

14TH EDITION

With **Downloadable
Worksheets &
Sample Plans**



How to Write a Business Plan

- Create a plan to help your business grow and thrive
- Prepare sound financial statements
- Raise the money you need



Mike P. McKeever

The leading business plan book for 30 years

This Book Comes With Lots of FREE Online Resources

Nolo's award-winning website has a page dedicated just to this book. Here you can:

KEEP UP TO DATE. When there are important changes to the information in this book, we'll post updates.

GET DISCOUNTS ON NOLO PRODUCTS. Get discounts on hundreds of books, forms, and software.

READ BLOGS. Get the latest info from Nolo authors' blogs.

LISTEN TO PODCASTS. Listen to authors discuss timely issues on topics that interest you.

WATCH VIDEOS. Get a quick introduction to a legal topic with our short videos.



And that's not all.

Nolo.com contains thousands of articles on everyday legal and business issues, plus a plain-English law dictionary, all written by Nolo experts and available for free. You'll also find more useful **books, software, online apps, downloadable forms, plus a lawyer directory.**



Get forms and more at
www.nolo.com/back-of-book/SBS.html





The Trusted Name

(but don't take our word for it)

"In Nolo you can trust."

THE NEW YORK TIMES

"Nolo is always there in a jam as the nation's premier publisher of do-it-yourself legal books."

NEWSWEEK

"Nolo publications... guide people simply through the how, when, where and why of the law."

THE WASHINGTON POST

"[Nolo's]... material is developed by experienced attorneys who have a knack for making complicated material accessible."

LIBRARY JOURNAL

"When it comes to self-help legal stuff, nobody does a better job than Nolo..."

USA TODAY

"The most prominent U.S. publisher of self-help legal aids."

TIME MAGAZINE

"Nolo is a pioneer in both consumer and business self-help books and software."

LOS ANGELES TIMES

14th Edition

How to Write a Business Plan

Mike P. McKeever



FOURTEENTH EDITION JANUARY 2019
Editor ELIZABETH GJELTEN
Cover Design SUSAN PUTNEY
Production SUSAN PUTNEY
Proofreading SUSAN CARLSON GREENE
Index THÉRÈSE SHERE
Printing BANG PRINTING

Names: McKeever, Mike P., author.

Title: How to write a business plan / Mike P. McKeever.

Description: 14th edition. | Berkeley, CA : Nolo, [2018] | Includes index.

Identifiers: LCCN 2018022621 (print) | LCCN 2018025132 (ebook) | ISBN 9781413325461 (ebook) | ISBN 9781413325454 (pbk.)

Subjects: LCSH: Business planning. | New business enterprises--Planning. | New business enterprises--Finance. | Small business--Planning. | Small business--Finance.

Classification: LCC HD30.28 (ebook) | LCC HD30.28 .M3839 2018 (print) | DDC 658.15/224--dc22

LC record available at <https://lcn.loc.gov/2018022621>

This book covers only United States law, unless it specifically states otherwise.

Copyright © 1984, 1986, 1988, 1992, 1999, 2002, 2004, 2007, 2008, 2010, 2012, 2014, 2017, and 2018 by Mike P. McKeever.

All rights reserved. The NOLO trademark is registered in the U.S. Patent and Trademark Office. Printed in the U.S.A.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without prior written permission. Reproduction prohibitions do not apply to the forms contained in this product when reproduced for personal use. For information on bulk purchases or corporate premium sales, please contact the Special Sales Department. Call 800-955-4775 or write to Nolo, 950 Parker Street, Berkeley, California 94710.

Please note

We believe accurate, plain-English legal information should help you solve many of your own legal problems. But this text is not a substitute for personalized advice from a knowledgeable lawyer. If you want the help of a trained professional—and we'll always point out situations in which we think that's a good idea—consult an attorney licensed to practice in your state.

Dedication

This book is dedicated to the memory of my late grandmother, Elizabeth Eudora Woodall Darby, whose influence I acknowledged only recently.

Acknowledgments

After more than three decades of working with many people at Nolo, I am amazed at the uniform spirit of goodwill and cooperation.

I've been fortunate to work with some great editors at Nolo, beginning with the first edition (Jake Warner). Many more folks at Nolo improved the book greatly, especially Nolo's Production team.

A special thanks to a number of generous individuals, each of whom knows a great deal about starting and operating a small business: Peg Moran, Terri Hearsh, Roger Pritchard, Jason Wallach, Harry Keller, Dan Peters, Sharyn Simmons, Larry Healy, and finally, Hugh Coddling and Leroy Knibb of Coddling Investments. And special thanks to Doug Winter, a generalist extraordinaire, for his advice on business plans for nonprofits. To all my readers, clients, and students who have shared their hopes, dreams, and problems with me over the years, thank you for your help. The best parts are yours—all the mistakes are mine. Many of your stories and suggestions appear here in disguised form. I hope all the readers will profit from your wisdom and generosity.

Mike P. McKeever
San Leandro, California

About the Author

Mike P. McKeever's education, work experience, business ownership, writing, and teaching careers give him a broad and unique perspective on business planning. He has a BA in Economics from Whittier College and a Master's in Economics from the London (England) School of Economics, and he has done postgraduate work in financial analysis at the USC Business School. Mike has taught classes at numerous community colleges in entrepreneurship and small business management. He has published articles on entrepreneurship for Dow Jones publications, the *Sloan Publications Business Journal*, and numerous newspapers and periodicals.

Mike has successfully purchased, expanded, and sold a number of businesses, including a manufacturing company, tune-up shop, gas station, retail store, and commercial building. He has worked for a variety of companies ranging from small groceries to multimillion-dollar manufacturers. As an independent business broker, he assessed the strengths and weaknesses of hundreds of companies. As senior financial analyst for a Fortune 500 company, he wrote and analyzed nearly 500 business plans. You can learn more about his achievements at the Who's Who Lifetime Achievement site (www.lifetimeachievement.com/2018/02/28/mike-mckeeper).

Currently, Mike enjoys email correspondence with a few readers relating to business plan issues. You can contact him at mckeeper.mp@gmail.com, or by phone at 415-816-2982 (remember this is Pacific Standard Time).

Table of Contents

- 1 Why and How to Write a Business Plan 1**
 - What Kind of Business Plan Do You Need? 3
 - Why Write a Business Plan? 5
 - Business Plans and Forms You'll Find in This Book..... 8
 - How to Use This Book to Write Your Business Plan 9
 - Getting Started on Your Business Plan..... 11
 - Why This Book Is for You 12

- 2 Do You Really Want to Own a Business?..... 15**
 - Identifying Your Personal Goals..... 16
 - Self-Evaluation Exercises 17
 - How to Use the Self-Evaluation Checklist 23
 - Reality Check: Banker's Analysis 24

- 3 Choosing the Right Business..... 27**
 - Know Your Business..... 28
 - Be Sure You Like Your Business 30
 - Describe Your Business..... 31
 - Taste, Trends, and Technology: How Will the Future Affect
Your Business?..... 40
 - Break-Even Analysis: Will Your Business Make Money?..... 45
 - What You Have Accomplished..... 61

4	Potential Sources of Money to Start or Expand Your Small Business	63
	Ways to Raise Money.....	65
	Common Money Sources to Start or Expand a Business.....	76
	Now That You've Proven Yourself, How About Expanding?.....	91
	If No One Will Finance Your Business, Try Again.....	94
	Secondary Sources of Financing for Start-Ups or Expansions.....	95
	Conclusion.....	98
5	Your Résumé and Financial Statement	99
	Draft Your Business Accomplishment Résumé.....	100
	Draft Your Personal Financial Statement.....	110
6	Your Profit and Loss Forecast	129
	What Is a Profit and Loss Forecast?.....	131
	Determine Your Average Cost of Sales.....	132
	Complete Your Profit and Loss Forecast.....	136
	Review Your Profit and Loss Forecast.....	152
	How Your Profit and Loss Forecast Relates to Your Income Tax Return.....	153
7	Your Cash Flow Forecast and Capital Spending Plan	155
	What Is a Cash Flow Forecast?.....	156
	Prepare Your Capital Spending Plan.....	157
	Prepare Your Cash Flow Forecast.....	161
	Required Investment for Your Business.....	173
	Check for Trouble.....	174
8	Write Your Marketing and Personnel Plans	179
	Marketing Plan.....	180
	Personnel Plan.....	196

9	Editing and Finalizing Your Business Plan	201
	Decide How to Organize Your Plan.....	202
	Write Final Portions of Your Plan.....	204
	Create the Appendix.....	211
	Create Title Page and Table of Contents.....	212
	Complete Your Final Edit.....	212
	Consider Using a Business Consultant.....	214
10	Selling Your Business Plan	217
	How to Ask for the Money You Need.....	218
	How to Approach Different Backers.....	221
	What to Do When Someone Says “Yes”.....	226
	Plan in Advance for Legal Details.....	227
11	After You Open—Keeping on the Path to Success	231
	Watch Out for Problem Areas.....	232
	Getting Out of Business.....	239
12	Good Resources for Small Businesses	243
	Business Consultants.....	244
	Online Business Resources.....	247
	Books.....	248
	Magazines and Online Information Sources; Continuing Small Business Help.....	257
	Formal Education.....	258
13	Business Plans for Nonprofits	261
	Describe the Nonprofit Organization.....	263
	Forecast the Nonprofit’s Cash Needs.....	263
	Find Donors.....	264

Appendixes

A	Business Plan for a Small Service Business	265
B	Business Plan for a Manufacturing Business	283
C	Business Plan for Project Development	301
D	How to Use the Downloadable Forms on the Nolo Website	311
	Editing RTFs.....	312
	List of Forms Available on the Nolo Website	313
	Index	315

Why and How to Write a Business Plan

What Kind of Business Plan Do You Need?	3
Complete Business Plan	3
Quick (One-Day) Business Plan	3
Customized Plan	5
Why Write a Business Plan?	5
Helps You Get Money.....	5
Helps You Decide to Proceed or Stop.....	6
Lets You Improve Your Business Concept	6
Improves Your Odds of Success	7
Helps You Keep on Track.....	7
Business Plans and Forms You'll Find in This Book	8
How to Use This Book to Write Your Business Plan	9
Getting Started on Your Business Plan	11
Why This Book Is for You	12
This Book Is Time-Tested.....	12
It's Based on Real Experience and Business Practices.....	12
This Book Is Up-to-Date	13
I'll Personally Provide More Help If You Need It	13

“People who say it cannot be done should not interrupt those who are doing it.”

—George Bernard Shaw

“You’ve got to be careful if you don’t know where you’re going because you might not get there.”

—Yogi Berra

Are you concerned about whether you can put together a first-rate business plan and loan application? Don’t worry. This book has just what you need.

How to Write a Business Plan contains detailed forms and step-by-step instructions designed to help you prepare a well-thought-out, well-organized plan. Coupled with your positive energy and will to succeed, you’ll be able to design a business plan and loan package that you will be proud to show to the loan officer at your bank, the Small Business Administration, or your Uncle Harry.

After working with thousands of entrepreneurs (and wannabe entrepreneurs), I have observed an almost universal truth about business planning: Writing a plan is a journey through the mind of one person. Even in partnerships and corporations, usually one person has the vision and energy to take an idea and turn it into a business by writing a business plan. For that reason, I have addressed this book to the business owner as a single individual rather than a husband-and-wife team, group, committee, partnership, or corporation. And you’ll find that the same financial and analytical tools necessary to convince potential lenders and investors that your business idea is sound can also help you decide whether your idea is the right business for you.

This chapter describes the benefits of writing a business plan (just in case you need any convincing!) and provides an overview of the book, what my approach is, what forms you’ll find, and more.

What Kind of Business Plan Do You Need?

You can use *How to Write a Business Plan* to write whatever type of plan best suits your needs. I focus primarily on a complete business plan, but also offer a quick plan option, which you can customize to your needs. Here's a brief description of the difference. See "Complete Versus Quick Business Plan," below, for a list of the sections included in each type of business plan.

Complete Business Plan

This book shows you how to write a complete business plan—a written document that describes and analyzes your business and gives detailed projections about its future. A business plan also covers the financial aspects of starting or expanding your business—how much money you need and how you'll pay it back. It includes everything from a description of your business and marketing plan to financial forecasts and a risk analysis.

A complete business plan is especially helpful for people who are starting a new business or want to convince prospective backers to support a new (or expanding) business. (*Shark Tank*, anyone?) You'll be more successful in raising the money you need if you answer all of your potential backers' questions. See "Why Write a Business Plan?" below, for more on the value of preparing a business plan.

Quick (One-Day) Business Plan

While the complete business plan is the primary focus of this book, I offer another option too—what I call a quick business plan. If you know your business, are familiar with and able to make financial projections, and have done the necessary research (for example, on how to price your products or services to meet your competition), you may be able to quickly (in one day) create a stripped-down version of a business plan.

Complete Versus Quick Business Plan

Here's a quick overview of the different elements of the complete and quick business plans, and the related chapter for each element, such as Chapter 3 for the problem statement. I review every section in detail in this book, and explain how to assemble them into a cohesive business plan.

	Chapter	Complete Plan	Quick Plan
Title Page	9	x	x
Plan Summary	9	x	x
Table of Contents	9	x	x
Problem Statement	3	x	x
Business Description	3	x	x
Business Résumé/Accomplishments	5	x	x
Marketing Plan	8	x	
Sales Revenue Forecast	3	x	x
Profit and Loss Forecast	6	x	x
Capital Spending Plan	7	x	x
Cash Flow Forecast	7	x	x
Future Trends	3	x	
Risks Facing Business	8	x	
Personnel Plan	8	x	
Specific Business Goals	2	x	
Personal Financial Statement	5	x	
Personal Background	2	x	
Appendix	9	x	x
Supporting Documents	9	x	x

This quick plan has many of the key components of a complete business plan, such as a description of your business and financial forecasts, but it omits supporting documentation. It won't convince either you or your prospective backers that your business idea is sound, and it is appropriate only if your business idea is very simple or someone has already committed to backing your venture.

Customized Plan

You can also start with a quick plan and add components from the complete business plan to suit your needs. When deciding what to include and what to exclude, ask yourself (and potential backers) which sections are the strongest and which need more development.

Why Write a Business Plan?

Writing a business plan is a lot of work. So why take the time to write one? The best answer is the wisdom gained by literally millions of business owners just like you. Almost without exception, each business owner with a plan is pleased she has one, and each owner without a plan wishes he had written one. Here are some of the specific and immediate benefits you will derive from writing your business plan.

Helps You Get Money

Most lenders or investors require a written business plan before they will consider your proposal seriously. Even some landlords require a sound business plan before they will lease you space. Before making a commitment to you, they want to see that you have thought through critical issues facing you as a business owner and that you really understand your business. They also want to make sure your business has a good chance of succeeding.

In my experience, about 35% to 40% of the people currently in business do not know how money flows through their business. Writing a business plan with this book teaches you where money comes from and where it goes. Is it any wonder that your backers want to see your plan before they consider your financial request?

There are as many potential lenders and investors as there are prospective business owners. If you have a thoroughly thought-out business and financial plan that demonstrates a good likelihood of success—and you are persistent—you will find the money you need. Of course, it may take longer (and require more work) than you expect, but you will ultimately be successful if you believe in your business.

Helps You Decide to Proceed or Stop

One major theme of the book may surprise you. It's as simple as it is important: You, as the prospective business owner, are the most important person you must convince of the soundness of your proposal. Therefore, much of the work you are asked to do here serves a dual purpose. It is designed to provide answers to all the questions that prospective lenders and investors will ask. But it will also teach you how money flows through your business, what the strengths and weaknesses in your business concept are, and what your realistic chances of success are.

The detailed planning process described in this book is not infallible—nothing is in a small business—but it should help you uncover and correct flaws in your business concept. If this analysis demonstrates that your idea won't work, you'll be able to avoid starting or expanding your business. This is extremely important. It should go without saying that a great many businesspeople owe their ultimate success to an earlier decision not to start a business with built-in problems.

Lets You Improve Your Business Concept

Writing a plan allows you to see how changing parts of the plan increases profits or accomplishes other goals. You can tinker with individual parts of your business with no cash outlay. If you're using

a computer spreadsheet to make financial projections, you can try out different alternatives even more quickly.

Improves Your Odds of Success

One way of looking at business is that it's a gamble. You open or expand a business and gamble your and the bank's or investor's money. If you're right, you make a profit and pay back the loans and everyone's happy. But if your estimate is wrong, you and the bank or investors can lose money and experience the discomfort that comes from failure.

Writing a business plan helps beat the odds. Most new, small businesses don't last very long. And, most small businesses don't have a business plan. Is that only a coincidence, or is there a connection between these two seemingly unconnected facts? My suggestion is this: Let someone else prove the connection wrong. Why not be prudent and improve your odds by writing a plan?

Helps You Keep on Track

Many business owners spend countless hours handling emergencies, simply because they haven't learned how to plan ahead. This book helps you anticipate problems and solve them before they become disasters.

A written business plan gives you a clear course toward the future and makes your decision making easier. Some problems and opportunities may represent a change of direction worth following, while others may be distractions that referring to your business plan will enable you to avoid. The black and white of your written business plan will help you face facts if things don't work out as expected. For example, if you planned to be making a living three months after start-up, and six months later you're going into the hole at the rate of \$100 per day, your business plan should help you see that changes are necessary. It's all too easy to delude yourself into keeping a business going that will never meet its goals if you approach things with a "just another month or two and I'll be there" attitude, rather than comparing your results to your goals.

Business Plans and Forms You'll Find in This Book

This book takes you step by step through the key elements of writing a business plan, from writing a problem statement to preparing financial statements. In an effort to make sense out of the thousands of types of small businesses, I have roughly divided them into five main ones:

- retail
- wholesale
- service
- manufacturing, and
- project development.

See Chapter 3 for details on each of these types of businesses, and the appendixes for sample business plans for a small service business, a manufacturing business, and a project development. I use the example of Antoinette's Shop (a women's clothing boutique) throughout this book to show how to prepare a business plan for a retail business. There is no specific plan for a wholesale business because the basic financial fundamentals for a wholesale business are similar to a retail plan, which is discussed in detail.

The book also includes four different Excel worksheets and helpful formulas for calculating crucial financial information for your business plan, whether you're a local service business serving a small geographic area or a tech start-up with an international audience. These worksheets include:

- sales forecasts
- personal financial information
- profit and loss forecasts, and
- cash flow forecasts.

You'll find all of these forms on the book's companion page on Nolo.com (see "Get Forms, Updates, and More on This Book's Companion Page on Nolo.com," below, for more information, including the URL for the forms).

All the financial tools and advice I present can be used by all five types of businesses. Of necessity, this book focuses on principles common to all businesses and does not discuss the specific items that

distinguish your business from other businesses—for example, this book doesn't discuss how to price your products to meet your competition.

For the sake of simplicity, however, I follow one particular retail business—a woman's clothing boutique (see “Meet Antoinette,” below, for details). In so doing, I illustrate most of the planning concepts and techniques necessary to understand and raise money for any business. The clothing boutique business plan presented here encompasses most of the basic business plan and financial fundamentals needed for any business; once you understand how the retail model works, it is easy to transfer it to other concepts.

Meet Antoinette

As you read through the text, you'll meet Antoinette, a friend of mine. Antoinette wants to open a women's clothing boutique, selling high-quality, unique clothing and offering personalized customer service you won't find at a typical department store. (I call it Antoinette's Shop for simplicity here.) Antoinette allowed me to use her plans and thought processes as an example of a complete and well-prepared business plan for a retail store. You'll find parts of her plan presented in different chapters as we discuss the various components of a complete business plan. Of course, some of the numbers used in Antoinette's business plan may be lower or higher than for your business or market. The figures are for illustration purposes only. You need to change numbers as appropriate to your situation.

How to Use This Book to Write Your Business Plan

This book is organized more or less in chronological order, covering the main elements of a business plan. (By chronological, I mean the step-by-step writing process, not the calendar.) The first few chapters cover some key issues (which may or may not be relevant depending on your particular situation), including:

- how writing a business plan can help you organize your thoughts, convince you that your business is a good (or bad) idea, and determine if you are the right person to own a business (Chapter 2)
- how to choose a good business to start, and whether to write a complete plan or forget about your business idea—the point being that it’s wiser to take a few moments to make a better decision than it is to spend a lot of cash on a bad idea (Chapter 3)
- where to get the money you need to start your business, assuming you’ve first convinced yourself that your business is a good idea (Chapter 4), and
- how to prepare personal documents, such as your résumé and personal financial statement, that some financial backers may want to see (Chapter 5).

Chapters 6 through 9 of this book cover the essential components of your business plan, including:

- how to complete a profit and loss forecast and cash flow forecast—the financial guts of the business plan, pointing to success or failure (Chapters 6 and 7)
- how to prepare your marketing and personnel plans for the business (Chapter 8), and
- how to compile all the work you’ve done in previous chapters into a polished and professional business plan to present to potential backers (Chapter 9).

At this point, you should be ready to sell your idea to backers. This is the focus of Chapter 10, which emphasizes the importance of being flexible and listening to questions and comments from your audience, and changing your plan as necessary to successfully raise money.

Chapter 11 presents some advice on keeping your business successful. After all, you want your idea to work for a long time, not just fold after a few months!

Chapter 12 includes helpful resources for business planning and ownership.

Chapter 13 includes a brief overview of how nonprofits might benefit from writing a business plan.

Finally, the appendixes include complete business plans for a few different types of businesses.

Getting Started on Your Business Plan

Before you sit down to start writing your plan, you'll need to know key information about your particular business—things like retail selling prices and costs of merchandise for resale and fixtures for the floor. Collecting this information and relevant numbers can be a time-consuming task, especially if you don't have prior experience as a manager. On average, and assuming you already have some knowledge of the business you want to start, you can make decent “ballpark” assumptions in a matter of hours and complete the plan that way. But it will take longer to pull everything together if you don't have managerial experience or intimate, prior knowledge of your business.

Once you have your key information and numbers assembled, the actual writing process can be completed in as few as 20 hours or up to 40 or 50 hours (less if you're doing the quick plan described above).

Your potential backers will want a professionally prepared hard-copy document, which may include graphs and charts. While you are gathering information as part of the preparation process, you can use almost any form of record keeping you like (such as yellow legal pads), as long as you can read your information well enough to enter it into the computer.

However you write, I firmly believe in getting your first thoughts down on paper and letting them rest for a day or two. Then you can edit, expand, and revise later to get a more perfect statement. In this book, I show examples of Antoinette's writing process. (I'm grateful she's such a good sport.)

Most people discover about halfway through writing their business plan that they want to change either their assumptions or some of the plan they've already written. My best advice is this: Complete the plan all the way through on your original set of assumptions. That way you can see the financial impact of your ideas, and it will be much easier to make the right changes in the second draft. If you start revising

individual parts of the plan before you have the complete picture, you'll waste a lot of energy. If you're like me, you'll rewrite and edit your plan several times once you've finished the first run-through.

This may all sound somewhat vague now, but will become clearer once you make your way through the book.

Why This Book Is for You

If you're reading this chapter online or glancing at it in a bookstore or library, I'd like to add a few words on why this book is ideal for anyone wanting the basics of writing a business plan. This book presents the basic structure of creating a business plan for four different types of business. Once you select the model which matches your business idea, then you can follow the simple instructions and complete your plan. Later, perhaps, you can add in other elements to your business idea.

This Book Is Time-Tested

This book has stood the test of time. *How to Write a Business Plan* has been published continuously for more than 30 years (selling over 150,000 copies) because it actually helps people write plans. Many books, websites, and magazines about business plans have come and gone in the last 30 years, but very few have survived. The ones that disappear sometimes just present blank forms for you to fill out, or they offer plans for complicated businesses unrelated to your idea. But this book not only gives you the forms, but it also tells you how to find the numbers you will put into the forms for your own business.

It's Based on Real Experience and Business Practices

How to Write a Business Plan is based on solid personal experience; you can benefit from my experience (and learn from my mistakes). I was always impatient in jobs. Once I had learned what the job was about, I moved on to a new one where I could learn more. I cut my teeth in the corporate world in the 1960s by writing business plans for numerous subsidiaries and then writing reports for the corporate board on why the

business met or did not meet the plan. Then I wrote this book (the first edition was published in 1984), and have consulted with thousands of entrepreneurs on their business plans since that time, and continue to do so now. I have also taught economics and business courses (at both the graduate and undergraduate levels) since the 1980s. I have taken my decades of experience and reformulated the advice and exercises in the book to make them more effective as well as easier and quicker to use.

This Book Is Up-to-Date

I regularly update this book to reflect current legal and business practices when it comes to writing a business plan. I also include any major changes on the online companion page (described below) that comes with this book.

I'll Personally Provide More Help If You Need It

I present several different plans, each one for a different type of business. One of these plans will fit your business idea. But if you need a little more guidance, you can email me at mckeever.mp@gmail.com. Please mention “Nolo Business Plan book” in the subject line of your email; otherwise I might delete it as spam.

Get Forms, Updates, and More on This Book's Companion Page on Nolo.com

You can download all the business plans and forms in this book at:

www.nolo.com/back-of-book/SBS.html

When there are important changes to the information in this book, we'll post those updates on the same dedicated page (what we call the book's companion page). You'll find other useful information on this page, too, such as podcasts and related articles. See Appendix D, “How to Use the Downloadable Forms on the Nolo Website,” for a list of all forms and resources available on Nolo.com.



Do You Really Want to Own a Business?

Identifying Your Personal Goals	16
Self-Evaluation Exercises	17
Your Strong and Weak Points.....	18
General and Specific Skills Your Business Needs.....	20
Your Likes and Dislikes	21
Specific Business Goals.....	22
How to Use the Self-Evaluation Checklist	23
Reality Check: Banker's Analysis	24
Banker's Ideal	24
Measuring Up to the Banker's Ideal	25
Use the Banker's Ideal	25

Before getting into the nitty-gritty details of writing a business plan, it's always a good idea to do some reflection as to your personal goals for starting a business, and to consider whether you have the necessary skills to start and run a successful business. That's the purpose of this chapter.

Identifying Your Personal Goals

“Hope springs eternal in the human breast,” said English poet and essayist Alexander Pope several centuries ago. He wasn't describing people expanding or starting a business, but he may as well have been. Everyone who goes into business for themselves hopes to meet or surpass a set of personal goals. While your particular configuration is sure to be unique, perhaps you will agree with some of the ones I have compiled over the years from talking to hundreds of budding entrepreneurs.

Independence. A search for freedom and independence is the driving force behind many businesspeople. Wasn't it Johnny Paycheck who wrote the song “Take This Job and Shove It”?

Personal Fulfillment. For many people, owning a business is a genuinely fulfilling experience, one that lifetime employees never know.

Lifestyle Change. Many people find that while they can make a good income working for other people, they are missing some of life's precious moments. With the flexibility of small business ownership, you can take time to stop and smell the roses.

Respect. Successful small business owners are respected, both by themselves and their peers.

Money. You can get rich in a small business, or at least do very well financially. Most entrepreneurs don't get wealthy, but some do. If money is your motivator, admit it.

