contingencies. If you cannot get good information, we recommend a rule of thumb that contingencies should equal at

least 20 percent of the total of all other start-up expenses.

Explain your research and how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also explain in detail how much will be contributed by each investor and what percent ownership each will have.

## Financial Plan

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

### *12-Month Profit and Loss Projection*

Many business owners think of the [12-month profit and loss projection](#) as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your sales projections will come from a sales forecast in which you forecast sales, cost of goods sold, expenses, and profit month-by-month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it's time to revise your plan.

### *Four-Year Profit Projection (Optional)*

The 12-month projection is the heart of your financial plan. [The Four-Year Profit projection](#) is for those who want to carry their forecasts beyond the first year.

Of course, keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.

### *Projected Cash Flow*

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn't be taken by surprise.

There is no great trick to preparing it: The [cash-flow projection](#) is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases.

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When?

Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal inventory buildup, that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.

And of course, depreciation does not appear in the cash flow at all because you never write a check for it.

### *Break-Even Analysis*

A [break-even analysis](#) predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at

a loss and operating at a profit. This type of report is not one that is automatically generated by most accounting software, nor is it one that is normally produced by your accountant, but it is an important analysis for you to have and understand. For any new business, you should predict what gross sales volume level you will have to achieve before you reach the break-even point and then, of course, build to make a profit. For early-stage businesses, you should be able to assess your early prediction and determine how accurate they were, and monitor whether you are actually on track to make the profits you need. Even the mature business would be wise to look at their current break-even point and perhaps find ways to lower that benchmark to increase profits. The recent massive layoffs at large corporations are directed at this goal, lowering the break-even point and increasing profits.

### **Break-Even Is the Volume Where All Fixed Expenses Are Covered**

You will start a break-even analysis by establishing all the fixed (overhead) expenses of your business. Since most of these are done on a monthly basis, don't forget to include the estimated monthly amount of line items that are normally paid on a quarterly or annual basis such as payroll taxes or insurance. For example, if your annual insurance charge is \$9,000, use 1/12 of that, or \$750 as part of your monthly budget. With the semi variable expense (such as phone charges, travel, and marketing), use that portion that you expect to spend each and every month.

For the purpose of a model break-even, let's assume that the fixed expenses look as follows:

Administrative salaries	\$1,500
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Rent	800
Utilities	300
Insurance	150
Taxes	210
Telephone	240
Auto expense	400
Supplies	100
Sales and marketing	300
Interest	100
Miscellaneous	400
Total	\$4,500

These are the expenses that must be covered by your gross profit. Assuming that the gross profit margin is 30 percent, what volume must you have to cover this expense? The answer in this case is 15,000—30 percent of that amount is \$4,500, which is your target number.

The two critical numbers in these calculations are the total of the fixed expense and the percentage of gross profit margin. If your fixed expense is \$10,000 and your gross profit margin is 25 percent, your break-even volume must be \$40,000.

(Where fixed costs are expressed in dollars, but variable costs is expressed as a percent of total sales.)

Include all assumptions upon which your break-even calculation is based.

### *Opening Day Balance Sheet*

A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are



subtracted from assets, the remainder is owners' equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your [opening day balance sheet](#).

Optional: Some people want to add a [projected balance sheet](#) showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal to investors.

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## Appendices

Include details and studies used in your business plan; for example:

- Brochures and advertising materials
- Industry studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan

## Refining the Plan

The generic business plan presented above should be modified to suit your specific type of business and the audience for which the plan is written.

### *For Raising Capital*

#### **For Bankers**

- Bankers want assurance of orderly repayment. If you intend using this plan to present to lenders, include:
  - Amount of loan
  - How the funds will be used
  - What this will accomplish—how will it make the business stronger?
  - Requested repayment terms (number of years to repay). You will probably not have much negotiating room on interest rate but may be able to negotiate a longer repayment term, which will help cash flow.
  - Collateral offered, and a list of all existing liens against collateral

#### **For Investors**

- Investors have a different perspective. They are looking for dramatic growth, and they expect to share in the rewards:
  - Funds needed short-term
  - Funds needed in two to five years
  - How the company will use the funds, and what this will accomplish for growth.
  - Estimated return on investment
  - Exit strategy for investors (buyback, sale, or IPO)
  - Percent of ownership that you will give up to investors
  - Milestones or conditions that you will accept
  - Financial reporting to be provided
  - Involvement of investors on the board or in management

*For Type of Business***Manufacturing**

- Planned production levels
- Anticipated levels of direct production costs and indirect (overhead) costs—how do these compare to industry averages (if available)?
- Prices per product line
- Gross profit margin, overall and for each product line
- Production/capacity limits of planned physical plant
- Production/capacity limits of equipment
- Purchasing and inventory management procedures
- New products under development or anticipated to come online after startup

**Service Businesses**

- Service businesses sell intangible products. They are usually more flexible than other types of businesses, but they also have higher labor costs and generally very little in fixed assets.
- What are the key competitive factors in this industry?
- Your prices
- Methods used to set prices
- System of production management
- Quality control procedures. Standard or accepted industry quality standards.
- How will you measure labor productivity?
- Percent of work subcontracted to other firms. Will you make a profit on subcontracting?
- Credit, payment, and collections policies and procedures
- Strategy for keeping client base
- High Technology Companies
- Economic outlook for the industry

- Will the company have information systems in place to manage rapidly changing prices, costs, and markets?
- Will you be on the cutting edge with your products and services?
- What is the status of research and development? And what is required to:
  - Bring product/service to market?
  - Keep the company competitive?
- How does the company:
  - Protect intellectual property?
  - Avoid technological obsolescence?
  - Supply necessary capital?
  - Retain key personnel?

High-tech companies sometimes have to operate for a long time without profits and sometimes even without sales. If this fits your situation, a banker probably will not want to lend to you. Venture capitalists may invest, but your story must be very good. You must do longer-term financial forecasts to show when profit take-off is expected to occur. And your assumptions must be well documented and well argued.

### ***Retail Business***

- Company image
- Pricing:
  - Explain markup policies.
  - Prices should be profitable, competitive, and in accordance with company image.
- Inventory:
  - Selection and price should be consistent with company image.
  - Inventory level: Find industry average numbers for annual inventory turnover rate (available in RMA book). Multiply your initial inventory investment by the average turnover rate. The result should be at least equal to your projected first year's cost of goods sold. If it is not, you may not have enough budgeted for startup inventory.

- Customer service policies: These should be competitive and in accord with company image.
- Location: Does it give the exposure that you need? Is it convenient for customers? Is it consistent with company image?
- Promotion: Methods used, cost. Does it project a consistent company image?
- Credit: Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?
- If you need assistance with your business plan, contact the SCORE office in your area to set up a business counseling appointment with a SCORE volunteer or send your plan for review to a SCORE counselor at [www.score.org](http://www.score.org). Call 1-800-634-0245 to get the contact information for the SCORE office closest to you.