Power. When it is your business, you can have your employees do it your way. There is a little Genghis Khan in us all, so don't be surprised if power is one of your goals. If it is, think about how to use this goal in a constructive way.

Right Livelihood. From natural foods to solar power to many types of service businesses, a great many cause-driven small businesses have done very well by doing good.

If owning a small business can help a person accomplish these goals, it's small wonder that so many are started. Unfortunately, while the potential for great success exists, so do many risks. Running a small business may require that you sacrifice some short-term comforts for long-term benefits. It is hard, demanding work that requires a wide variety of skills few people are born with. But even if you possess (or more likely acquire) the skills and determination you need to successfully run a business, your business will need one more critical ingredient: Money. Raising that money is the focus of Chapters 4 and 10.

Self-Evaluation Exercises

Here's a question to ponder: Are you the right person for your business? Because running a business is a very demanding endeavor that can take most of your time and energy, your business probably will suffer if you're unhappy. Your business can become an albatross around your neck if you don't have the skills and temperament to run it. Simply put, I've learned that no business, whether or not it has sound financial backing, is likely to succeed unless you, as the prospective owner, make two decisions correctly:

- You must honestly evaluate yourself to decide whether you possess the skills and personality needed to succeed in a small business.
- You must choose the right business. (How to select the right business is covered extensively in Chapter 3.)

A small business is a very personal endeavor. It will honestly reflect your opinions and attitudes, whether or not you design it that way. Think of it this way: The shadow your business casts will be your shadow. If you are sloppy, rude, or naively trusting, your business will mirror these attributes. If your personal characteristics are more positive than those, your business will be more positive, too. To put this

concretely, suppose you go out for a Sunday coffee and are met by a cafe owner (acting as barista) who is groggy from a hangover and badmouths his girlfriend in front of you. Chances are that next Sunday will find you at a different cafe.

I'm not saying you need to be psychologically perfect to run a small business. But to succeed, you must ask people for their money every day and convince a substantial number of them to give it to you. While providing your goods or services, you will create intimate personal relationships with a number of people. It makes no difference whether you refer to people who give you money as clients, customers, patients, members, students, or disciples. It makes a great deal of difference to your chances of ultimate success if you understand that these people are exchanging their money for the conviction that you are giving them their money's worth.

The following self-evaluation exercises will help you assess whether you have what it takes to successfully run a small business.



FORM ON NOLO.COM

You'll find a copy of the Self-Evaluation Checklist on this book's companion page on Nolo.com. For simplicity's sake, I've broken out each self-evaluation exercise, such as "strong and weak points," in the text below. But I've combined them all into one Self-Evaluation Checklist that is included on the companion page for this book. Feel free to add any other relevant information, such as your personal goals, to this checklist. For details on finding the Self-Evaluation Checklist and other forms on Nolo.com, see "List of Forms Available on the Nolo Website" at the end of Appendix D of this book.

Your Strong and Weak Points

Take a few minutes to list your personal and business strengths and weaknesses. Include everything you can think of, even if it doesn't appear to be related to your business. For instance, your strong points

may include the mastery of a hobby, your positive personality traits, and your sexual charisma, as well as your specific business skills. Take your time and be generous.

To provide you with a little help, I include a sample list for Antoinette, a personal friend (introduced in Chapter 1) who has what she hopes is a good business idea: a slightly different approach to selling women's clothing. You'll get to know Antoinette better as we go along. Her strengths, weaknesses, fantasies, and fears are surely different from yours. So, too, almost certainly, is the business she wants to start. So be sure to make your own lists—don't copy Antoinette's.

Antoinette: My Strong and Weak Points

Strong Points (in no particular order)

1. Knowledge of all aspects of women's fashion business, plus extensive contacts in the fashion industry from three years as store manager at a women's clothing shop
2. Ability to translate abstract objectives into concrete steps
3. Good cook
4. Faithful friend and kind to animals
5. When I set a goal, I can be relentless in achieving it
6. Ability to make and keep good business friends—I have had many repeat customers at other jobs

Weak Points

1. Impatience
2. Dislike of repetitive detail
3. Romantic (is this a weak point in business?)
4. Tendency to postpone working on problems
5. Tendency to lose patience with fools (sometimes I carry this too far—especially when I'm tired)

Your list of strong and weak points will help you see any obvious conflicts between your personality and the business you're in or want to start. Unfortunately, many people don't realize that their personalities will have a direct bearing on their business success. For example, if you don't like being around people but plan to start a retirement planning agency with you as the primary salesperson, you may have a personality clash with your business. The solution might be to find another part of the retirement planning business that doesn't require as much people contact.

General and Specific Skills Your Business Needs

Businesses need two kinds of skills to survive and prosper: skills for business in general and skills specific to a particular business. For example, every business needs someone to keep good financial records. On the other hand, the tender touch and manual dexterity needed by glassblowers are not skills needed by the average paving contractor.

Next, take a few minutes and list the skills your business needs. Don't worry about making an exhaustively complete list, just jot down the first things that come to mind. Make sure you have some general business skills as well as some of the more important skills specific to your particular business.

If you don't have all the skills your business needs, your backers will want to know how you will make up for the deficiency. For example, let's say you want to start a trucking business. You have a good background in maintenance, truck repair, and long distance driving, and you know how to sell and get work. Sounds good so far—but, let's say you don't know the first thing about bookkeeping or cash flow management and the thought of using spreadsheets makes you nervous. Because some trucking businesses work on large dollar volumes, small profit margins, and slow-paying customers, your backers will expect you to learn cash flow management or hire someone qualified to handle that part of the business.

Antoinette:**General and Specific Skills My Business Needs**

1. How to motivate employees
2. How to keep decent records
3. How and where to buy clothes my customer will like
4. How to make customers and employees think the business is special
5. How to know what the customers want—today and, more important in the clothing business, to keep half-a-step ahead
6. How to sell
7. How to manage inventory
8. How to judge people

Your Likes and Dislikes

Take a few minutes and make a list of the things you really like doing and those you don't enjoy. Write this list without thinking about the business—simply concentrate on what makes you happy or unhappy.

If you enjoy talking to new people, keeping books, or working with computers, be sure to include those. Put down all the activities you can think of that give you pleasure. Antoinette's list is shown as an example.

As a business owner, you will spend most of your waking hours in the business, and if it doesn't make you happy, you probably won't be very good at it. If this list creates doubts about whether you're pursuing the right business, I suggest you let your unconscious mind work on the problem. Most likely, you'll know the answer after one or two good nights' sleep.

Antoinette: My Likes and Dislikes

Things I Like to Do

1. Be my own boss
2. Make my own decisions
3. Keep things orderly—I am almost compulsive about this
4. Take skiing trips
5. Create a fun group of people who enjoy working together
6. Cook with Jack
7. Make my shop so trendy that people will come just to see what's new

Things I Don't Like to Do

1. Work for a dimwit boss
2. Feel like I have a dead-end job
3. Make people unhappy



CAUTION

If your list contains several things you really don't like doing and nothing at all that you like doing, it may be a sign that you have a negative attitude at this time in your life. If so, you may wish to think carefully about your decision to enter or expand a business at this time. Chances are your negative attitude will reduce your chances of business success.

Specific Business Goals

Finally, list your specific business goals. Exactly what do you want your business to accomplish for you? Freedom from 9 to 5? Money—and if so, how much? More time with the children? Making the world or your little part of it a better place? It's your wish list, so be specific and enjoy writing it.

Antoinette: My Specific Business Goals

1. Have my own business that gives me a decent living and financial independence
2. Work with and sell to my friends and acquaintances as well as new customers
3. Introduce clothing presently unavailable in my city and provide a real service for working women
4. Be part of the growing network of successful businesswomen
5. Be respected for my success

How to Use the Self-Evaluation Checklist

After you've completed the four self-evaluation lists, and put them together on one Self-Evaluation Checklist, spend some time reading it over. Take a moment to compare the skills needed in your business to the list of skills you have. Do you have what it takes?

Show your checklist to your family and, if you're brave, to your friends or anyone who knows you well and can be objective. Of course, before showing the lists to anyone, you may choose to delete any private information that isn't critical to your business. If you show your lists to someone who knows the tough realities of running a successful small business, so much the better. You may want to find a former teacher, a fellow employee, or someone else whose judgment you respect.

What do they think? Do they point out any obvious inconsistencies between your personality or skills and what you want to accomplish? If so, pay attention. Treat this exercise seriously and you will know yourself better. Oh, and don't destroy your lists. Assuming you go ahead with your business and write your business plan, the lists can serve as background material or even become part of the final plan.

You have accomplished several things if you have followed these steps. You have looked inside yourself and asked some basic questions about who you are and what you are realistically qualified to do. As a result, you should now have a better idea of whether you are willing to pay the price required to be successful as a small business owner. If you are still eager to have a business, you have said, “Yes, I am willing to make short-term sacrifices to achieve long-term benefits and to do whatever is necessary—no matter the inconvenience—to reach my goals.”

Reality Check: Banker’s Analysis

Banks and institutions that lend money have a lot of knowledge about the success rate of small businesses. Bankers are often overly cautious in making loans to small businesses. For that very reason, it makes sense to study their approach, even though it may seem discouraging at first glance.

Banker’s Ideal

Bankers look for an ideal loan applicant, who typically meets these requirements:

- for an existing business, a cash flow sufficient to make the loan payments
- for a new business, an owner who has a track record of profitably owning and operating the same sort of business
- an owner with a sound, well-thought-out business plan, and
- an owner with financial reserves and personal collateral sufficient to solve the unexpected problems and fluctuations that affect all businesses.

Why does such a person need a loan, you ask? He or she probably doesn’t, which, of course, is the point. People who lend money are most comfortable with people so close to their ideal loan candidate that they don’t need to borrow. However, to stay in business themselves, banks and other lenders must lend out the money deposited with them. To do this, they must lend to at least some people whose creditworthiness is less than perfect.

Measuring Up to the Banker's Ideal

Who are these ordinary mortals who slip through bankers' fine screens of approval? And more to the point, how can you qualify as one of them? Your job is to show how your situation is similar to the banker's ideal.

A good bet is the person who has worked for, or preferably managed, a successful business in the same field as the proposed new business. For example, if you have profitably run a clothing store for an absentee owner for a year or two, a lender may believe you are ready to do it on your own. All you need is a good location, a sound business plan, and a little capital.


Further away from a lender's ideal is the person who has sound experience managing one type of business, but proposes to start one in a different field. Let's say you ran the most profitable hot dog stand in the Squaw Valley ski resort, and now you want to create mobile apps. In your favor is your experience running a successful business. On the negative side is the fact that app development has no relationship to hot dog selling. In this situation, you might be able to get a loan if you hire people who make up for your lack of experience. At the very least, you would need someone, or maybe two people, with strong backgrounds in programming, app development, and marketing.

Use the Banker's Ideal

It's helpful to use the bankers' model in your decision-making process. Use a skeptical attitude as a counterweight to your optimism to get a balanced view of your prospects. What is it that makes you think you will be one of the minority of small business owners who will succeed? If you don't have some specific answers, you are in trouble. Most new businesses fail, and the large majority of survivors do not genuinely prosper.

Many people start their own business because they can't stand working for others. They don't have a choice. They must be either boss or bum. They are more than willing to trade security for the chance to call the shots. They meet a good chunk of their goals when they leave their paycheck behind. This is fine as far as it goes, but in my experience, the more successful small business owners have other goals as well.

A small distributor we know has a well-thought-out business and a sound business plan for the future. Still, he believes that his own personal commitment is the most important thing he has going for him. He puts it this way: “I break my tail to live up to the commitments I make to my customers. If a supplier doesn’t perform for me, I’ll still do everything I can to keep my promise to my customer, even if it costs me money.” This sort of personal commitment enables this successful business owner to make short-term adjustments to meet his long-range goals. And while it would be an exaggeration to say he pays this price gladly, he does pay it.



Choosing the Right Business

Know Your Business	28
Be Sure You Like Your Business	30
Describe Your Business	31
Identify Your Type of Business.....	32
Problem Statement.....	34
Business Description.....	35
Taste, Trends, and Technology: How Will the Future Affect Your Business?	40
Taste.....	40
Trends.....	41
Technology.....	43
Write a Future Trends Statement.....	43
Break-Even Analysis: Will Your Business Make Money?	45
Forecast Sales Revenue.....	47
Forecast Fixed Costs.....	52
Forecast Gross Profit for Each Sales Dollar.....	54
Forecast Your Break-Even Sales Revenue.....	56
What You Have Accomplished	61

This chapter helps you determine whether you have chosen the “right” business for you—one that you know, like, and will work hard for and that makes economic sense. Most experienced businesspeople complete several steps as a rough and ready template to decide whether to complete a plan. If your business passes all these steps with flying colors, it means it’s a good idea to write a full business plan (although it doesn’t guarantee success). On the other hand, if your proposal doesn’t pass, you’ll probably want to modify or change your plans altogether.

If you’re like most people, chances are your business will pass some tests easily and fail some of the others. Antoinette faces just that problem in this chapter. Pay careful attention to how she approaches that dilemma; her method of proceeding may help you in your decision.

Know Your Business

One of the most common questions people ask me is this: What business should I start? My answer is always the same—start a venture that you know intimately already. I don’t believe any business exists that is so foolproof that anyone can enter and make a sure profit. On the other hand, a skilled, dedicated owner often can make a venture successful when others have failed. Remember, your potential customers will exchange their money only for the conviction that you are giving them their money’s worth. And that means you’ll need to know what you’re doing. While this point should appear obvious, sadly it isn’t.

Many people enter businesses they know little or nothing about. I did it once myself. I opened an automobile tune-up shop at a time when, seemingly, they couldn’t miss. I knew a good deal about running a small business, had a personality well suited for it, and could borrow enough money to begin. The end of what turned out to be a very sad story is that it took me two years and \$30,000 to get rid of the business. Why? Because in my hurry to make a profit, I overlooked several crucial facts.

The most important of these was that I knew virtually nothing about cars and I didn't really want to learn. Not only was I unable to roll up my sleeves and pitch in when it was needed, I didn't even know enough to properly hire and supervise mechanics. In short, I made a classic mistake—I started a business in a “hot” field because someone was foolish enough to lend me the money.

How can you apply my lesson to your situation? Let's say you've heard pasta shops make lots of money and you want to start one. First, if at all possible, get a job working in one, even if you work for free. Learn everything you can about every aspect of the business. After a few months, you should be an expert in every aspect of pasta making, from mixing eggs and flour, flattening the dough, and slicing it into strips. Ask yourself whether you enjoy the work and whether you are good at it. If you answer “Yes,” go on to the second important question: Is the business a potential money maker? You should have a pretty good answer to this question after working in the field for a few months.

If you're unable to find employment in the pasta business, make a tour of delicatessens and shops that make their own pasta. Interview the owners. To get reliable answers, it's best to do this in a different locale from the one in which you plan to locate. Small business owners are often quite willing to share their knowledge once they are sure you will not compete with them.

I remember reading a management philosophy that said a good manager doesn't have to know every job, only how to get other people to do them. That approach may work well in a large corporation, but for a small business, it's dangerously naive. In short, don't start your small venture until you know it from the ground up. I mean this literally. If you're opening a print shop, you should be able to run the presses and use all the popular print presentation software, as well as keep a coherent set of books. If it's your elegant little restaurant and the food isn't perfect, you're the one who either improves it in a hurry or goes broke. If you don't like getting your hands dirty, choose a clean business.

Are You Choosing a Risky Business?

When considering the businesses you know, it is helpful to know how well they typically fare. For instance, these businesses have higher than average failure rates:

- computer stores
- laundries and dry cleaners
- florists
- used car dealerships
- gas stations
- local trucking firms
- restaurants
- infant clothing stores
- bakeries
- machine shops
- car washes, and
- grocery and butcher stores.

If your business idea is on this list, it doesn't mean you should abandon it automatically. However, it should remind you to be extra critical and careful when preparing your plan. I've known successful businesspeople in every category listed, just as I have known people who have failed in each one.

Also, take special care if you're starting an e-commerce-only business. Online marketing is an easy business to start as a reseller. That means your business has to be very sharp to stay afloat and ahead of the inevitable competition.

Be Sure You Like Your Business

Does the business you want to own require skills and talents you already possess? If you have the necessary skills, do you enjoy exercising them? Think about this for a good long time. The average small business owner spends more time with his venture than with his family. This being so, it makes sense to be at least as careful about choosing your endeavor as you

are about picking your mate. A few of us are sufficiently blessed that we can meet someone on a blind date, settle down a week later, and have it work out wonderfully. However, in relationships, as in business, most of us make better decisions if we approach them with a little more care.

Be sure you aren't so blinded by one part of a small business that you overlook all others. For example, suppose you love music and making musical instruments. Running your own guitar shop sounds like it would be great fun. Maybe it would be, but if you see yourself contentedly making guitars all day in a cozy little workroom, you'd better think again. Who is going to meet customers, keep the books, answer the phone, and let potential customers know you are in business? If you hate all these activities, you either have to work with someone who can handle them, or do something else.

Here's one last thing to think about when considering how much you like your business idea. In fact, it's a danger that threatens almost every potential entrepreneur. Precisely because your business idea is yours, you have an emotional attachment to it. You should. Your belief in your idea will help you wade through all the unavoidable muck and mire that lies between a good idea and a profitable business. However, your ego involvement can also entail a loss of perspective. I've seen people start hopeless endeavors and lose small fortunes because they were so enamored with their "brilliant ideas" that they never examined honestly the negative factors that doomed their ventures from the start.

Describe Your Business

What is your good idea? What business do you want to be in? It's time to look at the specifics. Let's say you want to open a restaurant. What will you serve? What will your sample menu look like? What equipment will you need? Note that including french fries means you'll have to install french-fryers, grease traps in the sewer line, hoods, and fire extinguishing systems. On the other hand, by not serving fried foods you will save a lot of money in the kitchen, but maybe you'll go broke when all the grease addicts go next door.

Or suppose you want to sell digital alarm systems, SEO (search engine optimization) services, or dog-walking services. Do you plan to have a service department for your alarm systems? What can you show that proves your credentials as an SEO expert? Will you be a one-person dog-walking service or do you plan to expand and hire many employees? Answers to these types of questions will be crucial to the success of your venture and to writing your business plan. Let me tell you from hard, personal experience that you need a written document—even if you're sure you know exactly what your business will do.

With this foundation document to refer to, you are less likely to forget your good plans and resolutions in the heat of getting your business under way. Any changes you later make can be made both consciously and with consideration.

To write a complete description of your proposed business, simply follow the suggestions on the next few pages.

Identify Your Type of Business

Find the business category listed below that most closely matches your business. You'll use the description that follows as a reference when you describe your own business.



CAUTION

Each of the business categories requires different skills to run efficiently. Many small businesses involve one or two types of business in the same endeavor. But if your idea will involve you in several types of business, it may be too complicated for you to run efficiently. As a general rule, small businesses work best when their owners know exactly what they are about and strive for simplicity.

Retail

Retail businesses buy merchandise from a variety of wholesalers and sell it directly to consumers. Some retailers provide service and repair facilities, while most do not. Most retailers just take in the goods and

mark up the price, sometimes doubling their purchase price to arrive at a sales price.

Supermarkets, online retail merchants, computer service and repair stores, clothing stores, and convenience marts are retailers.

Wholesale

Wholesalers buy merchandise from manufacturers or brokers and resell the goods to retailers. Normally, a wholesaler maintains an inventory of a number of lines. A wholesaler normally does not sell to consumers, in order to avoid competing with its retailer customers. Wholesalers usually offer delivery service and credit to customers. This type of business is characterized by low gross profit margins (sometimes varying between 15% and 33% of the wholesaler's selling price) and high inventory investment. Some wholesalers conduct much of their business online. The big box retailers (Home Depot, Costco, etc.) have taken over much of the wholesale space. As a result, today's wholesale merchants tend to serve niche markets.

Wholesalers typically buy in large lots and sell in smaller lots. Like retailers, they seldom make any changes to the products. Most wholesalers aren't well known to the general public.

Service

People with a particular skill sell it to consumers or to other businesses, depending on the skill. The end product of a service business is normally some sort of advice or the completion of a task. Occasionally, a service business sells products as an ancillary function. For example, a baby diaper cleaning service may also sell diapers and baby accessories. Service business customers normally come from repeats and referrals. It's common to have to meet state licensing requirements.

Hairdressers, carpet cleaners, consultants, housecleaners, accountants, building contractors, and architects are examples of service businesses.

Many nonprofit or charitable organizations will have financial projections similar to service businesses, especially if no products or services are sold directly to customers or clients.

Manufacturing

Manufacturers assemble components or process raw materials into products usable by consumers or other businesses. This type of business ranges from an artisan who makes craft items to Toyota. The most difficult part of the manufacturing business is to find a product, or even better, a series of products, that have acceptance in the marketplace and generate a steady sales volume. Or, as one businessperson put it: “Production without sales is scrap.”

Project development

Developers create and finish a saleable commodity by assembling resources for a onetime project. Normally, the developer knows the market value of the finished product before beginning work. When the project is complete, the developer sells his or her interest in the project, normally directly to the user or consumer.

To understand project developers, consider a woman building a single-family house on speculation. She buys the lot, secures permits, hires a contractor, gets a loan, builds a house, and sells it. She is then ready to go on to another project. Other examples of project developers include someone who identifies a need for a mobile app, writes the code, and markets the app; someone who buys, restores, and sells antique cars; and someone who purchases dilapidated buildings at a bargain price, fixes them up, and sells them.

Problem Statement

Successful businesses share a common attribute: They do something useful for their customers. One way to determine what is useful for your customers is to identify and describe the problem that your business will solve. For example, a window washing service solves the customer’s twin problems of wanting clean windows and lacking either the time or physical ability to clean windows himself. If you accurately understand your customers’ problems and needs, your business will have a better chance of success.

For example, here's a problem faced by a customer of a pizza-by-the-slice stand: "I'm hungry and I don't have much time or money, but I'm tired of hamburgers and want a change of pace. Also, I'd like to be able to specify the exact ingredients I want in my meal. And, it would be really swell to have a glass of wine or beer with the meal."

Now, think about your customers for a minute. What is the problem that you solve for them? Write out your description of the problem your business solves for its customers. This statement should be folded into your business description of your completed plan.

Problem Antoinette's Shop Will Solve

Many professional working women are frustrated with the impersonal worlds of traditional clothing stores, with scarce clerks, and equally impersonal online shopping. They long for a personal touch and competent recommendations for appropriate outfits. They like to talk with sales clerks who understand fashion and know their store's merchandise; few clerks in the local department stores have this knowledge (or the time to pay individual attention). Currently, many women in this area travel 25 miles or more to shop because no local store meets their needs or carries unique labels. While creative and fashionable clothes are widely available online, many women still want to try on clothes and make purchase decisions on the spot, ideally with a clerk's advice, rather than wait to receive an online order—only to find they need to return the clothing because the color, style, or size isn't quite right.

Business Description

Next, describe how your business will solve your customers' problem. Take your time and do a thorough job. It's very likely that the first time you attempt this task, questions will occur to you that you didn't consider previously. If so, figure out a good answer and rewrite your description. The important thing is not how long it takes to do this, but that you end up with a realistic, well-thought-out business description.

After all, it's cheaper to answer questions and solve problems on paper than it is with real money.

Your business description should explain exactly what you will provide for the customer as well as what you'll exclude. Each of the choices you make in your business description will affect the amount of money you'll need to start or expand and how much sales revenue you can expect.

Consider the following series of questions when writing your business description. If you answer both the general business questions and each question that applies to your business, you'll present your business accurately and fairly.

For an example of a well-thought-out business, refer to the accompanying sample, which contains the first draft of Antoinette's Shop's business description. You will find three additional business descriptions in Appendixes A, B, and C at the back of the book.

General Business Questions

These questions apply to most small businesses. Feel free to skip any questions that don't pertain to you, and add any that do, including the online component of your business.

1. What problem do I solve for my customers?
2. Who is my typical (target) customer?
3. How will I communicate with my target customer?
4. What products and/or services will I provide? Are there any products or services my customers may expect me to provide that I don't plan to provide?
5. Where will my business be located?
6. Where will I buy the products I need?
7. What hours will I operate?
8. Who will work for me and how will they be paid?
9. Who will handle critical tasks like selling, ordering, bookkeeping, marketing, and shipping?
10. How will I advertise and promote my business?
11. What are the competition's strengths and weaknesses?

12. How am I different from the competition, as seen through the eyes of my customers? (Make sure that you answer this question from a customer's perspective and not from an owner's point of view.)



FORM ON NOLO.COM

You'll find a copy of the General Business Questions Checklist on this book's companion page on Nolo.com. Feel free to add any other relevant questions, such as issues specific to your business, to this checklist. For details on finding the General Business Questions Checklist and other forms on Nolo.com, see "List of Forms Available on the Nolo Website" at the end of Appendix D of this book.

Specific Business Questions

Some issues your business faces can be categorized by business type. Make sure your business description addresses both the general business questions that apply to your business and the questions specific to your type of business.



CAUTION

If you plan to conduct operations in more than one category, be sure to use the specific questions for each type of business that applies.

Retail

1. How will I keep abreast of customer preferences in my field?
2. Does my location have enough drive-by or walk-by traffic to support my business, or must I rely on heavy advertising for sales?
3. Is it better to be in a shopping center with high rents and operating restrictions, or in a separate location with lower costs and less drive-by or walk-by traffic?
4. How much inventory will I buy in comparison to my expected sales revenues? (This is a critical question in the retail field and deserves your close attention.)

Business Description for Antoinette's Shop

Opportunities for women are expanding in the 21st century. Antoinette's mission is to help women expand their lives, both professionally and socially.

Antoinette's retail space will display the most successful brands of women's attire in an open, inviting space. We will allow peaceful browsing and, on request, will present individualized ensemble choices for consideration.

In today's world of impersonal ordering from faceless computers and web sites, Antoinette's offers an intimate experience with trusted advisors.

We will focus on our customers who register their size, style, and color preferences in our database. They will receive frequent messages about which of our new offerings they may find interesting. Customers can order with a simple response if they choose. (We will not offer an opt-out subscription service.)

Our Facebook page will also display our new ensemble suggestions with an invitation to a special show to see the outfits in person.

Our store will feature a contemporary design and inviting feeling. All our employees will be knowledgeable about fashion in general and about the clothing we sell. Antoinette's will be located in approximately 2,000 square feet in the very busy Towne Plaza and will be open Monday through Saturday from 10:00 a.m. until 8:00 p.m. and Sunday from 10:00 a.m. until 6:00 p.m. These hours will be a convenience to our customer base. The store will not offer delivery on a regular basis, but we will ship to customers on request. We will maintain a website, a Facebook page, and active email correspondence with customers, so they can express their concerns and tell us what we're doing right.

Wholesale

1. Which product lines will I carry in inventory and which will I order as required?
2. Will I carry accounts for my customers or work on cash only?
3. Are there any exclusive distributorships available to me?
4. Will I have to market all the products myself or will the manufacturers have marketing programs?

Service

1. Are my credentials and skills equal to or better than others in my field?
2. Can I sell my service as well as I can perform it?
3. Will I take work on speculation or will I insist on cash for each job?
4. Do I have a client list to begin with or will I start cold?
5. Am I better off associating with others or being independent?

Manufacturing

1. Does my manufacturing process create toxic or polluting materials?
If so, how will I deal with them and what regulatory agencies handle them?
2. Is there a pool of readily available, affordable skilled labor where I want to locate?
3. Will I make products for inventory or per order?
4. Will I make one product only or a line of products?
5. If I succeed on a small scale, do I plan to sell out to a larger company or try to compete nationally or internationally?
6. Is my competition from small or large firms?
7. If I plan to offshore my process, do I have the knowledge and experience to accomplish that?

Project Development

1. Am I sure of the selling price of my project?
2. Am I sure of my projected costs? What will happen if my costs are higher than estimated?
3. Am I sure of the time factors? What will happen if it takes longer than expected to complete and sell the project?
4. What portions of the work will I contract with others to perform?
5. Is there a definite buyer for my project? If not, what costs will I incur before it's sold?
6. If my project is an app, do I have the skills needed to develop and market the app?

Taste, Trends, and Technology: How Will the Future Affect Your Business?

Let's assume you have a good description of your proposed business, and the business is an extension of something you like and know how to do well. Perhaps you have been a chef for ten years and have always dreamed of opening your own restaurant. So far, so good—but you aren't home free yet. There is another fundamental question that needs answering: Does the world need, and is it willing to pay for, the product or service you want to sell? For example, do the people in the small town where you live really want an Indonesian restaurant? If your answer is "Yes" because times are good and people have extra money, ask yourself what is likely to happen if the economy goes into a slump ten minutes after you open your doors.

To make this point more broadly, let's use a railroad train as a metaphor for our economic society. And let's have you, as a potential new businessperson, stand by the tracks. How do you deal with the train when it arrives? You can get on and ride. You can continue to stand by the tracks and watch the train disappear in the distance. Or you can stand in the middle of the tracks and get run over.

To continue this metaphor, let's now assume the economic train has three engines: taste, trends, and technology. Together they pull the heavy steel cars that can give you a comfortable ride or flatten you. Let's take a moment to think more about each of these engines.

Taste

People's tastes drive many of the changes our society speeds through. For example, in the 1970s, many Americans changed their taste in automobiles from large gas guzzlers to small, well-built cars. American manufacturers didn't recognize this change in taste until they almost went broke. The Japanese were in the right place with small, reliable cars and realized great prosperity.

Consider popular music as another example. Music styles change every few years, and some bright businesspeople succeed by selling clothing and other accessories associated with each new music style.

What does this mean to you? Look at your business idea again. How does it fit with today's tastes? Is your business idea part of a six-month fad? Are you going into something that was more popular five years ago than it is now and is declining rapidly? If so, you are likely to go broke no matter how good a manager you are and how much you love your business.

Trends

It's one thing to understand that people's tastes have changed and will undoubtedly change again and again, but it's a lot harder to accurately predict what will be popular in a few years. I wish there were a central source of information about predicting future trends in any field, but there isn't. You have the task of looking into the future and deciding where it is going and how that affects what you do today. Fortunately, a little research can do wonders. Here are some tips on how to proceed.

Read everything you can about your field of interest and predicted trends. Attend trade shows and talk to people in small businesses at the cutting edge of the field. Talk to people in similar businesses. Read back issues of magazines aimed at your proposed field. Your goal is to know enough about your proposed business to spot the trends that will continue into the next decade. For example, if you're interested in opening a nightclub featuring imported beer and a designated area for smokers, you should know that lounges offering artisan cocktails and local craft beer are doing very well, but most states (and many cities in other states) prohibit smoking in bars and restaurants. Putting this information together with other factors, such as your anticipated location and target customers, should give you a pretty good idea of the sort of drinks and environment you should offer. You might decide on a beverage menu featuring signature cocktails alongside a few local beers on tap, and make your lounge a smoke-free establishment.

Online Business Basics

From the dot-com boom in the late 1990s and the “dot bomb” in 2001, through the 2008 mortgage meltdown and the subsequent recovery, the only constant in the online business world is constant change. One thing is certain: The pre-2001 approach of just exploiting a hot domain name and buying up cyber “real estate” no longer guarantees success. Today, successful online companies track the same metrics as their offline counterparts—revenues, costs, and profit and loss analysis.

Some trends for success have emerged: A successful online retailer commonly carries a wider assortment of goods than a traditional brick-and-mortar store. Online retailers cater to an international market that operates around the clock. Many online retailers try to keep inventory investment as low as possible by having some of their suppliers ship orders directly from the manufacturer’s location to the retail customer (known as “drop shipping”). In this model, the online retailer pays the manufacturer’s invoice at a wholesale cost and collects cash via the customer’s credit card before an electronic purchase order is issued to the manufacturer.

An online retail business also requires intensive management and sometimes requires a bit more vigilance than a typical retail store. These businesses often work on lower-than-average gross profit margins. Savvy retailers make sure their products turn up near the top of search results. Finally, online retailers must either know—or must hire others who know—website programming as well as online banking and fulfillment operations, all of which are necessary to generate profits.

Online retail sales have been growing steadily and are forecast to continue growing, especially given the dominance of Amazon, which offers pretty much everything with great service. Amazon’s fast shipping times have changed customer expectations about delivery; your online business will need to offer similar service to succeed. The same is true for online companies that provide services. Google, for example, earns steady profits from its online advertising program where a business pays a fee for each click through to a sponsored link. One advantage of this program is that a merchant can track the cost effectiveness of the program on a daily basis (and stop or start it at any time).

Technology

Technology is the latest tablet device, your smart speaker, and even the proverbial better mousetrap. For example, lots and lots of people are working feverishly to come up with better video games, smart watches, streaming devices, and the like. Sometimes it takes years to perfect an item. That can be good news for small business owners, as there is plenty of time to prepare to profit.

Of course, there is a downside to new technology, too. It often involves high risk. There's no guarantee of success just because the product is new. In fact, something like 80% of the new products introduced into the marketplace die a quick death. Look at the Wikipedia list of hundreds of products that have been discontinued by Apple; it will open your mind. Remember HD-DVD players, the Edsel, and eight-track tape players?

What should you do to take advantage of new technologies? First, recognize that large-scale new technology ventures require vast amounts of money and will be beyond your reach unless you plan to have your small business grow in a hurry. Many companies expect to lose money for years during product development and approval before developing a big hit. However, there are often ways creative small business owners can find to participate in new technological trends. For example, many software companies started with little more than a good idea and a computer. Or to think even smaller—but not necessarily less profitably—lots of carpenters have done well making ergonomically correct furniture for computer workstations. Pay attention to new developments in your chosen field and think about how you can take advantage of them.

In short, new technology is a mighty engine that can pull the economy in new directions at terrific speed. Be sure you are riding on the train and not picking daisies on the tracks in front of it.

Write a Future Trends Statement

With this discussion of taste, trends, and technology, I have attempted to focus your attention on the broad movements in the economy that can affect your business idea. Remember that there are similar trends in

your local community. It's at least as important that you pay attention to these. For example, perhaps you live in a farming community with no manufacturing industries and many migrant workers. It is unlikely that a high fashion clothing store would do well there, but you might do very well selling a lighter, stronger, cheaper work boot, chain saw, or stump puller.

Write down your first thoughts about what trends affect your business and where they will be in five years. Nobody expects a perfect forecast, but most financial backers want to know that you have thought through how your business will fit into the world in the next few years.

Future Trends Affecting Antoinette's Shop

Several trends will affect my business. Real wages for most families continue to stagnate. Most women who want or need to work are already working, and their wages have to be stretched further than ever. This means I cannot count on an ever-expanding population base for my business. It also means that professional women will appreciate the extra service and convenience that we offer even more in the years ahead.

The trend toward more online shopping and fewer retail sales advisors probably will continue, which will encourage my customers to buy more from Antoinette's.

To accommodate these trends, I plan to pay attention to my customers' changing tastes in fashions, and to build and maintain a loyal customer base. I also must find new ways to market to the more fashion-conscious younger women entering the workforce.



CAUTION

You can use the break-even forecast as a “quick and dirty” profit analysis, but don't use it as a substitute for the full profit and loss forecast presented in Chapter 6. A break-even forecast is a great screening tool, but you need a more complete analysis before spending any money.

Break-Even Analysis: Will Your Business Make Money?

Some people have a bigger problem than others when opening a new business. These are folks who are positively enamored with their business concept and are desperately eager to begin. They are so smitten and eager to start, they have no patience with the economic realities involved in their business. If you recognize this tendency in yourself, it's extra important that you prepare a financial forecast carefully and pay attention to what it tells you. This step tells you whether your idea is a sure winner or a sure loser or, like most ideas, whether it needs work and polishing to make it presentable.

How can you tell if your business idea will be profitable before you implement it? The honest answer is, you can't. This essential fact makes business scary. It also makes it adventurous. After all, if it were a sure thing, everyone would go into business.

Just because you can't be sure you will make money doesn't mean you should throw up your hands and ignore the whole problem. You can and should make some educated guesses. I like to call them SWAGs ("Scientific," Wild Ass Guesses). The challenging part is to make your profit estimate SWAGs as realistic as possible and then make them come true.

The best way to make a SWAG about your business profitability is to do a break-even forecast. Although a break-even analysis or forecast can never take the place of a complete business plan, it can help you decide if your idea is worth pursuing.

Most financial backers expect you to know how to apply break-even analyses to your business. Your backer may ask what your profits will be if sales are slightly higher or lower than your forecast.

Many experienced entrepreneurs use a break-even forecast as a primary screening tool for new business ventures. They won't write a complete business plan unless their break-even forecast shows that the sales revenue they expect to obtain far exceeds what they need just to pay all the bills. Otherwise, they know their business will not last very long.



TIP

Project development note: The break-even analysis described below does not apply to a project development, since only one sale occurs. This exercise is designed for a continuing business with ongoing sales revenue. Before beginning, a developer must know how much profit he or she will make after the project is completed. A developer prepares a break-even forecast every time he or she calculates the likely sale proceeds and subtracts estimated costs. Developers can skip this section, unless they need a refresher course on break-even analyses.

Mobile apps are a hybrid model; much of the development costs occur before the app is released, and revenues grow with only relatively low incremental costs. If the app developers want secondary revenues from sales of data collected, there may be some costs to create that data.

To complete a break-even forecast of your business, you'll make four separate estimates:

- **Sales revenue.** This consists of the total dollars from sales activity that you bring into your business each month, week, or year.
- **Fixed costs.** These are sometimes called “overhead,” and you must pay them regardless of how well you do. Fixed costs don't vary much from month to month. They include rent, insurance, and other set expenses.
- **Gross profit for each sale.** This is defined as how much is left from each sales dollar after paying for the direct costs of that sale. For example, if Antoinette pays \$100 for a dress that she sells for \$300, her gross profit for that sale is \$200.
- **Break-even sales revenue.** This will be the dollar amount your business needs each week or month to pay for both direct product costs and fixed costs. It will not include any profit.



CAUTION

Math alert: The following section requires that you make some simple mathematical calculations, which you'll use to analyze your business before writing a complete plan. If the very thought of math makes your head

spin, you'll probably want to find someone to help you. And remember, as mentioned earlier, the figures included in the examples in this chapter are for illustration purposes only: Before making any conclusions, you'll need to use numbers that are appropriate to your situation and that are current.

Forecast Sales Revenue

Your first task is to estimate your most likely sales revenue by month for your first two years of operation. This is both the hardest thing to do and the most important part of your business plan. Much of your hope for success rides on how accurately you estimate sales revenue.

Keep in mind that you're honestly trying to decide if your business will be profitable. This means that you must base your forecast on the volume of business you really expect—not on how much you need to make a good profit. If you estimate sales too high, your business won't have enough money to operate. But if you estimate sales too low, you won't be prepared or able to handle all the business you get.

Here are some methods that different types of businesses use to forecast sales revenues.



FORM ON NOLO.COM

You'll find a copy of the Sales Revenue Forecast on this book's companion page on Nolo.com; see "List of Forms Available on the Nolo Website" at the end of Appendix D for details on accessing this form and all others in this book. Note that formulas have been embedded in the spreadsheet document to automatically calculate revenue totals.



TIP

You may decide to round off your forecasts to the nearest \$1,000 instead of writing out each single dollar amount. For instance, a monthly sale of \$33,333 would become \$33,000. After all, these are guesses, and it's hard to guess at single dollar amounts when you're in the five-figure area or higher.

Sales Revenue Forecast for Antoinette's Shop

Antoinette wants to open a 2,000-square-foot women's clothing boutique in the Towne Plaza. The shopping plaza manager says that revenue for women's clothing stores in the Towne Plaza averages about \$325 per foot per year.

After checking with other clothing retailers (including online stores), reading trade magazines, visiting similar stores in other cities, and integrating her own experience in the business, Antoinette decides that she can do better than the average of \$325 per foot, per year. Her target sales goal is \$500 per square foot per year. This means her annual sales should be about \$1,000,000 ($2,000 \times \500). She plans for the first year's sales to be about average and expects some revenue growth in future years.

Because Antoinette must forecast monthly sales for the first two years, she now has to decide how the sales revenue will occur each month. She could simply divide this \$1,000,000 by 12 months and get \$83,333 per month. But in the clothing business, Antoinette knows, this would be inaccurate. In women's clothing, there are four sales seasons: spring, early summer, fall, and Christmas. The kind of shop Antoinette plans to open is slow in midsummer and in January and February. Antoinette also figures that sales will be a little lower than the average for the first few months until her advertising campaign catches on.

Antoinette's monthly sales add up to \$1,020,000 for the first year. For the second year, she increases revenues to \$1,200,000 or \$600 per foot, per year to allow for normal growth.

Retail Sales Revenue Forecast

The simplest way to forecast retail sales revenue is to find the annual sales revenue per square foot of a comparable store. Then multiply that dollar figure by your estimated floor space to derive an estimate of your annual sales revenue.

EXAMPLE: A similar business shows \$400 of sales per square foot per year. If you have 1,000 square feet of floor space, your estimated annual sales revenue will be \$400,000 ($1,000 \times \400). Naturally, your estimate should take into account everything that makes you different from the other store.

Sales Revenue Forecast for Antoinette's Shop (continued)

Sales Revenue Forecast		Year 1: March 1, 20xx to February 28, 20xx	
Month			Revenue
Month 1: March	At average for year to allow for customers to visit new store at least once	\$	83,000
Month 2: April	10% below average due to just opening		75,000
Month 3: May	20% above average because of cumulative effects of grand opening & seasonal peak		100,000
Month 4: June	An average month		83,000
Month 5: July	10% below average due to seasonal slowdown		75,000
Month 6: August	10% below average due to summer slowdown		75,000
Month 7: September	10% above average due to back to school		91,000
Month 8: October	10% above average due to fall season		91,000
Month 9: November	20% above average due to fall season		100,000
Month 10: December	40% above average due to Christmas		120,000
Month 11: January	30% below average since everybody's broke after Christmas		60,000
Month 12: February	20% below average		<u>67,000</u>
Year One Total:		\$	<u>1,020,000</u>

Some chain stores, such as supermarkets and drugstores, have refined the art of estimating sales to a science. Of course, they have the advantage of learning from their experience with their other stores. Even so, they occasionally make bad estimates.

Supermarket executives first gather statistics on how much the average person living in town spends every week in grocery stores. In some states, these numbers are available by obtaining total sales volume of grocery stores from the state sales tax agency; normally that data is broken down by county. They estimate how many people live in the area for which

sales volume statistics are gathered. Dividing the sales volume data by the number of people in the area gives them the average sales per person from grocery stores.

Then they compare the average sales per person with state averages. If it's higher, it might mean that people living in the area have a higher-than-average income. They can verify that by referring to the United States Census, which lists average income per family and per person for every census tract. If the income per person is average or below average, and sales per person are higher than average, it probably means that people come from surrounding areas to do their shopping. If the sales per person are lower than average in the area, it might mean that income is below average or that people leave the area to do their shopping. On the basis of this sort of data, together with an analysis of competition and demographics, supermarket executives can develop relatively accurate estimates of sales volume for a new store.

Service Business Sales Revenue Forecast

To estimate sales revenue for a service business, you'll need a good understanding of what steps you go through to generate a billable sale. Then make a forecast of how many times you expect to go through all those steps every week or month and how much revenue you'll derive from those steps.

Don't forget to allow time for internal matters and marketing. If you're a sole proprietor, you'll need to allow somewhere between 20% and 40% of your time for nonbillable activities. If you have employees or partners, you'll want to make similar allowances for them.

The sales revenue forecasting process for Central Personnel Agency shows the kind of logical process you'll need to go through. (Central's complete business plan is provided in Appendix A.)

Manufacturing or Wholesale Business Sales Revenue Forecast

If you plan to be in a manufacturing or wholesale business, read the sections "Retail Sales Revenue Forecast" and "Service Business Sales Revenue Forecast," just above, and combine some of the concepts to estimate your sales volume. If you know as much about your business

as you should, it shouldn't be difficult to develop a reasonable estimate. If you're having great difficulty, the chances are that you need to learn more about your business.

EXAMPLE: Patty plans to import and wholesale Wi-Fi printers for Acme computers. Acme has told her that they have sold 1,000,000 computers to date and projections show about 10,000 per month for the next three years. Patty realizes she doesn't know what percentage of Acme owners will want wireless printers and decides to conduct a mail survey of Acme owners before completing her sales forecast.

Sales Revenue Forecast for Central Personnel Agency

I like to allow room for mistakes in my forecast, so this sales forecast seems like overkill; my experience shows the overage is needed.

Since it's harder to find qualified people than it is to find job openings, I'll concentrate on finding people after I build a backlog of openings. I estimate I can find about ten job openings per week. I will allow myself two weeks to find 20 job openings. After the first 20, I'll get plenty of openings by referrals and repeats. My income goal is to gross \$6,000 to \$7,000 per month. I know that the average job order filled is worth \$700 to \$800 in gross fees, so filling only ten openings per month should give me about \$6,000 to \$8,000 in gross fees.

This means that to fill six to eight job orders per month and meet my gross income goal, I need 25 to 30 good people on file. Finding good people is the hard part. It takes me up to 20 interviews to find one excellent person. Some of these interviews are done in a few minutes over the phone, but just the same, I allow one hour per interview. I can average five to eight per day, and it will take me about 60 days of interviewing to build a base of qualified people. It takes an average of three good people sent out on interviews to fill one job. Of course, once I have a good person, I send that person out on every interview I can. I anticipate three months of fairly low income before I begin to reach my income goals.

Project Development Sales Revenue Forecast

Project developers are not required to complete a monthly sales revenue forecast. They need to know the likely amount they can sell the project for before they begin work; all revenue comes when the project is sold.

Forecast Fixed Costs

For most small businesses, the difference between success and failure lies with keeping costs down. Many smart people start successful businesses in a spare room in their house, the corner of a warehouse, or a storefront in a low-rent neighborhood. Unfortunately, others sink their original capital into essentially cosmetic aspects of their business, such as fancy offices, and then go broke.

Make a list of the fixed or regular monthly expenses of your business. Your objective is to develop a dollar amount of expense that you are committed to pay every month. This is your “nut,” or the dollar figure you must be able to pay to keep the business viable. Include rent, utilities, salaries of employees, payroll taxes, insurance payments, postage, telephone and Internet, utilities, bookkeeping, and so forth. Some costs will be paid each month and others will be paid once or twice a year. If a cost is less than about 10% of your total fixed costs, you can divide the cost by 12 and show an amount each month. If the cost is larger than 10% of the total, record the cost in the month you expect to pay it. You can choose whether to include a draw for yourself as part of the fixed costs. If you plan to take your compensation only if the business shows a profit, do not include your draw.

Your fixed-cost list should also include some “discretionary costs”—expenses that change from time to time due to your conscious decision. For example, your promotion expenses may change occasionally as you increase or decrease advertising to take advantage of slow or busy times. Include them in the fixed-cost category even though the amount may fluctuate from time to time.



CAUTION

Certain expenses are not “fixed costs.” Do not include as fixed costs:

- the costs to actually open your business (covered in Chapter 7)
- loan repayments (covered in Chapter 7), or
- the costs you pay for any goods you’ll resell or use in the manufacturing or development process (covered in Chapter 6).

By completing this simple exercise, Antoinette has gained important information. She now knows that she must sell enough every month so that she has at least \$20,020 left after accounting for the merchandise she sells. On an annual basis, that’s \$240,240 (\$20,020 multiplied by 12). Antoinette must also bear in mind that she has not shown any salary or draw for herself. To prosper, she obviously must not only cover fixed costs, but also must take in enough to make a decent living.

Fixed Costs Forecast for Antoinette’s Shop

Antoinette estimates her fixed costs on a monthly basis:

Rent, including taxes, maintenance	\$ 4,000
Wages, employees only (average including payroll taxes, etc.)	6,020
Utilities	1,200
Marketing and Advertising	1,000
Telephone and Internet	1,200
Supplies	900
Insurance	1,350
Depreciation	150
Freight	700
Accounting/Legal	1,000
Bad debts	500
Miscellaneous	<u>2,000</u>
Total per month	<u>\$ 20,020</u>

Forecast Gross Profit for Each Sales Dollar

How much of each sales dollar will be left after subtracting the costs of the goods sold? That number will pay fixed costs and determine your profit for your business. At this stage, you are trying for a broad-brush, quick and dirty forecast, so it's okay to make a rough estimate of your average gross profit.

Let's look at how Antoinette calculates her gross profit for her first year of business. For simplicity purposes, this example focuses on dresses. Antoinette plans to sell about half her products at double the cost she pays. (For example, if she buys a dress for \$125, she will sell it for \$250.) That means that her gross profit per sale of those items will be 50%. She plans to derive her selling price for sale clothing, markdowns, and accessories by adding one-half of her cost to her selling price; for example, if a belt cost her \$10, she'll sell it for \$15.

The calculations are similar for different type businesses. Service businesses will have higher gross profit margins than retailers; most revenue is gross profit because little merchandise is sold. Wholesale businesses will be similar to the retail example. Manufacturing businesses will be similar in appearance even though the cost of goods will include materials from a variety of sources and any labor that is paid per piece.

Project developers have only variable costs in each project. There are usually no fixed costs since the developer's business ends with the sale of the project. However, if a project developer works on several projects at the same time, there may be some fixed costs that continue after any particular project is sold. For a project developer, the gross profit is the difference between the project's selling price and all the project costs.



TIP

In Antoinette's Gross Profit Calculation, the prices in the Sale Clothing & Accessories column illustrate gross profit calculations; they do not represent the selling price of sale items.

Forecast Gross Profit for a Start-Up Business

For a new business, calculate the average gross profit for your business by following these steps:

1. For each product or service that you sell, list every individual item that goes into that product, including piece-rate labor and commissions. For example, Antoinette buys clothing items from outside suppliers and resells them. The cost of an item is the major component of the total product cost. She may add the cost of the preprinted shopping bag to derive the total cost of the sale.
2. Once you have a complete list of all the cost components for your products or services, add up the cost of each item.
3. Write the selling price of the item below the total cost of the item.
4. Subtract the total cost from the selling price to derive the gross profit from each sale of that item.
5. Divide the selling price into the gross profit to derive the gross profit percentage for each product.

Gross Profit Calculation for Antoinette's Shop

	Regular Clothing	Sale Clothing & Accessories	Total
Average cost each item	\$ 125	\$ 10	N/A
Shopping bags and wrapping	1	1	N/A
Average total cost	126	11	N/A
Average selling price	250	15	N/A
Gross profit (selling price less total cost)	124	4	N/A
Gross profit % (gross profit ÷ selling price)	49.6%	26.7%	N/A
Total Annual Sales	<u>520,000</u>	<u>500,000</u>	<u>\$ 1,020,000</u>
Total Annual Gross Profit	<u>\$ 257,920</u>	<u>\$ 133,500</u>	<u>\$ 391,420</u>

Average gross profit percentage = 38.4% (\$391,420 ÷ \$1,020,000)

6. Repeat for each product you'll sell; if you have more than four or five individual products, then it's better to group them by gross profit percentage rather than to make an estimate for each individual product.
7. Write down how much total dollar sales you expect for each product or product group.
8. Multiply the gross profit percentage by the total dollar sales to derive the dollar gross profit from each product.
9. Add together the total dollar gross profit figures to derive the total dollar gross profit from the year's sales.
10. Divide the dollar gross profit by the annual sales revenue to derive the average gross profit percentage for the year's sales.

Completing this gives you an average gross profit percentage for your business.

Forecast Gross Profit for an Existing Business

If you're already operating and have a profit and loss statement for your business from prior months, your job is even easier. Simply subtract the total cost of sales from the total revenue to get the gross profit for the period. Then, convert the dollar gross profit figures to a percentage of sales revenue by dividing total dollar gross profit by total sales for the period. The percentage gross profit figure you get will be the percentage gross profit figure you use for your break-even forecast.

If you're already operating and your expansion will change the percentage of total sales revenue that each product group brings, then you will need to forecast your new average gross profit by following the procedure for a new business listed just above.

Forecast Your Break-Even Sales Revenue

Now that you have the fixed costs per month for your business and the average gross profit per sale, you can estimate how much revenue you will need to just break even. You can use any period you wish, although

most people use a month or a year. As this chart shows, it's simple to calculate. Just divide the fixed costs by the average gross profits expressed as a decimal.

Break-Even Sales Revenue Forecast		
A	B	C
<u>Fixed costs per month (or year)</u>	<u>Average gross profit percentage expressed as a decimal</u>	<u>Break-even sales revenue (A ÷ B)</u>
_____	_____	_____

EXAMPLE: Ronnie Ryann runs the Religious Sounds Round Table in rural Rye, New York. It's a small business, but she loves it dearly. The gross profit on the inspirational items she sells is 50%. This is the same as saying that after adding up the cost of the products, packaging, and postage (all variable costs), Ronnie is able to sell at double this amount. Ronnie rents 1,000 square feet for \$800 per month, pays her part-time clerk \$950 per month, and budgets \$650 per month for utilities, taxes, and so forth. This means her operating expenses (all fixed costs) are \$2,400 per month. (Her costs seem low because some parts of New York State are behind the inflation curve.) Therefore, Ronnie has to sell \$4,800 worth of items per month to break even. Her salary comes out of the money she takes in over the \$4,800. Fortunately, it will cost Ronnie very little in extra overhead to sell up to \$10,000 of items per month, so if she can achieve this volume, she will get to keep close to half of it.

How to Calculate Your Profit

Perhaps you're lucky enough that your break-even sales forecast shows you'll make more than you need to break even. If so, you can easily calculate your profit. Simply multiply your projected sales revenue that is over the break-even point by your average gross profit percentage.

EXAMPLE: Deborah needs \$140,000 to break even in her bookkeeping business. Her projected sales revenue shows that she will be bringing in \$185,000 the first year—or \$45,000 more than she needs to break even. To determine the profit, she multiplies her average gross profit percentage (0.692) by \$45,000. Her profit will be \$31,140.

Help! My Forecast Shows a Loss!

What will you do if your break-even sales forecast shows that you'll lose money? First of all, don't panic. You'll need to do some sober, serious, and meticulous thinking. Carefully check all your numbers and run them again on your calculator. Incidentally, many people doing this exercise for the first time make some simple mistake in arithmetic that throws off the whole forecast. You might have someone with good math skills review your work.

In any business, only these things can improve profits:

- You can increase the sales revenue by selling more of your product or service.
- You can reduce fixed costs.
- You can increase the gross profit percentage by raising selling prices or by lowering your product cost.

Considering Alternative Forecasts

Let's look at Antoinette's situation and see how her figures have turned out.

Break-Even Sales Revenue Forecast for Antoinette's Shop		
A	B	C
Fixed costs per month (or year)	Average gross profit percentage expressed as a decimal	Break-even sales revenue (A ÷ B)
<u>\$240,240</u>	<u>0.384</u>	<u>\$625,625</u>

Antoinette needs \$656,625 in sales revenue to break even. Her forecast for sales revenue in the first year is \$1,020,000—\$363,375 *more* than the break-even amount. Most entrepreneurs would be happy with this rosy profit forecast. But Antoinette begins to worry that it's too good. Maybe she did something wrong. First, she reexamines the calculations to make sure she hasn't made a mistake in her arithmetic. Then she starts considering whether she was too optimistic in her original sales forecast. What would happen if she reduced her annual sales forecast by \$320,000 (to \$700,000) and kept the same fixed costs and gross profit margin? That is still more than the break-even sales and should be enough to give her a profit for her efforts. How much profit? Let's see.

Break-Even Sales Revenue Forecast for Antoinette's Shop

Revision 1: Reduce Sales Volume to \$700,000

Annual sales	\$ 700,000
Annual fixed costs	240,240
Gross profit	0.384
Break-even sales ($\$240,240 \div 0.384$)	625,625
Sales over break-even ($\$700,000 - \$625,625$)	74,375
Profit on sales over break-even ($\$74,375 \times 0.384$)	\$ 28,560

While this reduction in projected sales is more conservative than Antoinette's original estimates, it does leave her with a much smaller profit. She decides to keep the original forecast in her plan. Then, as a second thought, she wonders what would happen to profits if she reduced fixed costs by \$50,000 per year (about one-quarter of the current total), while leaving the sales forecast at \$1,020,000 and her gross profit at 38.4%.

Let's see what would happen.

Break-Even Sales Revenue Forecast for Antoinette's Shop

Revision 2: Reduce Fixed Costs by \$50,000

Annual sales	\$ 1,020,000
Reduced annual fixed costs ($\$240,240 - 50,000$)	190,240
Gross profit %	0.384
Break-even sales ($\$190,240 \div 0.384$)	495,417
Sales over break-even ($\$1,020,000 - \$495,417$)	524,583
Profit on sales over break-even ($\$524,583 \times 0.384$)	\$ 201,440

That fixed cost reduction shows a profit of \$201,440, but it requires a reduction of one-quarter of the fixed costs. Antoinette believes it would be very difficult to reduce fixed costs that much. She decides to see what will happen if she can increase the average gross profit to 50% while leaving the sales revenue and the fixed costs the same. She doesn't know if she can really do it, but wants to see what will happen to the numbers.

Break-Even Sales Revenue Forecast for Antoinette's Shop

Revision 3: Increase Gross Profit to 50%

Annual sales	\$ 1,020,000
Annual fixed costs	240,240
Gross profit %	0.5
Break-even sales ($\$240,240 \div 0.5$)	480,480
Sales over break-even ($\$1,020,000 - \$480,480$)	539,520
Profit on sales over break-even ($\$539,520 \times 0.5$)	\$ 269,760

Ultimately, Antoinette decides that she is comfortable with her baseline forecast after she sees what the effects will be from different combinations of lower sales estimates, lower fixed costs, and a higher gross profit margin. But the really critical part is this: She must be absolutely sure that she can meet her baseline forecast since there is little room for error.

Antoinette was sure of her first forecasts, even though the baseline forecast shows a decent profit. Although she can manipulate the numbers to change the profits, the danger is that the numbers may not be achievable. While she may be able to show healthy profits in a good-looking business plan, she may be unable to meet those numbers. Or, just as dangerous, she may become overconfident of the project's success. Too much confidence may just be enough to take the edge off her drive and dedication and enough to make the project fail.



CAUTION

Make sure that you have the same level of confidence in the revised forecast that you had in the first forecast. Obviously, you can fiddle with the numbers and show good profits, but the danger lies in making the goals impossible to reach. We all have a desire to make things work, and making the numbers work is very easy to do. Just remember that you'll have to live with the numbers you write down for a very long time. Make sure they're right.


What You Have Accomplished

We'll follow Antoinette throughout her journey later in the book and see what combination of figures she settles on. For now, let's review what you've learned so far. You've decided whether to write a complete plan for your business by completing these steps:

- choosing a business you know well
- identifying a need you can fill (the customer's problem)

- describing your business and how it will fill that need
- deciding that your business is the right idea at the right time
- deciding that you like your business, and
- forecasting enough profits to make writing a complete business plan worthwhile.

In this chapter, you've been answering questions for yourself. Now that you've answered the questions positively, you can proceed to sell your idea and your answers to potential financial partners. The next few chapters show you how to write a document that sells your idea.



Potential Sources of Money to Start or Expand Your Small Business

Ways to Raise Money	65
Loans	66
Equity Investments.....	69
Loans and Equity Investments Compared.....	75
Common Money Sources to Start or Expand a Business	76
Money From Your Personal Savings.....	77
Friends, Relatives, and Business Acquaintances.....	80
Creative Cost Cutting.....	83
Equity in Other Assets.....	83
Supporters.....	84
Crowdfunding Online.....	84
Banks.....	86
Angels and Venture Capitalists.....	89
Now That You've Proven Yourself, How About Expanding?	91
Trade Credit.....	91
Commercial Banks.....	92
Equipment Leasing Companies	92
Accounts Receivable Factoring Companies.....	92
Venture Capitalists	93
Money Brokers and Finders.....	93
If No One Will Finance Your Business, Try Again	94
Secondary Sources of Financing for Start-Ups or Expansions	95
Small Business Administration.....	96
Small Business Investment Companies (SBICs).....	96
USDA Rural Development.....	97
Business USA.....	97

Overseas Private Investment Corporation (OPIC).....	97
Insurance Companies and Pension Funds	98
Selling Stock	98
Conclusion	98

This chapter helps your writing process because it gives you an idea of what lenders and investors want to see in a finished plan. A later chapter (Chapter 10) tells you how to actually approach different backers and ask for the money you need. Your ability to understand your financiers' motives can mean the difference between getting a loan or an investment and coming up empty-handed.

Many people and institutions are looking for sound loans and investments. From their side of the fence, it can often seem extremely difficult to find a good one. Many potential financiers have been frightened by news stories about small business financial problems, con artists selling phony tax shelters, business bankruptcies, and so on.

What does this mean to you? Simply that you must both create a sound business plan and present it, and yourself, in a way that appeals to lenders' and investors' needs for security and profit.

If you have a good business idea and are patient and persevering, you should be able to find financing. It was Calvin Coolidge who, sometime in the 1920s, said, "The business of America is business." It's no less true today.



SKIP AHEAD

If you already have financial backing, you can skip this chapter.

Many of you will, however, find it useful to learn about the range of potential revenue sources, including crowdfunding options.

Ways to Raise Money

Before you can sensibly plan to raise money, you need to know how it's commonly done.

Loans

A loan is a simple concept: Someone gives you money in exchange for your promise to pay it back. The lender could be a bank, friend, family member, or anyone else willing to lend you money. The lender will almost always charge interest, which compensates the lender for the risk that you won't pay back the loan. Usually, the lender has you sign some papers (called a note and loan agreement) spelling out the details of your loan agreement. (See Chapter 10 for examples.)

While these basic concepts are simple, not everyone seems to clearly understand them. For example, some people put a great deal of energy into arranging to borrow money, but think little about the hard work that goes into repaying it. The important thing to understand is that the lender expects you to pay the money back. It's only fair that you honor your promise if you possibly can.

Your business may be so successful that you can pay back the loan sooner than the original note calls for and save some interest expense in the process. Some state laws allow repayment of the entire principal at any time with no penalty. However, laws in other states allow the lender to charge a penalty of lost interest if the borrower pays the loan back sooner than called for. Make sure you read the loan documents and ask about prepayment penalties. Your lender may be willing to take a prepayment penalty clause out of the agreement if you ask.

As for the manner in which loans are repaid, there are about as many variations as there are loans. Here are the most typical:

- **Fully amortized loan.** This type of loan repayment provides for principal and interest to be paid off in equal monthly payments for a certain number of months. When you've made all the payments, you don't owe anything else. The amount of the interest rate and the number of years or months you agree to make payments can change your monthly payments a great deal; pay close attention to these details. For example, if you borrow \$10,000 for five years at 10% interest, you will agree to make 60 monthly payments of

\$212.48, for a total repayment of \$12,748.80. That means you will pay \$2,748.80 in interest. Now let's say you borrow \$10,000 for five years at 20% interest. Your monthly payments will be \$264.92 and you will end up paying \$15,895, including \$5,895 in interest.

- **Balloon payment loan.** This loan (sometimes called an interest-only loan) calls for repayment of relatively small amounts for a preestablished period of time. You then pay the entire remaining amount off at once. This last large payment is called a “balloon payment,” because it's so much larger than the others. Most balloon payment loans require interest-only payments for a number of years until the entire principal amount becomes due and payable. Although this type of repayment schedule sounds unwieldy, it can be very useful if you can't make large payments now, but you expect that to change in the near future.

Problems With Cosigned Loans

Bankers sometimes request that you find a cosigner for your loan. This is likely if you have insufficient collateral or a poor or nonexistent credit history. Perhaps someone who likes your idea and has a lot of property, but little cash, will cosign for a bank loan.

A cosigner agrees to make all payments you can't make. It doesn't matter if the cosigner gets anything from the loan—he or she will still be responsible. And if you can't pay, the lender can sue both you and the cosigner. The exception is that you're off the hook if you declare Chapter 7 bankruptcy, but the cosigner isn't. Cosigning a loan is a big obligation, and it can strain even the best of friendships. If someone cosigns your loan, you might want to consider rewarding your angel for taking this risk.

From my own experience, I cosigned a car loan for an employee once, and I'll think twice before I do it again. I didn't lose any money, but the bank called me every time a payment was 24 hours late, and a couple of times I thought I might have to pay. I didn't like being financially responsible for a car that I had never driven and might never see again.

Secured Loans

Lenders often protect themselves by taking a security interest in something valuable that you own, called “collateral.” If you pledge collateral, the lender will hold title to your house, your inventory, accounts receivable, or other valuable property until the loan is paid off. Loans with collateral are called “secured” loans.

If you don't repay a secured loan, the lender sells your collateral and pockets the unpaid balance of your loan, plus any costs of sale. Not surprisingly, if you have valuable property to secure a loan, a lender will be much more willing to advance you money. But you also risk losing your house or other collateral if you can't pay back the loan.

A lender will expect you to maintain some ownership stake in the asset. This will normally be 10% to 30%, depending on the type of asset and the type of lender. But if you don't own 100% of the asset, you can't expect to get a loan for the same amount as its full worth.

If you default on a loan and proceeds from the sale of the collateral are not enough to pay off the loan, the lender can sue you for the remaining amount. The best advice is this: Be very cautious when considering a secured loan. Make sure you know your obligations if the business fails and the loan can't be repaid.

Lenders like collateral, but it never substitutes for a sound business plan. They don't want to be selling houses or cars to recoup their money. In fact, lenders often only accept real property, stocks and bonds, and vehicles as collateral. Items of personal property, such as jewelry, furniture, artwork, or collections usually don't qualify. All lenders really want is for you to pay back the loan, plus interest. Here's an example of a loan secured by real estate and used to open a business.

EXAMPLE: Mary needs to borrow \$50,000 to open a take-out bagel shop. She owns a house worth \$200,000 and has a first mortgage with a remaining balance of \$100,000. Uncle Albert has offered to lend Mary the amount she needs at a favorable interest rate, taking a second mortgage

on Mary's house as collateral for the loan. Mary agrees and borrows \$50,000, obligating herself to repay in five years with interest at 10%, by making 60 payments of \$1,062.50. If Mary can't make all the payments, the second mortgage gives Uncle Albert the right to foreclose on Mary's home and sell it to recover the money he loaned her. Uncle Albert feels secure, since he is confident the house will sell for at least \$150,000, and the only other lien against the house is the \$100,000 first mortgage. If a foreclosure did occur, Mary would, of course collect any difference between the selling price and the balance of the two mortgages.

Unsecured Loans

Loans without collateral are called “unsecured” loans. The lender has nothing to take if you don't pay. However, the lender is still entitled to sue you if you fail to repay an unsecured loan. A lender who wins can go after your bank account, property, and business.

Lenders typically don't make unsecured loans for a new business, although a sound business plan may sway them. Remember, the lenders' maximum profit from the loan will be the interest. Since they won't participate in the profits, naturally they are going to be more concerned with security.

Equity Investments

Equity investors buy a portion of your business and become part owners. They share in your profits when you succeed. You can be an equity investor in your own business if you invest your private savings. If you are the only investor, you keep all the profits. Angel investors and venture capitalists represent another type of equity investor (see discussion later in this chapter). Depending on the legal form of ownership, equity investors only share in your losses up to the amount of their initial investment. Put another way, most equity investors' risk is limited to the amount of money they put up, which can be lost if the business fails.

Investors expect you to think of their money as a tool that you will use and give back. Your business plan should include a forecast of when and how that will happen. Failing to discuss a repayment strategy in your plan can scare off a potential investor.

To understand a little more about your potential backers, let's look at the dilemma they face when they consider investing in a small business like yours. On one extreme are the very safe investments that produce a low profit. At the other extreme lie investments that promise a very high profit but also carry a high risk of losing the entire investment.

Your new business proposal will be far less safe than an insured bank deposit. This means that to attract money, you must offer investors the possibility of fairly high returns. While investors will not find your proposal as risky as casino gambling, the smart ones will know that, statistically, putting money into a new small business isn't a whole lot safer. In addition to the possibility of a big gain, investors will want to minimize their risks by looking for any security-enhancing feature your investment proposal offers, such as your skill at making businesses succeed or your business's profitable track record.

You will want to offer investors the possibility of a good financial return, a sense of security, and, if possible, a little more. Often, this is a vision of engaging in a business designed to enhance some particularly worthwhile objective such as health, education, or environmental concerns. Or it can be simply an opportunity to help someone with enthusiasm and drive. One of the best ways to convince potential lenders or investors that their money is secure is to convince them that you are an honest, sincere person. At least as many businesses fail to get financed because potential investors don't like the person making the sales pitch as those that fail because investors don't like the pitch itself.

In fact, when they like you and your idea, some investors and banks want to make sure that you have something to lose other than just your pride if the business fails. They will want to see that you are backing your ideas with your hard-earned dollars. Be prepared to put up most of your own money to get the business open. This lets them know that you will do everything in your power to make the business work; sometimes, your dollar commitment can take the place of any other guarantees.

Return on Equity Investments: What's Fair

Every investor has personal requirements, and every deal is different. The important thing is that both parties understand the risks and think it is a good deal. Here are some suggestions that have worked well for others in situations where the potential investors weren't well acquainted with the entrepreneur. Obviously, if your investors are family members, close friends, or people who wish to support your business for political or personal reasons, they may be willing to accept a lower rate of return.

If you are starting a new business and do not plan to guarantee the return of the investment, you'll almost always need to offer investors a high possible return. If you don't put up any money, investors may expect as much as 75% of the profits. You, the promoter, may get as little as 25% of the profits plus a reasonable salary for your work to make the project go. Of course, people starting businesses usually invest at least some of their own money, so the investors' percentage would normally be adjusted downward.

Should You Guarantee a Return?

Very few investment proposals offer the investor any guarantees. Nevertheless, some equity investors want a guaranteed return in addition to a share of the profits. If you guarantee a return, you will pay back the original investment plus a profit on the investment, even if the deal goes sour.

Doing this is great if the project makes the profit you think it will. But it's a risk for you since you'll have to get the money to pay off the investor from some other source if your business fails.

If you are willing to guarantee the repayment and the profits, you may be able to get investors to accept the return of their investment plus a reasonable profit of 20% or 30% on the investment, within a year or two.

Guaranteed investments are rare, and I suggest you avoid the temptation to offer a guarantee. Most entrepreneurs with the ability and assets to offer a guarantee can secure financing at a lower cost from more conventional sources. Perhaps they can pledge their assets for a straight bank loan or sell their assets and obtain money that way.

Another alternative for a start-up business where investors bear the entire risk of loss is for the founder to work in the business on a daily basis and receive a small wage as a project expense. The first profits are used to pay back all the money advanced. Profits are split on an agreed percentage. If the investors put up all the money, the split might be 50/50. The investors' share should be less if they put up less money. Sometimes these profit splits terminate after a specific number of years, and sometimes they continue indefinitely. Occasionally, the parties agree on a formula to establish a price for which one party may buy out the other party in the future.

If you're expanding an established business and the expansion appears conservative, the returns can be adjusted toward normal bank loan rates. Investment profits will have to be considerably higher than bank rates if the project appears risky. The main thing that increases risk for an established business is changing its normal course of business. For example, an established employee-leasing company that plans to open a new office in another state is taking more risk than if it were simply planning to expand its receivables in the face of increasing demand. It would be an even higher risk if the same company planned to enter a completely new line of business, such as management consulting.

Legal Forms of Owning Equity Investments

An equity investor chooses among three options in sharing ownership in your small business. These are the only options available, even if the consideration for the ownership share is something other than cash, such as labor, materials, and so forth.

General Partnerships

General partners join you in owning the business and share in your profits and losses in proportion to their partnership shares. General partnerships work best when all partners work full-time in the business. Equity investors normally prefer not to become general partners, because they don't want day-to-day involvement in your business. Also, by law, if the partnership loses money, the investing general partner must pay back part or all of the losses. Everybody has heard stories of

partnerships that went sour, with dire consequences. These were usually general partnerships. For more on partnerships, see “Nolo Resources on Partnerships, LLCs, and Corporations,” below.

Limited Liability Companies (LLCs)

LLCs have become popular with many small business owners. LLCs offer the liability protection of a corporation but are cheaper and easier to create and maintain. The relationship of you (as the entrepreneur) to your investors is similar in many ways to the relationship in the corporate form (discussed below). Limited liability partnerships (LLPs) offer similar benefits but are usually reserved for professionals like doctors and dentists. If you are considering either an LLC or LLP, consult with your accountant or attorney before proceeding; also see “Nolo Resources on Partnerships, LLCs, and Corporations,” below. (Tax considerations are beyond the scope of this book; please consult a CPA with tax questions about LLCs.)

Corporations

One of the most popular methods of selling equity investments is to form a corporation and sell shares of stock. It’s one of the easiest ways to actually give ownership in your company to an investor. The investor/shareholders’ potential losses are typically limited to the purchase price of their shares. A corporation is a legal entity that is separate from you. You form a corporation by paying fees and filing forms at a state office. A corporation lets you keep management control of the business; as long as you retain 51% of the shares of stock, you can call the shots.

How much people are willing to pay for your stock depends mostly on what they think of your prospects. If you have a firm, exclusive contract to sell a popular, new type of computer peripheral and only need money to build a showroom, potential buyers will probably find you. However, if you’re trying to build a factory to mass produce a new and relatively untried type of pooper-scooper, you will almost certainly have more difficulty.

If you conduct business in a legal and ethical manner, the corporation can shield you and your shareholders from personal liability for business

losses. However, officers and directors of a corporation can be held personally liable for any corporate acts that break the law or breach their duty to the shareholders to act responsibly.

If you are interested in forming a corporation, see “Nolo Resources on Partnerships, LLCs, and Corporations,” below.

Nolo Resources on Partnerships, LLCs, and Corporations

Nolo (www.nolo.com), the publisher of this book, provides many ways to assist you when it comes to partnerships, LLCs, and corporations, including assistance with state filings, helpful books, and lots of free information. Visit the site and click “Business Formation” under “Shop by Products” and “Legal Articles.”

Here are some of the most helpful Nolo guides to business formation. (For related business entity resources, see Chapter 12.)

Partnerships. Interested in forming a partnership, limited or general, or learn more about them? See *Form a Partnership: The Complete Legal Guide*, by Denis Clifford and Ralph Warner.

LLCs. For a complete guide, see *Form Your Own Limited Liability Company*, by Anthony Mancuso, as well as Nolo’s comprehensive online LLC package.

Corporations. Want to set up a small profit corporation, issue shares, hold your first board of directors’ meeting, and more? Check out *Incorporate Your Business: A Step-by-Step Guide to Forming a Corporation in Any State*, or *How to Form Your Own California Corporation*, both by Anthony Mancuso.



CAUTION

Lenders and landlords normally require that corporate officers personally guarantee any loans or leases that the corporation enters into until it has a several-year track record and a strong financial position. So you can expect to be held personally responsible for company debts even though you form a corporation and are protected from routine business losses.

Corporations and Red Tape

Corporations bring several complications—but most entrepreneurs consider the costs and inconvenience a small price to pay for the ability to raise the capital they need. I only summarize a few issues here:

- **Record keeping in corporations.** Keeping your shareholders informed and your corporation in good standing means that you have to perform certain legal acts and pay various taxes and fees. It's more complicated and expensive than doing business as a sole proprietor.
- **Taxes and corporations.** You can take money out of your corporation in only two ways: salaries and dividends. Both payments have to be approved by your board of directors and entered into the minutes of the company. Salaries become your personal income and are taxed at your personal rates. Dividends are payments to shareholders made only after corporate taxes have been paid. Dividends then become taxable income to the shareholders.
- **Selling shares in your corporation.** Both federal and state regulatory authorities have many rules and regulations governing sales of corporate shares or limited partnership interests. The bottom line of all these regulations is this: You can't take any money into your venture until you comply with the appropriate rules. These rules try to protect investors from crooks and con artists and also try to make it relatively easy to raise money for legitimate ventures. Before selling any security, or soliciting for the sale of any security, make sure you have complied with the appropriate regulations.

Loans and Equity Investments Compared

To raise money for your new business, you must decide whether you prefer to borrow money or sell part of your project to an equity investor. Often, you may not have many options. The person with money to lend or invest will obviously have a lot to say about it. But you should know the trade-offs you normally make by preferring one to the other:

- **Loan advantages.** The lender has no profit participation or management say in your business. Your only obligation is to repay the loan on time. Interest payments (not principal payments) are a deductible business expense. Loans from close friends or relatives can have flexible repayment terms.
- **Loan disadvantages.** You may have to make loan repayments when your need for cash is greatest, such as during your business's start-up or expansion. Also, you may have to assign a security interest in your property to obtain a loan, thereby placing personal assets at risk. Under most circumstances, you can be sued personally for any unpaid balance of the loan, even if it's unsecured.
- **Equity investment advantages.** You can be flexible about repayment requirements. Investors sometimes are partners and often offer valuable advice and assistance. If your business loses money or goes broke, you probably won't have to repay your investors.
- **Equity investment disadvantages.** Equity investors require a larger share of the profits. Your shareholders and partners have a legal right to be informed about all significant business events and a right to ethical management; they can sue you if they feel their rights are compromised.

Loans are better for businesses if the cash flow allows for realistic repayment schedules and the loans can be obtained without jeopardizing personal assets. Equity investments are often the best way to finance start-up ventures because of the flexible repayment schedules.

If you don't already know an accountant specializing in small business affairs, you will be wise to find one. Your personal tax situation, the tax situation of the people who may invest, and the tax status of the type of business you plan to open are all likely to influence your choice.

Common Money Sources to Start or Expand a Business

Most small businesses are started or expanded with money from one of seven readily available sources. They are, in order of frequency:

- the savings of the person starting the business
- money from close friends and relatives
- scaling back cash requirements and substituting creative cost cutting for financial equity
- selling or borrowing against equity in other property
- money from supporters or others interested in what you are doing (including crowdfunding)
- bank loans, and
- venture capital.

I recommend never financing a business with only borrowed money, even if it's possible. If you're starting a new business and use your own money or sell equity, you can make your inevitable start-up mistakes cheaply and survive to borrow money later, when you know how better to use it.

**TIP**

My general rule is that you should borrow less than half of the money you need, especially if you're starting a new business. If you're expanding an existing business, make sure that you can handle the cash payments necessary to repay the loan even if business isn't as good as you hope. In other words, it's usually more dangerous to borrow too much than too little. If you have to raise nearly all the money from others, I recommend selling equity instead of borrowing.

Now let's look at each of the most likely funding sources for new and expanding businesses in more depth.

Money From Your Personal Savings

Most businesses are financed, at least in part, with personal savings. Sure, it's hard to save money, but this form of financing has so many advantages, it's worth some effort. Incidentally, savings don't necessarily come from a bank account. Lots of entrepreneurs sell or refinance a house or some other valuable property to come up with cash.

Starting a business with your savings is the quintessence of the capitalist idea. As the entrepreneur with capital, you hire people, purchase equipment, and ideally create profits. It's a long and honored tradition. Henry Ford, John D. Rockefeller, and Steve Jobs all started with at least some money from their own pockets and ended up creating industrial empires. While chances are your goals are more modest, the idea is pretty much the same.

If you finance a business with your own money, you won't have to worry about making loan payments or keeping investors happy. Think of it this way: The more you borrow, the more you increase your fixed operating costs—making it more difficult to survive the slow periods and mistakes almost every business faces.

Another reason to start a business with savings is that you enhance your borrowing capacity for the future. The inventory, fixtures, and equipment you purchase with your cash investment are treated as assets should you later apply for a business expansion loan.

Of course, not everybody is lucky enough to be able to start or expand a business entirely from savings. But there are at least two ways you may be able to increase the amount of money you can put into your business.

Credit Card Advances and Living Expense Deferral

People who need just a little more cash than they have sometimes take a risky—but not unheard of—step. This might more appropriately be called “borrowing from the future,” as it involves deliberately falling behind in monthly living expenses or taking cash advances from credit cards. This way of getting extra money involves risk, and it's not for everybody.

You may have a credit card or two that has more credit available; by running your credit line to the maximum, sometimes you can obtain some cash from an unexpected source or buy material for the business. Of course, the interest rates are high, and you flirt with bankruptcy if you can't make payments. Still, several people I know have used this method to help start a business.

If you have a good payment record with the telephone company, gas and electric company, landlord, bank, and so forth, you may be able to

skip several months' payments without seriously damaging your credit rating. Of course, you'll have to catch up again fast. In the meantime, you can use the money to help get your business going.

You may be able to fall behind a month or two on your mortgage payments and generate some quick cash that way. However, the mortgage holder will take the property back from you after a few months. Don't use this method unless you're very sure that you can become current again quickly.



CAUTION

This scheme should be tried only if you're sure you'll be able to come up with the money when you need it. As with everything else, common sense should be applied to living expense deferral plans. Otherwise, you may find yourself trying to read a foreclosure notice in a dark room.

Trade Credit

Arranging for trade credit involves borrowing from the companies from whom you will buy your merchandise or raw materials. This form of borrowing rarely works for service businesses, because salaries are the biggest expense and employees are usually not interested in lending you their salaries. However, I do know of a number of new businesses where friends and family members pitched in for free in the early days; it never hurts to ask.

If you're in a retail, wholesale, or manufacturing business, arranging for trade credit can help considerably. In most businesses, you typically order supplies and pay for them 30 to 60 days after you receive them. The problem for new businesses is that it's also standard practice for suppliers to demand cash up front from start-ups. This policy isn't immutable, however. Often, if you present your business plan to potential suppliers, you can arrange to order at least some supplies and merchandise on credit. After all, your suppliers have an interest in helping you succeed so that you will buy their merchandise for many years to come.

The key to maintaining good relations with suppliers while borrowing from them is to keep them informed of what you're doing and why. This communication rule is particularly important for new businesses. If you arrange credit and can only pay a part of your first bill in 30 days, pay that amount and ask the supplier for a short extension.

Some suppliers may offer extended payment terms to get your business. Occasionally a supplier will ship merchandise in a slow part of the season and let you pay for it several months later, in the busy season. Before you try any of this, check with your suppliers' sales reps about company policies. Your suppliers are invaluable to your business, and you want to keep them on your side.

Friends, Relatives, and Business Acquaintances

The type of financing provided by close friends and relatives does not normally vary much from that provided by strangers. The help may be in the form of a gift, a loan, or an equity investment. The big differences are usually the availability of money in the first place and the interest rate or investment return.

With friend- or relative-provided financing, however, the commercial model isn't the only one. A common alternative is the loan-gift hybrid. Here a relative or friend lends you money at either a low interest rate, or with no interest at all, telling you to pay it back when you can and to treat it as a gift if you can't. Obviously, this type of help is invaluable if it's available. It gives you time to get your business established with a minimum of pressure. If you've any doubt about your angels' financial position, make sure they consult their bankers, attorneys, or financial advisers before advancing you the money. Also, check with a tax adviser if you receive a substantial gift in one year from any individual, since there may be tax implications. Generally, property you receive as a gift, a bequest, or an inheritance is not included in your income. However, if property you receive this way later produces income such as interest, dividends, or rentals, that income is taxable to you. For additional information, refer to IRS Publication 17, *Your Federal Income Tax (For Individuals)*. You can find this publication online at the IRS website www.irs.gov.

Finally, write down the terms of the loan or transaction and make sure everyone thoroughly understands them. After all, you want to feel like you can go to family reunions even if your business fails.



CAUTION

Think twice before you accept. Think about what a business reversal could do to your personal relationship, even if your relative or friend says they don't need the money. I know families that have been torn apart because a borrower didn't meet the agreements she made with a lender. Besides, a loan from a relative or close friend that comes with emotional strings probably isn't worth the cost.

Your Money Machine

Here is a task you can start right now that will save you time and frustration. Begin writing a list of all your relatives, friends, business acquaintances, supporters, professional advisers, and so on. This list will be one of the primary sources of money for your new or growing venture, since people who know you already are most likely to be interested in your business.

One advantage of dealing with your relatives and friends is that they already know your strengths and weaknesses. They are likely to be more understanding than a banker if you have start-up problems and make a few late loan payments. Nevertheless, you'll be wise to treat people close to you in a businesslike manner.

Don't make the money a test of whether they love you or not. If your close relatives feel they can decline the investment opportunity without hurting your feelings, both of you will be happier in the long run. Pay attention to criticism and suggestions, especially if they come from people with business experience. If they don't wish to invest or lend you money, accept their reasons at face value—you might not like their hidden reasons.

Some people looking for business financing will write a business plan and loan package and then show it only to the bank, assuming relatives or friends don't need to see it. This is a mistake. Make sure those people close to you get the benefit of all your hard work. A good business plan may even help them see you in a new light and encourage them to make a financial commitment.

How Much Money Do You Need?

You need money to start your business, money to keep it running, and money to make it grow. This is not the same thing as saying you can guarantee success in your small business if you begin with a fat wallet. Now, let me confess to one major bias here. I believe that most small business owners and founders are better off starting small and borrowing, or otherwise raising, as little money as possible. Put another way, there is no such thing as "raising plenty of capital to ensure success." Unless you, as the prospective business founder, learn to get the most mileage out of every dollar, you may go broke and will surely spend more than you need to. But that doesn't mean that you should try to save money by selling cheap merchandise or providing marginal services. In today's competitive economy, your customers want the best you can give them at the best price. They will remember the quality of what they get from you long after they have forgotten how much they paid.

In practical terms, that means you must buy only the best goods for your customers. Anything that affects the image your business has in your customer's mind should be first-rate. It also means that you shouldn't spend money on things that don't affect the customer. For example, unless you're a real estate broker, your customers probably won't care if you drive an old, beat-up car to an office in a converted broom closet, as long as you provide them an honest product or service for an honest price. Save the nice car and fancy office until after your business is a success.

Creative Cost Cutting

Although not really a funding source, one of the most effective ways to finance a small business is to make do with less. If your initial business proposal calls for \$50,000, think about how you can reduce spending on nonessential items. Perhaps you can begin your consulting business in your home or share expensive equipment with an established business rather than buying it.

Of course, there will be many situations where you will need a fair amount of money to get started—it's hard to cook without a stove, paint without a ladder, or program without a computer. The important principle is not that you should avoid raising outside money, but that you should borrow or raise equity capital only if you absolutely can't do without it. For a clear discussion of the need for ethical business practices, as well as the good results, see *Business Ethics for Dummies*, by Norman E. Bowie and Meg Schnieder (Wiley Publishing).

Equity in Other Assets

You may choose to raise money by selling existing assets or by pledging your equity in them as collateral for a loan. Remember, collateral is something you own that you give your lender title to until you pay back all the money you borrowed, plus interest. If you fail to repay the loan, the lender keeps the collateral. Basically, equity is the difference between the market value of property you own and what you owe against it, plus any costs necessary to turn the asset into cash.

EXAMPLE: Eric owns a car worth \$19,000, but owes the bank \$14,000. His equity in the car is \$5,000. To convert the equity to cash, he could try to sell the car for \$19,000 cash and pay off the bank loan, leaving him \$5,000. If he borrows against the car, he'd probably be lent less than \$5,000, since banks don't like to finance 100% of the borrower's equity in the asset.

Supporters

Many types of businesses tend to have loyal and devoted followers—in many ways, their customers care about the business as much as the owners do. Examples are as myriad and varied as the likes, loves, and desires of the human community. A health food restaurant, a yoga studio, a motorcycle shop, a family counseling facility, a solar heating business, a religious bookstore, or a kayak manufacturing shop all could work, assuming you can find your audience.

As with the discussion about family members, people who care about what you do may well be willing to support you on better terms than would a commercial investor. No matter what your business or business idea, think about whom you know or can get to know and who really cares about what you plan to do. Share your idea with these people and be ready to listen to them. You'll surely get lots of good ideas, and you may be surprised at how easy it is to raise money for what people perceive as an honest and needed endeavor.

Crowdfunding Online

There are two distinct types of online crowdfunding to raise money for new ventures: token crowdfunding and equity crowdfunding.

Token Crowdfunding

You're probably most familiar with the well established or "token" type of online crowdfunding. It is called token funding because the investor or donor does not receive any ownership in the company. Instead the start-up may offer a token as acknowledgement of the donation. The token may be a chance to buy the product at a discount when the actual product becomes available or something simpler like a coffee mug with the company logo. The advantage for the entrepreneur is that the money is basically free since donors are willing to give money to an idea with no expectation of a profit. The disadvantage for the entrepreneur is that most potential donors can be swayed by a superior video or pitch for a similar idea. In practice, this means that you'll need professionally

created and effective marketing materials to expect any significant amount of money through a token crowdfunding platform.

For more information, including what percentage the crowdfunding site keeps of the money raised, check out these established token crowdfunding websites:

- **Kickstarter** (www.kickstarter.com) and **Indiegogo** (www.indiegogo.com/start-a-campaign) offer people with creative projects and innovative entrepreneurial ideas (such as in tech, artisanal food, and crafts) the ability to raise money from small investors while retaining complete ownership. Indiegogo also offers equity crowdfunding for entrepreneurs (more on that below). Donors may receive trinkets but cannot receive ownership shares.
- **Prosper** (www.prosper.com) is a lending portal that facilitates person-to-person loans, but no equity is allowed.

As with any supplier, do your homework to be sure that the company has a positive track record and that it offers what you want, on terms you can afford.

Equity Crowdfunding

Ever since 2016, when the JOBS (Jumpstart Our Business Startups) Act took effect, you can offer equity investments—shares of stock—in your small company to your friends, neighbors, and even strangers who are interested in your business idea.

The catch with equity crowdfunding is that you must secure approval from the SEC for your sale of stock. While it is easier than it used to be, seeking SEC approval is still a big project. To begin that process you need to start with a recognized portal to the SEC and the JOBS Act. One such portal is called Wefunder (wefunder.com). The Wefunder website has lots of useful information for investors, which you should read as well.

For more information on the JOBS Act and SEC regulations, check out the SEC website at (www.sec.gov/spotlight/jobs-act.shtml).

For information on selling stock through public offerings, see the section “Selling Stock” at the end of this chapter.

Banks

When asked why he robbed banks, Willie Sutton said, “Because that’s where the money is.” For the same reason, banks are high on the list of potential sources people ask about for business funding. Unfortunately, as far as a small business is concerned, banks act cautiously when lending out money. This makes sense when you remember that it isn’t their money. (See “Reality Check: Banker’s Analysis” in Chapter 2 for more on the subject.)

This discussion applies to financial institutions that lend to businesses and individuals. Recent banking deregulation has made it more difficult to locate which of the various departments of big banks (such as the Bank of America and Wells Fargo) actually make loans, but the same fundamentals apply when you finally locate the right department and person.

Banks always want to see a written business plan along with your loan application. Banks are financial intermediaries. They pay interest to account holders to attract deposits, which they lend out to people like you. When lending, they charge enough interest to pay for their cost of funds and produce a profit. While many banks buy stocks or underwrite stock offerings, those activities usually target larger businesses; any transaction you have with a bank will probably be a loan and will come with a repayment schedule. Banks try to minimize risks by making sure you have enough assets to pay them back, even if your business does badly. They don’t make equity investments in businesses.

Some commercial banks work closely with the Small Business Administration (SBA) (www.sba.gov) in offering loan guarantee programs. If you want a loan but don’t qualify under the bank’s normal guidelines, the banker may suggest that you apply for an SBA guaranteed loan. If you’re approved, the SBA guarantees the bank that you will repay the loan and the bank lends you the money. While this program can work for start-ups, it is most used by business owners wanting to expand a successful business. Ask if your banker knows about the SBA guarantee program. (See below for background on the SBA.)

Commercial banks sometimes lend to a start-up business, but they almost always ask for collateral to secure the loan. The most banks will usually lend a start-up is half the cash needed. In addition, they usually require that you do not borrow all or most of your cash from someone else; they want you to have as much to lose as they do.

The good news about banks is that money generally costs less from banks than from other professional lenders, such as mortgage loan brokers. If the bank lending officer likes your business plan and loan application, and you have sufficient collateral, he or she may give you an interest-only loan for a short time, with the option of converting it to an amortized loan later. That means you can delay larger principal payments until your business has a chance to generate a positive cash flow.

Following are a few examples of how bank loans work. As mentioned earlier, the numbers here are for illustration purposes only.

EXAMPLE 1: Katherine O'Malley Pertz-Walter has saved \$40,000 to start the Rack-a-Frax Fastener Company, but she needs an additional \$20,000. After a careful study of her business plan, a banker grants her an interest-only loan with payments to be made quarterly for one year and takes a second mortgage on her home as collateral. At the end of the year, she must repay the entire principal. Her interest rate will probably be something like the prime rate (the interest rate charged the bank's favored customers) plus 3%. If the prime rate is 6%, she'll be paying about 9% interest, and her quarterly interest payment will be \$450. At the end of the year, she will be obligated to repay the \$20,000 in one lump sum.

EXAMPLE 2: To continue this story, let's assume that at the end of the first year, Ms. Pertz-Walter asks the bank to convert the loan to a three-year payment schedule, including principal and interest. Based on her favorable first-year results, the bank agrees to amortize the loan rather than demand immediate repayment. She now has to make 36 equal monthly payments of \$636. After she makes those 36 payments, the loan will be paid off completely.

EXAMPLE 3: Now let's forget about Rack-a-Frax and switch to the story of a friend of mine. Peter Wong wanted to start a garage specializing in Italian cars in Santa Fe, New Mexico. He estimated that he needed a total of \$100,000 to get his business started. He had \$50,000 cash saved from his job as chief mechanic at an independent Ferrari garage and \$60,000 equity in a house. He thought he was home free and confidently walked into a local bank to ask for a \$50,000 loan.

An hour later he walked back out with his head spinning. The banker asked him a number of questions about monthly sales projections, cash flow, and cash for a parts inventory. Peter hemmed and hawed. It came down to this: The banker didn't want to talk to Peter seriously until he produced a written business plan demonstrating that he understood how his business would work. After the initial shock of his bank interview wore off, Peter went to work. Putting his plan down on paper and doing a budget encouraged him to deal with a number of details he had never thought about before. When he did, he changed his plan considerably.

Finally, Peter presented his plan to the bank loan committee. This time they offered to lend him \$50,000, provided he put up the other \$50,000 and give the bank a second trust deed on his house and title to all equipment purchased for the shop. The bank also asked that Peter buy a life insurance policy for \$50,000, naming the bank as beneficiary. He negotiated the second trust deed on his house out of the requirements and then agreed to take the package. The terms were 36 monthly payments at a floating interest rate that was calculated at the prime rate plus 3%.

By this time, Peter and the banker, whose name was Fred, had established a good relationship. When the business got off to a slow start, Peter kept Fred informed of the problems and his plans to deal with them. Fred let Peter delay three payments in a row with no penalty. Eventually, when the business began to do well and Peter wanted to expand, Fred worked out a financing package, this time taking as collateral Peter's accounts receivable and inventory.

Angels and Venture Capitalists

Angels and venture capitalists can be anyone who invests equity money in a business in the hope of future profits. While this can include any business investor, from your Aunt Rose to the largest investment banker in New York, the term often connotes a group of businesses that look for hot companies in which they can make large profits. Typically, this group won't consider any investment smaller than \$500,000 and prefers companies specializing in the emerging technological fields, where a lot of money is needed to get started and where it's possible to achieve enormous returns.

Most readers of this book will be interested in starting or expanding small or medium-sized service, retail, wholesale, or low-technology manufacturing businesses. Large-scale venture capitalists traditionally do not invest in these areas. Fortunately, relatives, friends, business acquaintances, and local businesspeople with a little money to invest can all be pint-sized venture capitalists. Many do very well at it.

EXAMPLE: Jack Boots loved to ride dirt motorbikes on the weekends. He was frustrated that no retailer in his county carried either a good selection of off-road bikes or the right accessories. He and his friends sometimes had to drive 200 miles to buy supplies.

Eventually, it occurred to Jack to quit his job and open a local motorcycle store. He talked to several manufacturers and was encouraged. The only problem was, he would need \$100,000 to swing it. As he only had \$50,000, he was about to give up the idea when some of his biker buddies offered to help raise the cash. Jack found six people willing to invest \$10,000 each in a limited partnership. Each of these friends was, in reality, a small-scale venture capitalist, betting a portion of his savings on the notion that Jack would succeed and they would participate in his financial success.

Jack's Cycles opened for business and is doing well. All the limited partners were paid back their initial investments plus the agreed-upon return set out in their limited partnership agreement, and Jack is now the sole owner. The only sad part of it is that Jack is too busy to ride much anymore.

Many cities have venture capital clubs, comprising groups of individual investors interested in helping businesses start and grow. These clubs often serve as an introductory service—you receive a few minutes to discuss your business at a club meeting. If any investors want to pursue the discussion further, they make an appointment with you privately. You can use these groups to expand the list you are making of investment prospects. You may also be able to obtain computerized lists of venture capitalists and investor magazines in which you can advertise your proposition. Often, these clubs are formed and disbanded rapidly; ask the local Chamber of Commerce or your local bankers if there is an active club in your area.

When thinking about raising money by selling a share in your business, it's important that you have a hardheaded picture of what you're getting into. Amateur venture capitalists or equity investors gamble on your idea for your expansion or new venture. They invest money hoping that you'll make them rich, or at least richer. If you intend to look for equity investors, your business plan needs enough economic and marketing research to show investors that your idea has the potential of making a substantial profit. You'll also need to show potential investors exactly how they'll profit by investing in your business.

EXAMPLE: Jack Boots spelled out his profit distribution plans in his limited partnership document: Investors received 50% of the profits paid monthly according to their relative share of investment after he paid himself a nominal, agreed-upon salary for running the store. In addition, they qualified to buy merchandise at a substantial discount. They also owned a share of the assets of the business. Jack estimated that a \$10,000 investor would receive a monthly cash flow of \$200 for an annual return of 24%. When added to the partner's investment share in the inventory of the shop, this would make a \$10,000 investment worth \$20,000 in three years.

Now That You've Proven Yourself, How About Expanding?

If you've been in business for at least three or four years and can show a history of profitable operations, a whole new world of financing options opens up to you. The major advantage you have over a start-up is that you can prove what you say, whereas a start-up can't. Be careful if you've been in business for less than three years or can't show a profitable history—financing sources may consider you a start-up and put you in a higher risk category.

When you talk to any financing source, bring along your financial statements from the last two or three years. That way, the lender or investor can see where you've been and where you're planning to go.

Discussed below are readily available financing sources for expanding your small business. Consider each potential source of money carefully—each has unique advantages and disadvantages as they apply to your business. Approach whatever source makes the most sense for your business first; you can try others if the first one doesn't work.

Trade Credit

After you establish a reliable record of prompt payment with your suppliers, normally they will consider extending additional credit for your expansion plans. Let them know of your plans well in advance; if you begin delaying your payments to finance your expansion without notifying them, they're likely to get annoyed. They have an interest in seeing you grow; after all, you'll be buying more from them in the future. Sometimes they will even introduce you to their bankers and investors if you approach them with a well-thought-out business plan.

Commercial Banks

Remember those banks that were so hard to get money from when you started your business? Once you can show a profitable history, they become a lot more friendly. As an established businessperson you can often secure flexibility from banks that you might not expect. For example, they may lend you money and take a security interest in your accounts receivable. Or they may take a security interest in your inventory, equipment, or other business assets.

Equipment Leasing Companies

Leasing companies own equipment that they rent to businesses and individuals. Some leasing companies are similar to rental yards in that they have a supply of equipment on hand that they rent out. Sometimes these companies offer repair and trade-in privileges in addition to short-term rentals.

Other leasing companies—called full-finance leasing companies—do not take physical possession of any equipment. You find the equipment you want, and they buy it for you. Full-finance leasing companies have no equipment inventory and offer no return or repair services. They borrow money from a bank, so you'll have to pay back the equipment cost plus interest and a leasing company service fee over a fixed time. Normally, you have the option of buying the equipment for an additional price at the end of the lease term. Full-finance leasing companies base their credit decisions on your company's financial condition. They will want to see lots of financial records from your company and may request that you pledge some of your personal assets to guarantee the lease. Of course, make sure you understand what you agree to before you sign anything.

Accounts Receivable Factoring Companies

Factoring companies—also called factors—buy your accounts receivable at a discount. Then, they collect your accounts at full face value. This can be a very expensive way to raise cash—I only recommend it as a last resort. Some factors require that your accounts pay them directly instead

of paying you. This can cause problems with customers, who'll assume that you are having serious cash flow problems. Approach a factor with caution and make sure you understand the implications of the agreement before you sign it.

Factors can buy your receivables with or without recourse—that is, your guarantee of payment to the factor. Factoring with recourse means that the factor pays you a higher percentage of the receivable in cash and makes raising cash less expensive. But you can be seriously damaged if a big account fails to pay its bill and you have to make good on your guarantee.

Venture Capitalists

Some venture capitalists specialize in funding businesses after they have a track record and are willing to take a smaller return as a result. The industry is changing, and more venture capitalists are looking at a wider range of possibilities and client companies. Often a venture capitalist will specialize in a market area and company size or stage of growth. The possibilities have increased, and so has the work involved in finding just the right backers.

Money Brokers and Finders

Money brokers and finders develop and maintain lists of investors and lenders interested in businesses. For a fee, they will circulate your financing proposal to potential money sources. A legitimate broker or finder can look at your business plan and know if he has a good chance of finding money for you.

Finders simply introduce you to possible backers; they cannot negotiate on your behalf, and they are not licensed. Money brokers are licensed and can negotiate on your behalf. Fees for both finders and brokers are comparable. I recommend that you work with people who work on a contingency fee basis only and do not require up-front fees. While some worthwhile finders and brokers require an up-front fee, there are some nonlegitimate people who take the up-front fees and disappear. Also, I recommend that you obtain references from any

broker or finder and that you verify the references. You can find money brokers and finders by searching online and in the financial section of your newspaper's classified advertising section. For more information, check with the relevant agency in your state that regulates financial service providers; in California, for example, this is the California Department of Business Oversight (www.dbo.ca.gov).

Total fees, including both up-front and contingency, can range up to 10% or 15% of the money raised, so be cautious and remember that everything is negotiable.

If No One Will Finance Your Business, Try Again

Let's say that you've been unsuccessful in your attempts to raise money for your business from the primary sources listed above, or you have raised some money, but still need more. What do you do next? The first step is to go back to the people who initially seemed interested but ultimately turned you down and find out why. This is not a waste of time. If you get the same answer from several people, you will know what you have to work on. And then there is the possibility that someone's circumstances have changed and they have more funds now. Remember, it took the man who invented dry paper copying 21 years to raise the money to get the first photocopier made.

If a bank lending officer (or even two or three) turned you down but you still think borrowing is a good way to fund your business, try other lending officers at other banks. A friend of mine got a \$15,000 unsecured loan to improve some agricultural property just by going to five different banks. The first banker laughed him out of the office, the second banker listened to his story for five minutes and the third for ten minutes. By the time he got to the fifth bank, he knew what questions the banker was going to ask and was ready with some solid answers. The banker was impressed and he got the loan. In fact, for this very reason, it's not a bad idea to try a longshot bank first and the most likely one last. (See Chapter 10 for ideas on how to present your business plan to bankers.)

EXAMPLE: Sue Lester tried all the usual sources to get the \$20,000 she needed to open a piano school. One person she talked to was her Aunt Hillary, who had loaned her money to go to school several years before. This time Aunt Hillary said, “Sorry, but no.” One afternoon a few months later Sue ran into Hillary at her niece’s birthday party. Hillary asked how she was doing with plans for the school. Sue told her she was still short \$10,000 and was going to try the Small Business Administration as soon as she made one or two changes in her business plan. Aunt Hillary asked about the changes. Sue told her that an experienced teacher had suggested she charge slightly more per hour, start with a good secondhand piano instead of a new one, and try to work out a referral arrangement with a local piano store. This way she could pay herself more salary and wouldn’t need to take another job to make ends meet. Hillary asked to see the changes when they were complete.

After Sue showed the revised plan to her Aunt Hillary, she offered to lend her the money. Sue was both delighted and curious. When she asked, Aunt Hillary said there were two reasons for her change of heart. First, she was pleased that the more realistic sales projections left Sue enough money to live on so she would be able to keep her enthusiasm for the hard job of creating a new business. Second, she had sold a small piece of land for more than expected and now had the money to lend.

Secondary Sources of Financing for Start-Ups or Expansions

Let’s assume you have tried all of the primary sources of financing small businesses at least twice, and have been turned down each time. Is it time to head for the showers? Not if you really want to start your business. If everyone turns you down, you have no choice but to get creative. Remember Knute Rockne’s exhortation, “Winners never quit and quitters never win.” Here are some suggestions.

Small Business Administration

Many years ago, Congress recognized both that small businesses provide most of the employment and growth in the country and that they have a great deal of trouble borrowing money because large corporations tend to hog too much of the loan money from banks. As a result, Congress created the Small Business Administration (SBA) and several other government organizations specifically to help small businesses compete with larger corporations for loans.

While the SBA can make direct loans to small businesses, it usually guarantees loans from commercial banks. Under its 7(a) loan program, the SBA will guarantee 85% of a bank loan up to a maximum of \$5 million; the SBA's maximum exposure is \$3,750,000, however, so if your business receives an SBA-guaranteed loan for \$5 million, the SBA's maximum guarantee to the lender will be \$3,750,000 or 75%. To qualify for an SBA 7(a) loan, you must meet SBA criteria, such as having reasonable invested equity and not being delinquent on any existing debt obligations to the U.S. government.



RESOURCE

For more information on 7(a) loans and other SBA loan programs, see the SBA website (www.sba.gov/funding-programs). The SBA offers a variety of programs, such as a microloan program, and its website includes useful information on other types of financing, such as venture capital.

Small Business Investment Companies (SBICs)

A Small Business Investment Company (SBIC) is a corporation established with the assistance of the SBA to lend money to small businesses. An SBIC can borrow up to two or three times its invested capital from the SBA. It then lends out these funds to other businesses, aiming to make a profit on each loan transaction. There are hundreds of SBICs across the country, each with different investment goals and

objectives. The SBA website has more information on SBICs, including a directory of licensees by state (www.sba.gov/sbic).

USDA Rural Development

This loan program is aimed at businesses that provide jobs in rural America. Business loans through the U.S. Department of Agriculture's Rural Development program (formerly the Farmers' Home Administration or FmHA) are guaranteed in towns with a population of 50,000 or less or in suburban areas where the population density is no more than 100 per square mile. Use of the loans varies considerably; loans have been made to enable a grocery clerk to buy the store he worked in and for someone to buy a McDonald's fast food franchise. Rural Development loans are normally made through a local bank. For information on these loans click "Programs & Services" at the USDA Rural Development website (www.rd.usda.gov). At the website you can also locate the nearest USDA Service Center. Loans under this program often take months to complete, so allow plenty of lead time.

Business USA

For one-stop shopping on government loan programs and services for small businesses, check out the federal government's website for small businesses (www.usa.gov/business), which offers extensive information, including special financing programs for veterans and businesses serving distressed communities and state-by-state links to resources for starting a business.

Overseas Private Investment Corporation (OPIC)

OPIC (www.opic.gov) is a self-funded U.S. government agency that makes direct loans and loan guarantees and insures private businesses against political risks in developing countries. The ideal candidate for assistance is an American company that enters into partnership with a well-established foreign business.

Insurance Companies and Pension Funds

You may have heard about the possibility of borrowing money from insurance companies or pension funds. Normally, neither is a viable lending source for small businesses. Some insurance companies have a small fund they can invest in businesses, especially if you can offer a combination of loans and investments. However, most small businesses will find money from less restrictive sources long before they make an application to an insurance company.


Selling Stock

Selling corporate stock to the general public through a public offering is very different from selling stock to your friends, relatives, and business acquaintances. Unless your corporation qualifies for an exemption, you must register every issuance of corporate stock with the federal Securities and Exchange Commission (SEC) and the state securities agency. Registration takes time, costs money, and requires a knowledgeable attorney. It can be an expensive, time-consuming process that can easily cost hundreds of thousands of dollars in attorneys' fees, accounting fees, and printing expenses just to meet government filing costs.

Fortunately, however, smaller corporations usually qualify for state and federal securities laws exemptions. For more information about SEC small business exemptions, visit the SEC website (www.sec.gov/smallbusiness). The question and answer portion under “Exempt Offerings” contains a great deal of useful information in easy-to-understand language.

Conclusion

There you have it—the primary and some secondary sources of finding money to start your business. If you really believe in your idea, complete the business plan outlined in the rest of this book. Then contact all the sources listed above. If you have a good plan and refuse to take “No” for an answer, you will find the money you need. The Chinese say the longest journey begins with a single step. Let's get started.



Your Résumé and Financial Statement

Draft Your Business Accomplishment Résumé	100
Draft Your Personal Financial Statement	110
Determine Your Assets	111
Determine Your Liabilities	117
Determine Your Net Worth	120
Determine Your Annual Income.....	120
Determine Your Annual Living Expenses.....	124
Complete Your Personal Financial Statement	127
Verifying the Accuracy of Your Financial Statement	127

In this chapter, you'll draft two important documents for your business plan:

- a **special business accomplishment résumé** that focuses on those abilities you'll need to start or expand your business, and
- a **financial statement**, which details the value of your material possessions.

Draft Your Business Accomplishment Résumé

Investors and lenders want to be certain that you have the experience, education, and desire to make your business a success. Your résumé shows your backers that you can achieve your objectives. This isn't a traditional résumé that lists past jobs and the years or months you held each. More correctly, you'll develop a statement of everything you have accomplished that has a direct bearing on your business objectives.

Although you may not have owned or expanded a business before, you have accomplished some demanding tasks that are similar to the tasks you'll undertake when you begin your business. But don't fool yourself into thinking that good credentials alone will get a loan from the first person you approach. When it comes right down to it, few people will part with their money unless they also have a positive feeling about you as a person. Your task is to get them to trust and like you as a businessperson.

If you're like most people, your glowing accomplishments are sprinkled with past mistakes and failures. Everybody makes mistakes, including your backers. Be honest in your résumé but don't go overboard. You don't need to give a litany of every sin you have committed, including the time you skipped algebra class in the seventh grade. Only provide details of your errors when they're relevant to your business plan. For example, if you ran a business for five years and eventually went bankrupt, you'll need to mention that.

Be prepared to talk with prospective investors and lenders about everything you present in your résumé. The best way to build trust in a financial relationship is to communicate with full disclosure. The worst thing you can do is to lie about or try to cover up a negative. (See Chapter 10 for suggestions about how to discuss your past mistakes.)

Now that that's out of the way, let's deal with the important, positive information: How do you demonstrate that you're qualified to run a business? As with anything else, there are some tricks to writing a résumé that will interest a potential investor.

First, make a list of every job and experience in which you produced positive accomplishments for any organization, even if you were a volunteer or working for yourself. Since you're not writing a standard résumé, dates of employment are optional. You may be able to create this list by cutting and pasting old résumés, or you might just start from scratch. Also, it's okay to include personal information about your hobbies and family status in this résumé. Your financial backers want to know you as a person.

Under each organization, list the business areas you worked in—for instance, sales, management, delivery, credit, and so on. Now, set out the specific things you accomplished for that organization while carrying out your responsibilities. This information will become the raw material from which you choose the accomplishments most likely to support your proposal.

Remember, this isn't the place to be humble. Getting a new business off the ground is no project for the meek. Maybe you reduced costs for your employer by redesigning a delivery route. Perhaps you designed a better canoe or came up with a new marketing strategy that increased sales of tortilla chips. Maybe you figured out how to improve the efficiency of a computer system or revised a recipe to make brownies taste better.

Once you've completed your first list of accomplishments, write a statement that shows how your specific accomplishments relate to your ability to run your business. Include experiences and achievements that support your case and exclude those that are too general or off the point. Emphasize your knowledge of how your potential business works and your knowledge of and respect for financial realities.

Now that you understand the process and the objective, write a first draft of your business accomplishment résumé. You may have to rewrite it several times to get the right perspective. Depending on your experience, your résumé probably should be between one and three pages long. Ask someone to read your drafts to make sure you're convincing the reader that you're the right person for the job. You needn't prove you can walk on water, but you should show a good understanding of business realities.

EXAMPLE 1: Here's an example of an inadequate statement for a credit manager's job. This description doesn't give a potential investor any information about the credit manager's ability to run a business:

Credit Manager, XYZ Company: Supervised two clerks and the accounts receivable and billing sections.

EXAMPLE 2: Here is a much better version that details the credit manager's positive accomplishments for the company. It shows that the credit manager understands and can improve critical business factors:

Credit Manager, XYZ Company: Managed a credit department of ten people, consisting of an accounts receivable section, a billing section, and a delinquent accounts section. Reorganized both our collection department and our credit-granting process to accomplish the following:

- Collected \$200,000 in delinquent accounts that had previously been consigned to the “unlikely to ever collect” category. This was a result of my decision to keep in closer contact with customers.
- Reduced accounts receivable from an average of 90 days to an average of 38 days, considerably below the industry norm, again primarily by getting to know our customers better.
- Reduced bad debt losses from 4% of sales to 0.5% of sales in two years by streamlining the credit application process and credit checking procedures as well as requiring our sales reps to personally vouch for customers’ creditworthiness. Maintained the 0.5% loss percentage in the following years. As part of this, we successfully brought 15 lawsuits with no new staff.
- Through sales conferences, newsletters, and frequent phone contact, worked closely with the sales force to ensure that new accounts were creditworthy. During this time, XYZ sales grew from \$3 million to \$7 million.

The following two résumés—Jim Phillips’s and Ella Baldwin’s—share two important attributes:

- knowledge of the particular business the individual wants to start, and
- specific business accomplishments.

In this respect they are somewhat different from many typical job application résumés. For example, a potential employer might be concerned about whether your independent personality will fit in well in a job environment, where these résumés focus on concrete accomplishments.

Jim Phillips wants to start a retail computer store. Here’s how he drafts his résumé.

Résumé

James T. “Jim” Phillips
17 Main Street, San Jose, CA 95112
408-555-1234, james@james.com

WORK EXPERIENCE

Manager, The Computer Store, San Jose, CA (20xx to present)

Manager of chain retail computer and electronic store with annual sales of three million dollars.

- Hired, managed, and fired sales and support staff of 15–20 to meet sales goals established by chain management.
- Developed promotional plans and merchandising strategy, which resulted in the store exceeding sales and profitability goals by at least 10% each year.
- Created a computerized inventory plan used by all stores in the 62-store chain. Received Manager of the Month award seven times.
- Conceived and implemented a quarterly newsletter (Compufacts) that was mailed to all 62 stores’ customers. Enabled us to maintain close contact with customers as well as directly market to them.

Self-employed Software Sales Representative, San Jose, CA (20xx to 20xx)

Acted as independent sales representative for three software developers: Softy, Inc. (Cupertino, CA), Biosoft (Colorado Springs, CO), and Playtime (San Jose, CA).

- Increased sales of all three, enabling them to expand and hire more programmers.
- Developed a comprehensive knowledge of the software marketing process. Helped organize a money-back, no-questions-asked warranty program.

Computer Programmer, Southern Atlantic Railroad Company, San Jose, CA (20xx to 20xx)

Worked in FORTRAN, COBOL, and BASIC languages on IBM mainframe computer doing real-time applications on freight car locations as well as miscellaneous business programming.

- Saved the company approximately \$2.3 million by designing a better program to handle both automatic banking and collection of receivables.
- Helped design a new freight car location computer program, which resulted in an increase in car utilization from 60% to 65%.

Bookkeeping

I had several part-time jobs doing bookkeeping while attending programming school.

EDUCATION

Bachelor of Arts Degree, History, San Jose State College, 20xx

Master of Arts Degree, History, University of California, Berkeley, 20xx

Certified Programmer, ACME Programming School, 20xx

HOBBIES

Active in Boy Scouts and United Way; handicap golfer.

The next résumé is for Ella Baldwin. Ella loves to work with fabrics and color and has become expert at helping people create a pleasant living and work environment. She needs money to open her own small interior decorating business. Ella Baldwin's résumé typifies people who see their potential business as offering a chance for self-expression, as well as profit. Individuals in an arts or crafts field, like Ella, often want to begin a business primarily to work in an area they love.

The statement for Stephen Brinkle is typical of a person with good general business experience but no work history in the particular business he wants to start. Stephen Brinkle is an attorney who wants to start a gourmet, vegetarian, and low-fat hot dog stand in downtown Chicago. He needs to convince a lender that his general business experience substitutes, at least in part, for his lack of frankfurter finesse. He accomplishes this by demonstrating that he knows enough to hire a manager with enough experience to squeeze the mustard and shake the ketchup.

If you don't possess all the skills needed to run your business, you'll also want to hire people to fill in the gaps. If possible, those résumés should be included in your plan. Because Stephen Brinkle doesn't have experience in selling food, he includes a résumé for his key employee, Jonathan Brinkle, who happens to be his nephew.

Résumé

Ella Baldwin

**3 Leabrook Way, Somerset, N.J. 08873
732-555-9876, sbaldwin@interiordesign.com**

Commission Sales, Martha's Interior Design Studio, Somerset, N.J. (20xx to present)

Work on commission for a full-line interior design studio. Prospect for people who wish to redecorate, prepare a design plan for the project, purchase the supplies and materials necessary, hire workers to install the design, and collect payments from customers.

- Last year I sold over \$500,000 worth of projects. The projects consisted of seven complete remodeling jobs, including three offices, one house, two apartments, and a small pet hospital.
- Keep up with all aspects of the business such as new trends, materials, and suppliers. I take continuing education courses at the Design Institute in New York City, and attend at least a dozen textile, furniture, and appliance trade shows per year.
- Maintain a substantial list of contacts in the design field, including potential customers, contractors, and suppliers.

Commission Sales, J.C. Dollar Interior Design Company, Princeton, N.J. (20xx to 20xx)

Sold drapes and furniture for J.C. Dollar on commission. I was responsible for design, installation, and purchase of noncompany products, and account collection.

- Sold nearly one million dollars' worth of company merchandise and won Salesperson of the Year award.
- My sales normally required several visits to the customer's home or place of work and I became expert at dealing with all sorts of people.

EDUCATION

Graduated high school in 20xx, followed by one year at Mount McKinley Junior College.

HOBBIES

Decorating on a low budget; collecting Raggedy Ann Dolls.

Résumé

Stephen Brinkle

**5 Maple Drive, Chicago, IL 60610
773-555-4578, sbrinkle@brinkle.com**

ATTORNEY IN PRIVATE PRACTICE, Chicago, IL

Specialize in business law matters, along with some general civil law practice.

BUSINESS INVESTMENTS

I have successfully invested in a variety of small businesses, including an auto tune-up shop and a sporting goods store, which I currently own (Bill's Track and Court, 11 Van Renseller Blvd., Chicago).

In some of my small business investments, I took an active role in management. For example, in the tune-up shop, I had to fire the manager and locate more qualified mechanics. After doing that, the business became profitable and I sold it at a profit. In Bill's Track and Court, the manager and I agreed to concentrate on tennis and running equipment. As a result, the store became considerably more profitable.

EDUCATION

B.A., Northwestern University, History, 20xx

J.D., Northwestern Law School, 20xx

Passed Illinois bar exam, 20xx

HOBBIES

Squash

COMMUNITY INVOLVEMENT

Active in various charitable organizations specializing in relieving worldwide hunger.

Résumé

Jonathan “Johnny” Brinkle

5678 Palatine Boulevard

West Chicago, IL

312-556-1314

johnnyb@brinkle.com

CAREER PLANS

Manage hot dog stand, become area manager if franchise plans develop.

WORK HISTORY

MANAGER, BURGER WORLD RESTAURANT, Chicago, IL (20xx to date)

Supervised three shifts (20 employees in all). Before I took over, Unit 211 had sales of less than two-thirds the Burger World national averages. In two years I brought Unit 211 up to surpass the national averages. My main strategy was to maintain tight quality control and to improve the cleanliness and general appearance of the unit. Within six months after I took over, we began getting top ratings for general appearance and cleanliness from Burger World and many compliments from customers.

MANAGER TRAINEE, JACK IN THE BOX RESTAURANTS, Chicago, IL (20xx to 20xx)

I was trained in fast food management at a number of Jack in the Box locations. The principal training method was to rotate me through every job in the operation. I learned to adjust cooking to demand so that customers always received freshly cooked food. I also learned that the cleaner the restaurant, the more food you sell.

EDUCATION

Graduated Northside High School, 20xx

HOBBIES

Restoring a 1968 Ford Mustang; playing softball

Draft Your Personal Financial Statement



SKIP AHEAD

Not looking for financing? You can skip the rest of this chapter unless you are seeking a loan or investors for your business.

Your personal financial statement will list your personal assets, liabilities, income, and expenses. It tells your backers a lot about your ability to handle money. Don't be discouraged if your financial condition is weak. Your backers want to know about you, the good and the bad, and they understand that you need money.

Preparing this statement in a form lenders are used to seeing involves several steps, which this chapter will take you through step by step. As you'll see, the task is not much harder than filling out a credit application.

Drawing up a good personal financial statement isn't difficult, but it does involve attention to detail. I recommend that you do a rough draft first, using the personal financial statement included here.



FORM ON NOLO.COM

You'll find a copy of the Personal Financial Statement on this book's companion page on Nolo.com; see "List of Forms Available on the Nolo Website" at the end of Appendix D for details on accessing this form and all others in this book. Note that formulas have been embedded in the spreadsheet document so that it will automatically calculate relevant totals.

And remember, as mentioned earlier, the figures included in the examples shown in this book (in this case, for the personal financial statement) are for illustration purposes only. Before making any conclusions, you'll need to use numbers that are appropriate to your situation and that are current.

If you already own or have an interest in an existing business, you may wish to include a separate statement of the business's net worth or balance sheet and profit and loss statement. If you own all or a portion

of a business and don't plan to submit a separate statement on the business, include your share of the business on this personal financial statement.

**TIP**

Co-owned property note: If you own an item with others and the other owners will not sign for the loan, enter only the value of your share of the assets and corresponding liability. If all parties will sign for the loan, enter the full amount. Describe the ownership type (joint tenancy, community property, tenants in common, partnership, or separate property). If you're not sure how you own property, look at the deed or other title document.

Determine Your Assets

Your task is to briefly describe and estimate the current value of everything you own, even if you owe money against it. If you're not sure how much a particular item is worth, make an estimate now and verify it later. Give the market value—the price for which you could sell the particular piece of property today.

**CAUTION**

Keep assets separate from income. An asset is a money item or something that you could sell, like a car or a house. Income is money you receive periodically, such as a paycheck. Some assets produce regular income—for example, stocks and bonds that pay dividends, patents with royalty agreements, and promissory notes you own. Only list your assets here; you'll list your income later.

Cash and Cash Equivalents: List the approximate cash balance in each of your financial accounts. Include accounts in banks, savings and loans, thrifts, credit unions, or any other institutions. Identify each by institution name, account type, and number. Also list money market funds, certificates of deposit (including maturity date), and cash in your safe deposit box, buried in the backyard, or any other place you keep cash.

Marketable Securities: List any stocks, mutual funds, and bonds you own that are publicly traded. Show the number of shares or the amount (face value) of bonds, the exchange on which they are listed, and the current market value. The value of stocks is the number of shares owned multiplied by the bid price per share listed in a newspaper business section.

The current cash value for savings or bank bonds is listed on the table printed on each bond according to the number of years since it was issued.

Corporate bonds are listed several places (online and in *The Wall Street Journal* and other newspapers) in relation to their face or par value, with a price of 100 being equal to par. To calculate the value of your corporate bonds, multiply the price listed by their face value and divide by 100.

If you can't find the listing for your securities, call your broker and ask.



TIP

Note about unlisted securities: Call your broker for the value of any stocks that are not publicly traded and enter them under "Other Assets," discussed below.

Cash Value of Life Insurance: If you own whole life insurance policies, they may include a cash surrender value, which will probably be less than the face value of the property. Obtain the value from your insurance agent. If you own term insurance, there will be no cash value, so don't list the policies.

Accounts and Notes Receivable: List only those business assets and other assets that are not shown on a separate financial statement for your business or secured by real property. List each note (loan) people owe you and show the unpaid balance and payment schedule, as well as a description of any property securing the note. Briefly state your relationship to the payer and indicate if the payment of the loan is questionable.

Trust Deeds and Mortgages: Itemize any properties you have sold or lent money against for which you are carrying back a mortgage (deed of trust). Also list notes you hold that are secured by real property. Loans against property you own will be listed under the Liabilities part of the

form. Show the street address of the property, type of improvements (house, duplex, and so on), name of payer, payment terms, and the current unpaid balance. State your relationship to the payer and the status of the note.

Real Estate: Describe each piece of real estate you own. State whether it is unimproved, a personal residence, a rental, or whatever. Include the street address or parcel number of each property. Estimate the market value of your property by checking local newspaper listings and online for your neighborhood, calling a local real estate broker, or comparing the recent sale prices of similar property. If you own valuable property other than your house, it's best to include a written appraisal.

If you own real estate with others and the co-owners are not going to cosign your business loan, describe how title is held, such as, "John Jones as separate property" or "John Jones and Mary Smith in joint tenancy."

Personal Property: Personal property is anything you own that is not real estate. Separately itemize each of the more valuable items like cars, boats, and collections, describing each item in as much detail as possible. Less-valuable property can be grouped together, such as "household furniture," "appliances," or "power tools." You don't need to be overly detailed. Don't forget household items, valuable clothing, jewelry, electronic equipment, musical instruments, and sports equipment.

Estimate the current market value. For cars, start with the high *Edmunds* (www.edmunds.com) or *Kelley Blue Book* (www.kbb.com) price. Jewelry, antiques, and other collectibles should be appraised if you plan to show them as a significant part of your assets. Make a ballpark figure of less-valuable groups of property; garage sale prices should suffice.

Other Assets: List any assets that weren't covered elsewhere. Items such as annuities, IRAs, vested portions of pensions or profit sharing retirement plans, business interests (value of partnerships, etc.), unlisted securities, trusts, life estates, copyrights, patents, trademarks, and so forth should be listed in this section.

Remember not to list the income generated by your assets.

Total Assets: Finally, add up the values of all your property listed on the form. The result is your total assets.

Personal Financial Statement: Mary Brown

ASSETS

Cash and Cash Equivalents

Checking and Savings Accounts (Include Money Market Accounts)

Institution Name	Account Type and #	Current Balance
Bank of Centerville	Checking Acct. #1114443231	\$ 1,876
Thrift Savings	Savings Account #556472	3,000
Total Checking and Savings Accounts		\$ 4,876

Time Deposit Accounts (Include Certificates of Deposit)

Institution Name	Account #	Maturity Date	Current Balance
Charles Chubb Co.	00-12345	1-25-20	\$ 2,000
Total Time Deposit Accounts			\$ 2,000

Cash on Hand/Miscellaneous Cash (Drawers, Safety Deposit Box, Etc.)

Cash at home, travelers checks	\$ 500	
Total Miscellaneous Cash		\$ 500
Total Cash and Cash Equivalents		\$ 7,376

Personal Financial Statement (continued)

Real Estate

Description	Market Value
Personal residence, three bedrm, two bath frame/stucco house, 33324 Being St., Modesto, CA (Approx. 15 years old)	\$ 140,000
Unimproved lot, New City, IL; Parcel #811-2-849. Owned in joint tenancy with my mother, Gertrude Hubbard. Total current market value is \$30,000.	15,000
Total Value of Real Estate	<u>\$ 155,000</u>

Personal Property

Description	Current Value
1958 Buick Century hardtop, good condition	\$ 2,500
2005 Honda Accord	4,000
Stamp collection	2,000
Household furniture	3,500
Total Value Personal Property	<u>\$ 12,000</u>

Other Assets (Include interests in Partnerships and Private-Held Stock)

Description	Current Value
N/A	\$ 0
Total Other Assets	<u>\$ 0</u>
Total Assets	<u>\$ 201,773</u>

Determine Your Liabilities

In your Personal Financial Statement, you'll write down everything you owe to others. To a considerable degree, the information on this form will be the flip side of what you just did. That is, if you showed a house as an asset, you will now list the mortgage on that same house as a liability.

Credit Cards and Revolving Credit Account: List bank cards and revolving accounts at stores and with gasoline companies, and fill in the outstanding balances.

Unsecured Loans: List any unsecured notes to banks, individuals, credit unions, savings and loans, or any other person or institution. These are commonly called signature loans because all the lender gets is your signature on your promise to repay the loan—you don't pledge any collateral. Examples include student loans and loans from relatives. State the lender and terms of payment, including any balloon payments and when the loan will be paid in full, as well as the outstanding balance.

Loans Secured by Real Estate: List each note and deed of trust you owe. State the property by which it is secured and the terms of payment, including any balloon payment and when the note will be paid in full, as well as the unpaid balance.

Loans Secured by Personal Property: List any loans secured by equipment, vehicles, business inventory, or anything other than real estate. Show the payee, unpaid balance, security, terms of payment, including any balloon payment, and when the note will be paid in full.

Loans Against Life Insurance Policies: If you borrowed against a whole life insurance policy, list the insurance company, terms, and outstanding balance.

Other Liabilities: List whatever else you currently owe. This may include unpaid medical bills, tax liabilities, unpaid lawyer bills, unpaid alimony or child support, and debts to bookies.

Total Liabilities: Add up all the amounts you owe others. The result is your total liabilities.

Personal Financial Statement: Mary Brown

LIABILITIES & NET WORTH

Credit Cards and Revolving Credit Accounts

Name of Creditor	Amount Owed
VISA (Bank of Centerville)	\$ 1,600
American Local	290
Total Credit Cards and Revolving Credit Accounts	\$ 1,890

Unsecured Loans

Bank (or other lender)	Terms	Amount Owed
Merchant's Bank	interest only quarterly at prime + 2%, due 9/1/xx	\$ 5,000
Total Unsecured Loans		\$ 5,000

Loans Secured by Real Estate

Bank (or other lender)	Terms	Amount Owed
Bank of Centerville	First trust deed and note on personal residence: Fixed rate (10%); 30 years ending 20xx	\$ 87,583
Abner Small	Mortgage on unimproved lot; monthly interest only at 18%, to be paid off January 1, 20xx	10,000
Total Loans Secured by Real Estate		\$ 97,583

**CAUTION**

Check for consistency. Before you go on, carefully compare the information on your assets and liabilities lists. Make sure they are consistent. For instance, make sure that you show assets for which you show liabilities and vice versa.

Determine Your Net Worth

To calculate your net worth, simply subtract your total liabilities from your total assets. (If you are using the Personal Financial Statement form available on this book's companion page—see Appendix D for instructions on accessing this form—the spreadsheet program will automatically calculate this amount.)

In the last blank, add together your total liabilities and net worth. This figure should match your total assets. If it doesn't, you've made a mathematical error.

**CAUTION**

If your total liabilities are more than your total assets, your net worth will be a negative figure and you'll need to place brackets around the number. Of course, people with a negative net worth frequently have difficulty borrowing money and may have to consider another form of financing, such as selling equity in the business. (See Chapter 4 for information about raising money.)

Determine Your Annual Income

The next part of the Personal Financial Statement shows your income from all sources. These figures show the annual total of each income source, so don't confuse this with the asset section completed earlier. However, if you show any income from an asset in this section, make

sure you also list that asset in the asset section. This form should reflect your current situation and show your present salary, even if you'll quit your job to start the new business.



TIP

Note about cosigners: If someone else will guarantee the loan with you—such as your spouse—fill in the requested information for that person as well.

Gross Salary and Wages: List all the sources of your income, including wages, earnings from your business, and independent contractor work.

Income From Receivables and Loan Repayments: If anyone owes you money, list the annual payments you receive. If you have substantial income from loans, you may list interest income and principal repayments separately. Otherwise show the entire repayment amount.

Rental Property Income: If you rent out real property or valuable personal property like a truck or piano, list the annual rental payments here. Include relevant details, such as your plans to raise the rent in six months.

Dividends and Interest: List the source and annual amount you expect to receive. Make sure that the information shown here corresponds to information you have shown in the Assets portion of your Personal Financial Statement. For example, if you list dividend income from several stocks and bank accounts here, they must be listed in the Assets portion.

Income From Business or Profession: If you already own a business, list the annual income.

Other Income: Describe any other source of income, such as payments from judgments, payments from business investments other than your main business, trust fund payments, and so forth. It's generally a good idea to list alimony and child support payments you receive, since it increases your ability to repay any loan.

Total Annual Income: Add up the income you receive from all sources and fill in the total.

Personal Financial Statement: Mary Brown

ANNUAL INCOME

Gross Salary and Wages

Source	Annual Amount
Consolidated Console, Inc.	\$ 35,000
Primavera Community College	4,500
Pine Tree Unified School District	20,000
Total Gross Salary and Wages	\$ 59,500

Income From Receivables and Loan Repayments

Person Owing	Terms	Annual Amount
Jack Sprate, nephew	8% interest; unsecured, \$106.25/mo.	\$ 1,275
Total Receivable and Loan Repayment Income		\$ 1,275

Rental Property Income

Source	Annual Amount	
27 Fruitvale St., New City, IL	\$ 3,600	
Total Rental Property Income		\$ 3,600

Personal Financial Statement (continued)

Dividends and Interest

Source	Annual Amount
General Computer (50 shares)	\$ 780
Thrift Savings (interest on savings account—\$3,000 at 5%)	150
Total Dividends and Interest	\$ 930

Income From Business or Profession

Description	Annual Amount
N/A	\$
Total Income From Business or Profession	\$ 0

Other Income

Description	Annual Amount
Child Support (former husband)	\$ 2,500
Total Other Income	\$ 2,500
Total Annual Income	\$ 67,805

Determine Your Annual Living Expenses

The goal of this part of the form is to make an accurate estimate of how much it costs you to live. Business expenses should be covered under a separate profit and loss statement for the business.

Real Estate Loan Payments or Rent: List your mortgage holder or landlord and your monthly payment. Indicate whether you rent or own. Fill in the annual total of all your rental or real estate loan payments, including principal and interest.

Property Taxes and Assessments: List your yearly liabilities if you own real property. Also list business non–real estate property, such as inventory or equipment, if it is taxed every year and the taxes are not shown on statements for your business.

Federal and State Income Taxes: Show your totals from last year’s income tax forms. If this year’s taxes will be very different from last year’s, make an estimate. Especially if you’re an independent contractor, you may want an accountant to help you prepare your estimated taxes for the year.

Other Loan Payments: List payments for all of the non–real estate loans, notes, charge accounts, and credit cards you listed in the Liabilities part of the form. Use last year’s numbers unless they have changed substantially; if they have, append a sheet and explain.

Insurance Premiums: List everything you expect to pay for the year that won’t be covered through your job. Common types of insurance include life, health, disability, property, and automobile.

Living Expenses: Estimate your other regular personal living expenses that weren’t covered earlier, such as utilities, child care, medical and dental costs, transportation, food, clothing, entertainment, and travel. Either provide an itemized list or a general category of expenses.

Other Expenses: List child and/or spousal support obligations and any other expense not listed above, like art collection purchases or vacation trips. Include professional associations that have continuing education expenses and club membership fees.

Personal Financial Statement: Mary Brown

ANNUAL EXPENSES

Real Estate Loan Payments or Rent

Mortgage Holder/Landlord	Rent or Own?	Annual Payment
Bank of Centerville, 1st deed on residence, monthly payment \$895	Own	\$ 10,740
Abner Small, 1st deed on unimproved lot, split \$380 monthly payment with my mother, co-owner	Own	2,280
Total Real Estate Loan Payments or Rent		<u>\$ 13,020</u>

Property Taxes and Assessments

Property Taxes/Assessments	Annual Payment	
Winchester County real estate taxes	\$ 1,250	
Total Property Taxes and Assessments		<u>\$ 1,250</u>

Federal and State Income Taxes

Description	Annual Payment	
IRS	\$ 3,000	
State	898	
Total Income Taxes		<u>\$ 3,898</u>

Other Loan Payments

Creditor	Annual Payment	
VISA (Bank of Centerville)	\$ 1,600	
American Local	290	
Total Other Loan Payments		<u>\$ 1,890</u>

Personal Financial Statement (continued)

Insurance Premiums

Insurance Company	Type of Policy	Annual Payment
Reliable Insurance	Whole life	\$ 1,164
Total Insurance Premiums		<u>\$ 1,164</u>

Living Expenses

Description	Annual Payment	
Food, clothing, entertainment, etc.	\$ 22,000	
Total Living Expenses		<u>\$ 22,000</u>

Other Expenses

Description	Annual Payment	
Child support payments per year	\$ 3,150	
Total Other Expenses		<u>\$ 3,150</u>
Total Annual Expenses		<u>\$ 46,372</u>

Date: 3/7/20xx Signature: Mary Brown

Total Annual Expenses: Now add up all your expenses. (If you are using the Personal Financial Statement form included on the companion page on Nolo.com—see Appendix D—the spreadsheet program will automatically calculate your expenses.) If your total is greater than your annual income total above, examine the information carefully before you consider borrowing money with a fixed repayment schedule.

Complete Your Personal Financial Statement

If you have not already done so, print out your spreadsheet. Make sure you sign and date your completed form; you'll be surprised at how fast things change.

As noted above, many financial institutions prefer their own forms, which they will supply you. However, chances are that you won't have to redo your Personal Financial Statement or, if you do, it will be easy.

Verifying the Accuracy of Your Financial Statement

Potential lenders probably will want to verify your financial statements. Tax returns for the last two or three years are normally adequate to back up your income and expense statements. If your actual income is somewhat greater than your tax returns show, be ready to verify your assets in some other way. But don't worry too much about this sort of disparity unless it is large. Your lender will not be surprised if your actual income is a shade higher than your reported income. His probably is, too.

In addition, lenders usually obtain a personal credit check from a credit information agency on your track record in making payments. That shows what bills you pay and when, as well as any unpaid bills. Credit reports also list your current employment, lawsuits in which you're involved, and bankruptcies filed in the last ten years. It's a good idea to request your own copy of your credit report before you meet with any prospective lenders. That way, you'll know what they will see and will be prepared to discuss it.



RESOURCE

You can get a free copy of your credit report from AnnualCredit Report.com. For more information on credit reports, including advice on how to challenge any information you find that is inaccurate or misleading, check the Federal Trade Commission website (www.consumer.ftc.gov/topics/money-credit).

Most of the time, lenders will accept your estimates of your personal assets and liabilities on your Personal Financial Statement, since it is a crime to knowingly make false financial statements.

Banks will also verify your cash deposits by contacting the relevant institutions. Also, lenders will want evidence of your title to property they take as security for a loan.



Your Profit and Loss Forecast

What Is a Profit and Loss Forecast?	131
Determine Your Average Cost of Sales	132
Complete Your Profit and Loss Forecast	136
Review Your Profit and Loss Forecast	152
How Your Profit and Loss Forecast Relates to Your Income Tax Return	153

Your next job is to forecast how much money you'll need. You can't make realistic financial projections in a vacuum; they must be integrated into a thought-through plan. As a result, you'll need to make a number of decisions about how your business will operate and forecasts of financial results. But don't let this intimidate you. You've probably been thinking about the financial side of your business for some time. You will inevitably need to make some assumptions and even a guess or two. Of course, you should make your projections as accurate as possible; shoot for an accuracy rate of plus or minus 10%.



SKIP AHEAD

Project development note: If you plan to do a project development, skip the rest of this chapter and go on to Chapter 7. Then turn to Appendix C, where you will find a project development example.

As you begin dealing with all the details inherent in financial projections, it is easy to lose perspective and forget the larger picture—that is, what all your work is supposed to prove. If this happens, pause for a moment and remember that, for yourself and your potential backers, you're simply figuring out:

- how much money you need
- what you will spend it on, and
- how you will pay it back.



TIP

If you've chosen the quick plan method to prepare a business plan (see Introduction), you need to read and complete the section "Complete Your Profit and Loss Forecast," below.

If you have any difficulties completing your Profit and Loss Forecast, go back to Chapter 3 and read the section entitled "Break-Even Analysis: Will Your Business Make Money?" before completing this step. If you've chosen a quick plan, you should be able to complete this step easily.

What Is a Profit and Loss Forecast?

A Profit and Loss Forecast is a projection of how much you will sell and how much profit you will make. This is the foundation of your business plan. It gives you and your potential backers the basic information necessary to decide whether your business will succeed. Basically, a Profit and Loss Forecast forces you to estimate how many dollars you will take in and how many dollars you will spend for some future period. While other extremely important factors affect your business, such as your cash flow (Chapter 7), you'll be in good shape if you can confidently predict that the money coming in will exceed the money going out by a healthy margin.

In Chapter 3, you completed a rough break-even analysis for your business. That analysis helped you decide whether you chose the right business. Now we are going to take a closer look at those numbers and develop them into a comprehensive forecast of your business's future profits. (If you did not complete or don't remember the work you did then, review the section in Chapter 3 entitled "Break-Even Analysis: Will Your Business Make Money?")

Your business's profits result from three specific dollar figures:

- **Sales revenue.** This is all the money you take into your business each month, week, or year. It is also called "gross sales," "sales income," or simply "sales."
- **Cost of sales.** This is your direct cost of the product or service you sell. Sometimes it is called "direct product cost," "variable cost," "incremental cost," or "direct cost."
- **Fixed expenses.** These are sometimes called "overhead," and you must pay them regardless of how well you do. Fixed expenses don't vary much from month to month. They include rent, insurance, and other set expenses. They are also called "fixed costs," "operating expenses," "expenses," or "discretionary costs" (discussed in the section in Chapter 3 entitled "Break-Even Analysis: Will Your Business Make Money?").

In a given period, you make profits when sales revenues exceed your total cost of sales and fixed expenses. To put it another way, sales revenue minus both cost of sales and fixed expenses equals profits or losses for a given time period.

Our job here is to examine closely all the above numbers and, once you are convinced they are right, to present them on a month-by-month basis for two years. Two years is enough time to see if any short-term problems or long-range trends begin developing. Of course, you can change the time frame if necessary. For instance, if you are starting a beer stand for the annual county fair or a vineyard with a five-year growing cycle, a different time frame will make sense for you.

Determine Your Average Cost of Sales

Your first step in your profit and loss projection is to determine your average cost of sales—that is, your direct cost of the products or services you sell. You'll use the Sales Revenue Forecast you completed in Chapter 3 to make this estimate.

One way to derive your average cost of sales is to estimate your annual sales revenue for each product or service. Then calculate each product's annual cost of sales. Finally, add up the numbers to get an annual average.

More Detailed Method to Determine Average Cost of Sales

Another way to calculate your average cost of sales is to make a separate monthly sales revenue and cost of sales forecast for each of your major product or service lines. If you complete a separate monthly forecast for each of your product or service lines, you will have a very detailed forecast. However, many people balk at this level of detail in forecasting and wish to proceed with the less-detailed method demonstrated in this section. Either way is acceptable.



CAUTION

Whether you make one annual cost of sales forecast or a number of detailed forecasts, don't forget about the inevitable percentage of merchandise you will have to move at marked-down prices. Whether you're in the book business, bake cookies, or are a child psychologist, chances are you will commonly sell some of your product or services for less than standard prices. This may be because you need to move out last year's styles, you need to sell broken cookies, or you provide counseling cheaper to low-income groups.

EXAMPLE: Antoinette plans to sell clothing items for an average price of \$250 each, and her research shows they will cost an average of \$125 each. Her cost of each sale before she allows for labor and other overhead will be 50% of the selling price. If she plans to give her customers anything with the purchase, such as a specially printed shopping bag, she should include the cost of these items as part of her cost of sales. Maybe this will make her cost of each sale 51% or 52% instead of 50%. Since Antoinette plans to sell accessories as well, she needs to allow for different gross profit margins for the additional merchandise.

A cost of sales averaging chart for Antoinette's Shop might look like this:

Annual Average Cost of Sales Chart: Antoinette's Shop

Item	Forecast Sales Revenue	Cost per Sale*	Total Cost of Sales
Regular clothing	\$ 520,000	50.4%	\$ 262,080
Accessories & sale items	<u>500,000</u>	73.3%	<u>366,500</u>
TOTAL	<u>\$ 1,020,000</u>		<u>\$ 628,580</u>

Total Average Cost of Sales = 61.8% ($\$628,580 \div \$1,020,000$)

*These percentages come from Chapter 3, where Antoinette calculated gross profit. To get cost of sales percentage, simply subtract gross profit percentage from 100%. The remainder is cost of sales. (You already calculated this on Line 6 of the table "Gross Profit Calculation for Antoinette's Shop" in Chapter 3.)

Here's how Antoinette completed this chart. First, she estimated how much sales revenue for each of the product categories the shop would receive in the first year; that enabled her to complete the first column of the chart.

Next, she obtained her cost of sales percentage by using the figure she developed in Chapter 3. She then multiplied the sales revenue for each product category by the cost of sales percentage for that category; that enabled her to complete the total cost of sales column of the chart.

The average total cost of sales figure (61.6% in Antoinette's example, rounded to 62%) is not an average of the cost per sale percentages. Instead, it is weighted according to the amount of expected sales revenue and is derived by dividing the total cost of sales by the expected sales revenue ($\$628,580 \div \$1,020,000$).

An average cost of sales of about 62% is reasonable for many profitable retailers. Even though it is wise to be a little conservative, Antoinette uses 62% as her cost of sales when forecasting profits.

You can use the procedure in the example above to estimate your average cost of sales if you're in the retail, manufacturing, or wholesale businesses. Simply modify the item categories to fit your business. For example, a restaurant would have categories for food, nonalcoholic drinks, liquor, beer/wine, and possibly take-out orders. Another example, for a bar and restaurant, is shown below.

Annual Average Cost of Sales Chart: Bar and Restaurant

Item	Forecast Sales Revenue	Cost per Sale	Total Cost of Sales
Food	\$ 300,000	38%	\$ 114,000
Liquor	60,000	29%	17,400
Beer/wine	<u>40,000</u>	75%	<u>30,000</u>
TOTAL	<u>\$ 400,000</u>		<u>\$ 161,400</u>

Total Average Cost of Sales = 40% ($\$161,400 \div \$400,000$)

By definition, service businesses sell services or labor and do not sell merchandise. Occasionally they may bill a client for a service they purchase outside the firm or bill for a service that has some incidental costs. The cost of sales portion of a service business's total costs will be low. For example, a consulting firm may incur outside printing and report binding expenses that will vary somewhat with every sale. Most expenses, such as salaries and rent, will be fixed costs and won't appear on this chart. Service businesses should follow the example below of the consulting business.

Annual Average Cost of Sales Chart: Consulting Firm

Item	Forecast Sales Revenue	Cost per Sale	Total Cost of Sales
Publications, phone, travel	\$ 100,000	20%	\$ 20,000
Contract services (printing, etc.)	50,000	75%	37,500
Studies, consultations	<u>527,000</u>	0%	<u>0</u>
TOTAL	<u>\$ 677,000</u>		<u>\$ 57,500</u>

Total Average Cost of Sales = 8.5% ($\$57,500 \div \$677,000$)



CAUTION

Include piece-rate and commission costs. Note that some businesses pay workers on a piece-rate or commission basis. All your costs that vary with each sale should be in cost of sales instead of fixed expenses.

When you've completed your cost of sales calculations, you are ready to prepare your Profit and Loss Forecast.

Complete Your Profit and Loss Forecast

Follow the line-by-line instructions below to complete your form. Remember, as mentioned several times, the figures included in the examples shown in this book (in this case, for the Profit and Loss Forecast) are for illustration purposes only: Before making any conclusions, you'll need to use numbers that are appropriate to your situation and are current.



FORM ON NOLO.COM

You'll find a formatted copy of the Profit and Loss Forecast on this book's companion page on Nolo.com; see "List of Forms Available on the Nolo Website" at the end of Appendix D for details on accessing this and all other forms in this book. Note that the formulas have been embedded in the spreadsheet document so that it will automatically calculate relevant totals. For instance, you can enter the cost of sales percentage in Column B in the spreadsheet (where it is marked "(%here)" in red) and enter the relevant sales revenue in Column C. The spreadsheet program will automatically calculate your gross profits. (Note: If a series of #### symbols appear in a box in a spreadsheet, that means that you need to widen the column in order to display the numbers.)

1. Sales Revenue. You have completed this estimate already. Simply enter the total sales revenue dollars for each month for two years from the Sales Revenue Forecast you completed in Chapter 3.



CAUTION

Here's another chance to revise the sales revenue numbers in case you think they need work. However, be sure you really believe that you can generate all the revenues you forecast. Make sure you don't do it backwards by writing down enough sales revenue to show the profits you want. Otherwise, you'll have to explain to your backers each month why things aren't as good as you said they would be.

2. Less: Cost of Sales. Enter your monthly dollar cost of sales. To get these figures, multiply your monthly sales revenue forecast by the average cost of sales percentage. Returning to our clothing shop example, Antoinette would multiply her monthly sales figure estimate by 62% (or 0.62). For example, if March sales are forecast at \$83,000, the cost of sales for March would be \$51,460 ($0.62 \times \$83,000$).

Your cost of sales figures are calculated just like Antoinette's example, "Gross Profit Calculation for Antoinette's Shop," in Chapter 3. In that calculation, Antoinette subtracted the total cost of selling one item from the item's selling price. Total costs for the item are called cost of sales for the item, and the difference between cost of sales and selling price is called gross profit. For convenience's sake, Antoinette grouped all her items into two broad categories (regular clothing and sale clothing/accessories) that represented all her merchandise. You should do the same for your items. Hopefully, you have already done this calculation as Antoinette did in calculating her gross profit. Now is the time to review your earlier figures to see if you want to make any changes, or complete them for the first time if needed. Enter the sales revenues on the first line of the Profit and Loss Forecast, and the cost of sales on Line 2. It is easier to use percentages of revenue to estimate monthly total cost of sales, but if you have a more detailed calculation, you can use that.

**TIP**

If you made separate forecasts of sales revenue, cost of sales, and gross profit for each product line, then add together all the gross profit numbers and enter them on a summary form Line 3. You will have prepared separate forms for each product line for the first three lines (sales revenue, cost of sales, and gross profit) and a summary sheet showing total gross profit, operating expenses, and profit.

3. Gross Profit. Subtract cost of sales (Line 2) from sales revenue (Line 1) to get gross profit. It's the amount of money that remains after you've paid your direct costs of the products sold. This money is available to pay the business's fixed expenses and your profits. If gross profit is larger than fixed expenses for that month, you will have a profit. But if gross profit is smaller than fixed expenses, you will have a loss that month.

For example, looking at the shop example for March, Antoinette arrives at gross profit by subtracting the cost of sales of \$51,460 from the forecast sales revenue of \$83,000 and entering the result of \$31,540. She'll do the same thing for each subsequent month.

4. Fixed Expenses. The categories listed on the form are the most common fixed expenses, but feel free to add or modify items to suit your business. All fixed expense items reduce your profit so that you pay less business income tax.

4a. Rent. Rent is the next major item to consider, unless you plan to operate out of your home or some other space that will not result in additional out-of-pocket costs. If you're not renting commercial space, however, bear in mind that local zoning laws may affect you. You'll want to check out zoning ordinances before going ahead with your plans.

If you don't already have a spot in mind, check building availability and costs by talking to a commercial real estate broker and people who occupy space similar to the one you have in mind. You should know what kind of location you want by now—for instance whether you need high visibility or whether an obscure, low-cost location is just as good. You should also know how large a space you need, what plumbing, electrical, and lighting you want, and how much storage you need. Sometimes cheap rent doesn't turn out to be such a bargain if you have to build walls or install a bathroom and a loading area, or if a poor location means you get few customers.



TIP

Leasehold improvements note: Any time you build something like a wall or a bathroom, it is considered a capital outlay, not a fixed expense. (Capital expenses are covered in Chapter 7.) Do not show the expenditure as a current operating expense. Only the depreciation is a fixed expense. You can write off or depreciate leasehold improvements over the term of the lease in most cases. (If you don't know what depreciation is, look at the discussion for Line 4h, below. For more help, check with your CPA.)

Normally you will want to sign a lease for a business space rather than accept a month-to-month tenancy. Business leases generally protect the tenant more than the landlord, although it may not seem so if you read all those fine print clauses. You'll be sure that you can stay at the location long enough to build your business around it, and you'll know what your rental costs will be. But what happens if your business fails or you discover the location is poor? You'll be responsible for paying the rent until the space is rented to someone else, which could take a long time in some areas. Assuming someone else will pay at least as much as you do, you'll have no further obligation once the new tenant begins paying rent.

Be sure you know exactly what your rent will include. Commercial leases often require the tenant to pay for a number of things that a landlord commonly pays for in residential rentals. For example, some shopping center leases require you to pay a pro rata share of property taxes, building maintenance, and fire insurance on the building, as well as a pro rata share of the parking and common area charges. A friend of mine who rented a small building for a retail nursery business put it this way: "That blankety-blank landlord sold me the building; he just kept the title." So, as part of making your financial projection, be sure you know exactly what charges, if any, the real estate broker or landlord expects you to pay in addition to the rent. By the way, no matter what you determine the rent to be, expect to put up the first and last month's rent and often a security deposit when you sign the lease. Don't include those deposits here. (See Chapter 7 for treatment of preopening expenses.)

Profit and Loss Forecast: Year One

for Antoinette's Shop

Month	1	2	3	4	5
	Mar	Apr	May	Jun	Jul
1. Sales Revenue	\$ 83,000	\$ 75,000	\$ 100,000	\$ 83,000	\$ 75,000
2. Less: Cost of Sales (62%)	(51,460)	(46,500)	(62,000)	(51,460)	(46,500)
3. Gross Profit	31,540	28,500	38,000	31,540	28,500
4. Fixed Expenses:					
a. Rent	4,000	4,000	4,000	4,000	4,000
b. Wages/Payroll Taxes	6,020	6,020	6,020	6,020	6,020
c. Marketing and Advertising	1,000	1,000	1,000	1,000	1,000
d. Insurance	1,350	1,350	1,350	1,350	1,350
e. Accounting/Legal	1,000	1,000	1,000	1,000	1,000
f. Interest	0	0	0	0	0
g. Depreciation	150	150	150	150	150
h. Utilities	1,200	1,200	1,200	1,200	1,200
i. Phone/Internet	1,200	1,200	1,200	1,200	1,200
j. Supplies	900	900	900	900	900
k. Freight	700	700	700	700	700
l. Bad Debts	500	500	500	500	500
m. Miscellaneous	2,000	2,000	2,000	2,000	2,000
5. Less: Total Fixed Expenses	(20,020)	(20,020)	(20,020)	(20,020)	(20,020)
6. Profit/(Loss)	\$ 11,520	\$ 8,480	\$ 17,980	\$ 11,520	\$ 8,480

Date Completed: 1/25/xx

6	7	8	9	10	11	12	Year Total
Aug	Sept	Oct	Nov	Dec	Jan	Feb	
\$ 75,000	\$ 91,000	\$ 91,000	\$ 100,000	\$ 120,000	\$ 60,000	\$ 67,000	\$ 1,020,000
(46,500)	(56,420)	(56,420)	(62,000)	(74,400)	(37,200)	(41,540)	(632,400)
28,500	34,580	34,580	38,000	45,600	22,800	25,460	387,600
4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
6,020	6,020	6,020	6,020	6,020	6,020	6,020	72,240
1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
1,350	1,350	1,350	1,350	1,350	1,350	1,350	16,200
1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
0	0	0	0	0	0	0	0
150	150	150	150	150	150	150	1,800
1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
900	900	900	900	900	900	900	10,800
700	700	700	700	700	700	700	8,400
500	500	500	500	500	500	500	6,000
2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
(20,020)	(20,020)	(20,020)	(20,020)	(20,020)	(20,020)	(20,020)	(240,240)
\$ 8,480	\$ 14,560	\$ 14,560	\$ 17,980	\$ 25,580	\$ 2,780	\$ 5,440	\$ 147,360

Many leases that last longer than a year contain a method to protect the landlord from inflation. Some are tied to a cost-of-living index, which means your rent goes up each year at the same percentage as the inflation rate. Others contain a percentage-of-sales clause, where you pay a set rent or a percentage of your gross sales, whichever is higher.

EXAMPLE: Bob Smith signed a shopping center lease for his optometry office. His lease called for a base rent of \$2,400 or 6% of monthly sales, whichever was more, plus a set charge of \$400 for taxes, maintenance, and insurance. If sales exceeded \$40,000 per month ($\$2,400 \div 0.06$), he would be obligated to pay the landlord more rent. Bob was pleased to sign the lease because his sales projections (\$32,000 per month) indicated he would be making a healthy profit if his sales volume reached \$40,000 a month, so he would not mind paying a higher rent. Of course, this sort of lease is not a good idea if the amount of sales needed to trigger a substantially higher rent is too low. In Bob's situation, for example, if he was required to pay more rent if monthly sales reached \$28,000, he probably would have looked elsewhere.

When you have figured out your total monthly rent from a lease quotation from your expected landlord or from a survey of market rents, fill in that amount.

4b. Wages/Payroll Taxes. Most small businesses keep some employees on a fixed weekly or monthly work schedule regardless of how business fluctuates. Many businesses call in some temporary employees as needed. All such wages are a fixed expense. To fill out Line 4b, you'll need to know how many people you'll hire, how many hours per month each will work, and how much you'll pay each person. If you plan to pay yourself a regular wage, regardless of how profitable the business is, include your salary as well. First add up the gross amount you will pay every month for wages and salaries (without deducting the amount of withholding taxes; see discussion in Chapter 7).



CAUTION

Certain wages aren't fixed expenses. Some small manufacturing businesses pay workers on a piece-rate basis or hire employees when orders are high and lay them off when business is slow. Others don't pay a salary at all, but compensate workers with a commission for each sale. In all of these situations, the portion of the wages that changes with each additional unit of production should be considered a variable cost of sale. Those costs belong in the cost-of-sales category and not the fixed-expense category.

Next, you will need to add the amount of your obligation for payroll taxes. As an employer, you'll pay the federal government a percentage of your employees' wages and salaries for Social Security and Medicare taxes; the employer's portion was 7.65% in 2018. (You'll also have to send the IRS the employees' portion of taxes withheld from their paycheck, but you've already included that amount in your expense for wages; don't count it twice.) You may also have to pay federal unemployment tax, but you can take a credit for state unemployment taxes you've paid. Tax rates and payroll tax obligations change periodically. See the IRS website for current information on employment taxes (www.irs.gov/businesses/small-businesses-self-employed/understanding-employment-taxes). Note that employers in most states also have to pay state payroll taxes (such as state unemployment taxes). Check with your state's tax department to find out whether and how much you'll have to add for these state payroll taxes. To estimate payroll taxes, multiply each month's dollar figure for wages and salaries by the appropriate percentage. Then add that amount to the figure for wages and salaries and enter the total in Line 4b.

4c. Marketing and Advertising. Here's a story about advertising. Back in the early 1930s, John Axelrod opened a hot dog stand on the main road into Pine Valley. Business was fair. When he put up a small sign, business got a little better. Then he added several more signs and things got a lot better. Finally, he put up a dozen big signs. Business became so good, he had to expand his seating area and hire more cooks. He was feeling pretty happy about life when his son, who he thought was a positive wizard, came home from college. The son, an economics major, was appalled at all the new signs and seating.

“Dad, what are you doing spending so much on advertising? Don’t you know there’s a depression going on and everybody’s going broke? If you don’t pull in your horns a bit, you will never make it.”

“No kidding,” John replied, and took down the signs and stopped the construction program. Soon business dwindled away to nothing and John went broke.

The lesson of this story is simple: When the signs went up, business improved. When they came down, there wasn’t enough income to buy ketchup. One way or another, successful businesses get the word out. (Incidentally, the son went on to get his degree and opened his own business consulting firm.)

There are small libraries (and sections of Amazon) full of books about how to market a business or product, including many books that focus on marketing without paid advertising. Naturally, in addition to your own business website, you should be getting the word out about your business through social media, like Twitter, Facebook, and YouTube. Guerrilla marketing involves getting the word out to the people and groups who are most apt to need your goods or services, rather than advertising your product or service to the community as a whole. “Guerrilla” refers to the use of unconventional methods to spread product or service information. For example, guerrilla marketers may pay students or part-time workers to hang out in bars or coffeehouses and talk about their product in a favorable way.

If you get creative, there are all sorts of ways you can reach the people most likely to want your product or service, for little or no cost. For example, if you develop a consulting business in your special field, you could target your market by finding an online forum of people who need your product. Your next step might be to get someone to write about your business for a computer magazine or newsletter. Similar opportunities exist in every business. If you open an oboe repair shop, for example, one of the first jobs is to figure out inexpensive ways to let every oboist within a hundred-mile radius know of your existence. One way might be to contact every wind instrument instructor, school bandleader, and music store in the area and supply them with free literature on oboe cleaning.

Many successful businesses allow a set percentage of gross sales for promotion, often 3% to 5% of sales revenue as a budget figure. They allocate half that amount for a continuing, low-level effort to let people know about their product or service and schedule the other half to advertise sales and special events.

Think about what you will need to do to tell people about your business. Naturally, you will need to have a professional-looking website, and you may need to hire a consultant who can improve your placement on search engines when customers are looking for products or services similar to those you offer.

In addition, think about the more traditional ways of getting out the word. Will your business need cards? Flyers? Newspaper ads? Generate Yelp reviews? Sample merchandise sent to media outlets so they can review your product? Window displays? Mailings? A part-time marketing expert to help you pull this together? Avoid expensive promotions that you haven't tried before. For example, if you get an idea that involves mailing out 100,000 flyers, plan for a test by mailing only 5,000. If it works, go for the rest. If not, use the money you saved for something else.

A great deal of money spent on conventional advertising is wasted. New businesses especially are prone to spend too much in the wrong places. So use your common sense. Talk with friends in business. Check with trade associations to see what they suggest as a good budget number for telling potential customers about your business. Once you've set a budget for special promotions and continuing low-level advertising, write both amounts in the Profit and Loss Forecast.



RELATED TOPIC

For more help, look ahead to Chapter 8. In that chapter, you'll write a detailed marketing plan for your business that includes both preopening promotions and continuing marketing costs.

4d. Insurance. You must have at least some insurance in this litigation-happy society. Your lease may require you to keep fire, flood, or earthquake insurance on the building. If the public comes into your business, public liability and property damage insurance is a necessity. This will protect you from the person who slips and falls on your floor mat. If you employ anyone, you also need workers' compensation insurance, since you are absolutely liable if one of your employees injures herself while at work. You will probably also want to carry insurance on your valuable inventory and fixtures. And if you manufacture any product that could possibly harm anyone, such as food or machinery, you will want to consider product liability insurance.

Talk to an independent insurance broker who specializes in business insurance to get an idea of what coverage you'll need and how much it will cost. Then shop around warily. Lots of overenthusiastic insurance people will try to sell you far more insurance than you need. Although you need some insurance to protect against obvious risks, you don't need to starve to death trying to raise enough to pay your premiums.



CAUTION

Some people try to avoid the responsibility of paying workers' compensation insurance or payroll taxes by calling their employees "independent contractors." This can cause serious problems with back taxes if the IRS rules against you. Also, if the independent contractor is injured while working for you, the state workers' compensation agency will usually rule in favor of the employee and against independent contractor status, unless your worker genuinely has his or her own business. This means you may end up paying huge sums if one of your workers becomes disabled while you don't have insurance. In other words, trying to save a few pennies on this insurance is just not worth the risk.

Once you arrive at a good estimate for your total insurance bill, inquire about deferred payment programs. Most companies that offer them often require that you pay 20% of the total premium up front each year and the

balance in ten payments. For purposes of your Profit and Loss Forecast, divide the total annual insurance payment by 12 and enter those figures.

4e. Accounting/Legal. You can do your own books if you like working with numbers. Chances are, however, you'll be so busy with the business, you won't have time.

One good approach is to budget for a CPA to set up your books initially and to hire a part-time bookkeeper to do day-to-day upkeep. If you are starting small, your initial cost should be under \$1,500 and your monthly cost under \$500 to keep the records up to date and to prepare routine employee withholding tax returns, statements, and so on, assuming you close the register each day. Once a year you will pay the CPA another few hundred dollars to review this work and help you prepare your yearly returns. If your business is going to be fairly good-sized from the start, your figures will be larger.

If you're interested in keeping your own books, you'll probably want to look into reliable accounting software such as Intuit's *QuickBooks* (www.quickbooks.intuit.com), or *MYOB* (www.myob.com.au). The program you need depends on how big your business might grow to be, what extra features like statements or payroll you want the computer to provide, and so forth. Many accounting programs—including *Quickbooks* and *MYOB*—can be run as online services where you subscribe to the service and do your work online instead of installing software onto your own computer; both methods have advantages and disadvantages. You can research the different programs yourself, but remember to keep in mind the features you may need later on after your business has grown. Or you can look into an outside service, which may recommend a program to fit your business and computer, set up the books, and run parallel for a month or two to make sure that you don't lose any data. The systems can be very handy and timesaving if you have no strong attachment to a paper record, or are willing to print out the documents you may want.

When designing a bookkeeping system for your business, remember that it costs a lot of time and money to change it—make sure it really fits you and your business.

Make as good an estimate as you can and enter this figure on your Profit and Loss Forecast. You can take the year total and divide it by 12, or you can enter the amounts when you think they will be paid.

4f. Interest. Enter the interest portion of the payments you make on any money you borrow. Unless you have an interest-only loan with a balloon payment at the end, your interest payment will vary from month to month even though you pay the same monthly amount.

EXAMPLE: Joanie Ricardo borrows \$50,000 from the bank to open a Gelato's Ice Cream store in Providence, Rhode Island. She agrees to repay it in 36 equal monthly installments of \$1,660.80, including 12% interest on the unpaid balance. While Joanie's monthly payments remain equal, the portion of the payment that is credited to principal increases every month, while the portion of her payment going toward interest decreases.

Loan Interest Calculation Chart

A	B	C	D	E	F
Month	Balance (from Column F above)	Monthly payment	Interest paid ($B \times \underline{\quad}\%$ $\div 12$)	Principal Paid ($C - D$)	New balance ($B - E$)
				Starting amount: \$ 50,000.00	
June 20xx	\$ 50,000.00	\$ 1,660.80	\$ 500.00	\$1,160.80	\$ 48,839.20
July 20xx	48,839.20	1,660.80	488.39	1,172.41	47,666.79
Aug 20xx	47,666.79	1,660.80	476.67	1,184.13	46,482.66
_____	_____	_____	_____	_____	_____

But, let's say that you don't know how much money you'll borrow at this time. After all, one of the main reasons for doing a business plan is to decide how much money you'll need to finance your business. In that case you have three choices:

- You can complete the Profit and Loss Forecast in this chapter, and the Cash Flow Forecast in the next chapter, making your best guess about how much you'll borrow and what your payments will be.
- You can complete the forecasts without showing any loans or payments. Then use the results to decide how much money you'll borrow and revise the forecasts to include loan payments.
- You can complete both forecasts without showing any loans at all. Then you can include a discussion about how much money you'll need to borrow and the cash flow available to make repayments. (See your Plan Summary discussion in Chapter 9.)

There are loan progress charts and computer programs that show approximately how much of any payment is interest and how much is principal.



RESOURCE

Nolo, the publisher of this book, provides a calculator that will create a chart similar to the one shown above. You can access it at www.nolo.com/legal-calculators. For a fixed monthly payment loan, click on “How much will my fixed rate mortgage payment be?” Enter the information in the form, and the program will calculate interest payments over the loan period.



CAUTION

You can't write in the entire loan payment amount on your Profit and Loss Forecast, because the IRS does not consider principal repayments fixed expenses that can reduce your taxable income.



TIP

Note of sanity: You don't need to be perfect in forecasting your interest costs. Just make your best informed guess. You can also check with your banker, CPA, real estate broker, or online for loan repayment tables. Make sure the sum of your interest payments here and the principal payments from Chapter 7 equal the total loan payment.

4g. Depreciation. Depreciation is a gift to the businessperson from Uncle Sam. Ask not what your country can do for you—this is it. Depreciation is an amount you can subtract from your profits when you pay taxes. It compensates you for the fact that your business equipment and buildings are wearing out. The government allows you to assume that your fixed assets wear out over some period of years, meaning that for tax purposes, your assets are worth less at the end of that period. Your depreciation allowance simply lets you show a percentage of this wear as an expense on your tax return each year. In a sense, it is a sinking fund for equipment replacement, or would be if you put the depreciation amount in the bank. In actuality, the stuff usually lasts longer than your depreciation shows, which is why depreciation can be seen as a friendly federal gesture.

Often, equipment is depreciated over three to five years and buildings over 15 to 30 years for tax purposes. It's not your choice, however; the IRS publishes very explicit rules and lists of what can be depreciated and how fast. These lists and rules change frequently, so you'll probably need to check with your tax adviser about depreciation and fixed assets.

You can depreciate all fixed assets that last longer than one year. Remember, you don't show the purchase price as an expense on the Profit and Loss Statement if you depreciate an item.

If the asset will last less than one year, you simply show the entire purchase price in the expense column for the year you bought the equipment and do not depreciate it. Inventory of goods available for resale and consumable supplies are examples of purchases that are expensed immediately because they last less than one year.

EXAMPLE: Chuck Leong expects to spend \$20,000 for fixed assets to open his business. Items include a new toilet, several new walls, a cash register, a small computer, and store fixtures. Assuming Chuck's accountant agrees that five years is the proper time frame to use for depreciation, he can take \$333 as an expense for depreciation each month ($\$20,000 \div 60$ months).

Common Expenses

Here are some of the more common expenses that businesses incur on a regular basis:

- attorney, consultant, and tax adviser fees
- auto and truck expenses
- bad debts
- commissions (probably should be placed in cost of sales or as a deduction from sales revenue if commissions are paid regularly; if paid only occasionally, include them in fixed expenses)
- dues and publications
- employee benefit programs
- equipment rental
- freight in on merchandise acquired (also sometimes placed in cost of sales; freight out to customers is usually paid for by the customer)
- janitorial
- laundry
- licenses and taxes including permit fees (not income taxes, which are calculated after profits are known)
- office supplies
- payments to investors
- postage, fax, telephone, Internet
- repairs and maintenance
- security and alarm systems
- travel, and
- utilities.

4h.–4m. Other Expenses. Inevitably, you will encounter a number of other expenses, depending on your business. Spend some time thinking about these, using the accompanying list of common expenses as a starting point. Then list all the other costs you expect to incur on Lines 4h to 4m. If you expect any of these to be recurring expenses, include your monthly estimate for each. For expenses that occur once or twice a year, divide the annual total by 12 and enter an amount each month.

5. Less: Total Fixed Expenses. Add up Lines 4a through 4m and fill in the total for each month.

6. Profit/(Loss). From the Gross Profit (Line 3), subtract the Total Fixed Expenses (Line 5) and fill in the result. Make sure that you place brackets around each negative number to identify it as a loss.

Year Total. Finally, add up each of the rows (Lines 1 through 6). Enter the yearly totals under the Year Total column. If you're using the Profit & Loss Forecast form on this book's companion page (see Appendix D), the form will automatically populate these totals for you. If you aren't using that form, check your arithmetic by seeing if the monthly profit figures add up to the same figure you get for your yearly total. If they don't match, double-check your addition to find the error.

Review Your Profit and Loss Forecast

You've now completed your first run through a Profit and Loss Forecast. Date it so you won't get confused if you do another draft. I hope it looks positive. However, if like many people you find you need to increase profitability to make the business a good economic idea, go back through all your assumptions. How can you realistically reduce costs or increase volume? Incorporate into your forecast only those changes you're sure are sound. Now look at the profit figures again. Do they show enough profit to make a good living, pay back your money source, and leave some margin for error? If they do, and you're sure the figures are right, you will want to go ahead with your business idea. If the adjusted figures still do not show enough profit, it may be wise to look for another business idea or change your basic business assumptions.

How much profitability is enough to justify going ahead with your business? That's both a good question and a touchy one. Or, put another way, there are almost as many answers as there are businesspeople. My personal response is, I look for a yearly profit (including my wages and return on investment) equal to the amount of cash needed to start the business. If I need \$100,000 to start a business, a conservative profit forecast would show a yearly profit of at least \$100,000.

One way to approach the issue of profitability is to look at your profit forecast from an investor's viewpoint. A \$147,360 profit for Antoinette's boutique appears adequate, but it calls into question the revenues per square foot of leased space, since the \$500-per-foot figure is well above the average of \$325 for the shopping plaza where she plans to locate her shop. They will be concerned that she will have a difficult time if any problems with her initial assumptions appear.

How Your Profit and Loss Forecast Relates to Your Income Tax Return

Figuring out your business's income tax return involves more calculations than we have shown so far. One major difference involves cost of sales, which we have viewed as a simple percentage of sales for forecasting purposes. You'll need to follow more complicated rules when computing your business income tax return. Read below to learn how to spot employee theft. You can skip this discussion if your business has no inventory.

Here's how to do it the right way. First, take a physical count of all your merchandise for resale every year or every few months. Even if you have a computerized inventory system that can tell you how much inventory you have at any time, it's a good idea to take a physical inventory every six or 12 months to reconcile the real inventory with the computer inventory. Once you have a complete listing of the description and count of all the goods in your store at a particular date, then you apply the best figures you have for what the merchandise cost you when you bought it. Multiplying the unit cost of each item on your shelves by the number of items you have and adding purchases during the period gives you the cost of the goods available for sale. While there are a number of different theories on which cost figure to use (the latest or the earliest), the critical thing is to make sure you do it the same way every time. Then, you can make accurate comparisons from year to year. Of course, if you have a service business or business with no inventory, the inventory valuation discussion is moot.

After you have developed a total dollar value of the goods you have on hand, you can calculate your real cost of sales this way:

1. Add together the goods you purchased during the period and the inventory amount at the beginning of the period. (This total represents the dollar value of the goods you had available to sell during the period.)
2. From that amount, subtract the dollar value of the inventory at the end of the period.
3. The difference is the cost of sales for the period.

Here's an example that demonstrates how you do this:

Cost of Sales	
Beginning inventory from physical count	\$ 110,000
<i>Add:</i> Purchases during period	+ 30,000
<i>Subtotal:</i> Goods available for sale	140,000
<i>Less:</i> Ending inventory from physical count	- <u>15,000</u>
Cost of Goods Sold during period	<u>\$ 125,000</u>

This calculation has more use than merely filling out IRS forms: It can let you know when someone is stealing from you. Suppose you have a good estimate of what the cost of sales percentage should be, either from past statements or from a good understanding of your business. Suppose further that you expect a cost of sales of 61.5% and that you actually had a cost of sales of 77.3%. What does that mean? It could mean that some of the merchandise you buy for resale is leaving the store without any money entering your register. At any rate, it means that you need to do some serious research to find out what is really happening.

Your Cash Flow Forecast and Capital Spending Plan

What Is a Cash Flow Forecast?	156
Prepare Your Capital Spending Plan	157
Prepare Your Cash Flow Forecast	161
Required Investment for Your Business	173
Check for Trouble	174
Antoinette's Inventory Problem.....	175
Typical Problems Retailers Face.....	176

In Chapter 6, you drafted your estimated Profit and Loss Forecast. While it tells you a lot about the big financial picture, it leaves you ignorant of many details. If you overlook one critical detail, you may go broke, even though your business seems profitable viewed from afar.

What Is a Cash Flow Forecast?

The crucial detail a business owner must manage is called “cash flow.” This chapter focuses on this key component of a business plan. Cash flow is another term for the money coming into and going out of your business. Positive cash flow occurs when the money coming into your business exceeds the money flowing out, and negative cash flow is the opposite. In the day-to-day world of starting and operating your business, you will be at least as concerned about short-term cash flow as you will be about long-term profitability. After all, you don’t want your creditors to sue you because you can’t pay your bills even though your sales are increasing rapidly. One new business owner I know even wears a T-shirt that says: “Happiness is positive cash flow.”

Your Cash Flow Forecast is different from your Profit and Loss Forecast because money comes into and flows out of your business at different times than your Profit and Loss Forecast shows. A formal Cash Flow Forecast is required by most potential backers, who want to know that you understand and can manage that time difference.

EXAMPLE: Rita Singh plans to open a small tie-dye manufacturing business. Since several of her likely customers are chain stores, Rita knows that she will have to sell and ship their orders before the stores pay her. The stores often can take several months to pay their bills. Wisely, Rita carefully prepares a Cash Flow Forecast to make sure she can afford to sell on credit.

In your Cash Flow Forecast, you’ll refine any guesses you’ve made about how much money you need to start or expand your business. You’ll develop an amount of money you are comfortable with—an amount you can explain to prospective investors. In other words, you need to be as accurate as you can be in this forecast.

The money you need to start or expand your business can be separated into two categories:

- **Capital investment.** This is the cash you need to spend before you begin or expand your business.
- **Initial working capital.** This consists of the cash reserves you need to keep your business afloat before you begin to show profits every month.

Commonly, cash flow from monthly sales is not enough to cover monthly expenses for the first few months after a new business opens. If your Cash Flow Forecast shows a negative picture for this period, you need to have extra money set aside for initial working capital. Your initial working capital keeps the doors open until cash flow from monthly business becomes positive. If your Cash Flow Forecast shows you'll run a cash deficit for several months, don't be too concerned. Just be sure you have enough initial working capital to cover it. But if your Cash Flow Forecast shows a continuing cash deficit, or a deficit that rises over time, your business may have some fatal flaw and you should reexamine the whole idea before making any commitments.

Growth, too, can create problems. Many businesses that grow quickly suffer severe cash flow shortages because money from sales does not come in fast enough to cover the investment needed to expand. If you find yourself in this situation, you will need to reduce your growth rate or find extra sources of money. (See the cash flow discussion below.)

So, let's put a close-up lens on our camera and focus on cash forecasting. Here again, it's necessary to get out your calculator or computer and play with some numbers.

Prepare Your Capital Spending Plan

Your Capital Spending Plan includes all the things you have to buy before your business begins bringing in sales revenue, including opening inventory, fixtures and equipment, business licenses, deposits for the building lease, and whatever else you need.

Common Items in a Capital Spending Plan

Here's a list of common items businesses need to buy before opening. Note that they fall into two categories—capital items and expense items.

Capital items generally have a useful life of more than one year and can be depreciated for tax purposes. They include:

- permanent signs, heaters, air conditioners, and cooking and refrigeration equipment
- equipment, including machinery, large tools, and other expensive items
- racks and display fixtures for retail selling areas
- office furniture
- leasehold improvements or any alterations you make to the building, including walls, bathrooms, and carpeting, and
- computers, printers, cash registers, phone systems, and other small equipment you purchase.

Expense items generally are shown as either fixed expenses or costs of sale at the time they are purchased because they last less than one year.

They include:

- opening inventory (sometimes you can get a deferred payment schedule from suppliers, but you will usually have to pay for many, if not most, goods before you sell them)
- lease deposits
- tax deposits
- business licenses and permits
- opening marketing and promotion
- insurance
- telephone installation
- utility deposits
- office supplies and stationery
- legal fees, costs to incorporate, and CPA fees to establish your business, and
- a contingency reserve.

Open a computer file or take out a clean sheet of paper and write “CAPITAL SPENDING PLAN” at the top. Now, make a list of all the things you’ll have to buy before you open. This will enable you to make a good estimate of the cash you need to open your doors.

The list shown above sets out many common items businesses need to purchase before they are ready to open. Some of the items you’ll buy will be considered capital items, which depreciate over their useful lives. All preopening expenses represent your capital investment in the business, regardless of whether they are treated as capital items or expense items. If you have doubts about whether an item can be depreciated, ask your accountant.

Now assign specific dollar amounts to each item on this list. If you’re unsure about the cost of an item, ask the person from whom you’ll buy the item for an estimate or a quote. Try for plus or minus 10%. Remember that you’re trying for an accurate estimate here, so use the numbers you think are right. Most experienced businesspeople will add another 10% to 20% of the total as a contingency to allow for poor guesses and other foul-ups. If you think you need such a contingency and haven’t included it already, add it in now. Add up all the items you’ve listed to get an estimate of the cash you need to open your business.

Your Capital Spending Plan should reflect as accurately as possible the exact amounts you will spend. For example, it was okay for Antoinette to use estimates of costs when she thought about her business in general terms, but now she needs to be precise. She should have shopped around for the best deals by now and know them. If a potential lender asks her why she’s spending \$3,000 each for clothing racks, she can say, “The used ones from the auctioneer are terminally rusty and the discount ones are shoddy. I want my image to be high quality, and this is the best deal on good racks.” As the accompanying Capital Spending Plan example shows, Antoinette knows the business she is about to open.

Although she doesn’t include an itemized list of fixtures, office equipment, and leasehold improvements in her summary, Antoinette has detailed lists available.

Capital Spending Plan: Antoinette's Shop

Item	Amount
Fixtures in selling area include cash registers, sewing machines, clothing racks (see list)	\$ 60,000
Leasehold improvements, bid from Jones Construction includes signs, lights, decorations	100,000
Rent deposit, two months' rent	8,000
Opening inventory	60,000
Contingency	15,000
Total capital required to open	<u>\$ 243,000</u>

For a second example, here's a one-man consulting firm's opening cash needs. As you can see, he plans to start with extra cash; he has allocated \$20,000 for working capital.

Capital Spending Plan: Jeffers Associates Consulting

Item	Amount
Desk, conference tables, chairs	\$ 16,000
Computer system: PC, printer, software, router	10,000
Misc. decorative accessories	1,200
Misc. deposits for utilities, business license	5,000
Opening marketing and advertising	12,000
Supplies, stationery	1,000
Working capital estimate	20,000
Total capital required to open	<u>\$ 65,200</u>

Prepare Your Cash Flow Forecast

Once you complete your Capital Spending Plan, you'll know how much money you need to open your doors. The next step is to estimate how much additional money you'll need to survive the first lean months.

The basic process we'll use to make a Cash Flow Forecast is to start with the monthly profit (or loss) figures you developed in your Profit and Loss Forecast in Chapter 6. You'll then make adjustments each month to the monthly profits to account for the time differences in collecting and spending money.

Open the blank Cash Flow Forecast forms included on this book's online companion page (see Appendix D for details) and follow the step-by-step instructions below. You'll be completing a forecast for the first two years of your business. Complete every line for each of the 24 months before going on to the next line.



TIP

Reminder: As mentioned throughout this book, the figures included in the examples (in this case, the Cash Flow Forecast) are for illustration purposes only. You'll need to use numbers that are appropriate to your situation and that are current.



FORM ON NOLO.COM

A formatted copy of the Cash Flow Forecast is available on this book's companion page on Nolo.com (see "List of Forms Available on the Nolo Website" at the end of Appendix D for details on accessing this form and all others in this book). The spreadsheet program will automatically calculate your monthly net cash, cumulative net cash, and yearly totals. Note, if a series of #### symbols appear in a box in a spreadsheet that means that you need to widen the column in order to display the numbers. If you use a spreadsheet program that cannot convert the *Excel* format, set up the form in your program using the same categories as the completed Cash Flow Forecast in this chapter. (Make sure that the column and row headings are the same.)

Cash Flow Forecast: Year One

for Antoinette's Shop

Cash In/(Out)

	Month	1	2	3	4	5
	Mar	Apr	May	Jun	Jul	
1. Profit/(Loss)	\$ 11,520	\$ 8,480	\$ 17,980	\$ 11,520	\$ 8,480	
2. <i>Less:</i> Credit Sales—estimated credit × 5% Sales Revenue	(4,150)	(3,750)	(5,000)	(4,150)	(3,750)	
3. <i>Plus:</i> Credit Collections	0	0	4,150	3,750	5,000	
4. <i>Plus:</i> Credit Purchases	51,460	46,500	62,000	51,460	46,500	
5. <i>Less:</i> Payments for Credit Purchases	0	0	(51,460)	(46,500)	(62,000)	
6. <i>Plus:</i> Withholding tax (if paying quarterly)	0	0	0	0	0	
7. <i>Less:</i> Quarterly withholding payments (if paying taxes quarterly)	0	0	0	0	0	
8. <i>Plus:</i> Depreciation	150	150	150	150	150	
9. <i>Less:</i> Loan Principal Payments	0	0	0	0	0	
10. <i>Less:</i> Extra Purchases	0	0	0	0	0	
11. Other Cash Items in/(out)	0	0	0	0	0	
12. Monthly Net Cash	58,980	51,380	27,820	16,230	(5,620)	
13. Cumulative Net Cash	\$ 58,980	\$ 110,360	\$ 138,180	\$ 154,410	\$ 148,790	

Date Completed: 1/25/xx

6	7	8	9	10	11	12	Year Total
Aug	Sept	Oct	Nov	Dec	Jan	Feb	
\$ 8,480	\$ 14,560	\$ 14,560	\$ 17,980	\$ 25,580	\$ 2,780	\$ 5,440	\$ 147,360
(3,750)	(4,550)	(4,550)	(5,000)	(6,000)	(3,000)	(3,350)	(51,000)
4,150	3,750	3,750	4,550	4,550	5,000	6,000	44,650
46,500	56,420	56,420	62,000	74,400	37,200	41,540	632,400
(51,460)	(46,500)	(46,500)	(56,420)	(56,420)	(62,000)	(74,400)	(553,660)
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
150	150	150	150	150	150	150	150
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
4,070	23,830	23,830	23,260	42,260	(19,870)	(24,620)	\$ 221,550
<u>\$ 152,860</u>	<u>\$ 176,690</u>	<u>\$ 200,520</u>	<u>\$ 223,780</u>	<u>\$ 266,040</u>	<u>\$ 246,170</u>	<u>\$ 221,550</u>	

1. Profit/(Loss). To begin, take out the Profit and Loss Forecast you completed in Chapter 6 and copy the monthly Profit/(Loss) from Line 6 onto the first line of the Cash Flow Forecast form. The profits or losses you show have already taken into account the normal expenses of running a business like rent, wages, and so forth. You won't have to worry about those costs in this forecast.

**CAUTION**

If any of your figures are losses, place brackets around them.

Otherwise, your entire Cash Flow Forecast will be seriously inaccurate.

2. Credit Sales. Skip ahead to Line 4 if you don't plan to sell merchandise or services on credit. If you sell merchandise or services on credit, the customer receives the goods or services right away. Even though you incur costs, you don't get paid right away. Credit sales create bills people owe you; they are called your "accounts receivable" because you will receive the money soon. (When you buy goods on credit, you create bills you owe others. These are called your "accounts payable" because you will pay them soon.)

Most businesses that sell to other businesses should plan for some sales on credit. Most businesses that sell only or primarily to retail consumers can plan to sell mostly for cash, including debit and credit cards.

**TIP**

Credit card note: For purposes of this discussion, sales on debit and credit cards are the same as cash sales, except for the processing fees the bank charges. If you use an electronic terminal, the money is credited to your bank account right away; if you use a paper imprinter, the money is deposited to your account in a few days.

It takes more money to start and run your business if you offer credit to your customers than it would if you received cash for every sale. Here's how to figure out how much cash you'll need. First, estimate what portion of your total sales will be for credit. For example, if you

think that about one-third of your sales will be for credit, that means that about 33% of your monthly sales dollars will not be collected in the month in which the sale is made. Make a note of that percentage now on the Cash Flow Forecast form in the heading for Line 2.

Look at the Profit and Loss Forecast you completed in Chapter 6. Multiply each month's sales revenue dollars (Line 1 of the Profit and Loss Forecast) by the credit percentage that you forecast for your business. Then enter each of those monthly figures on Line 2 of your Cash Flow Forecast.

EXAMPLE: Mickey and Michele run a photocopy and printing service. They estimate that about 40% of their total sales revenue will be on credit and the remaining 60% will be for cash. On Line 2 of the Cash Flow Forecast, they'll enter these credit sales: \$4,400 for January; \$4,400 for February; and so forth throughout the forecast.

**M & M Copy Shop Cash Flow Forecast Credit
Sales Calculation, Six Months (\$000s)**

	Jan	Feb	Mar	Apr	May	Jun
Forecast sales revenue	\$ 11.0	\$ 10.9	\$ 12.6	\$ 13.1	\$ 15.6	\$ 16.8
% sales on credit	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>
Forecast credit sales	<u>\$ 4.4</u>	<u>\$ 4.4</u>	<u>\$ 5.0</u>	<u>\$ 5.2</u>	<u>\$ 6.2</u>	<u>\$ 6.7</u>

3. Credit Collections. Skip this item if you don't plan to sell merchandise or services on credit. Your cash receipts are reduced when a sale is made for credit instead of cash. On the other hand, your cash receipts increase when you collect the money from a credit sale you made earlier. This Cash Flow Forecast shows you exactly how much your receipts will be reduced and increased as a result of your credit policies. Even though your customers don't pay you right away, they eventually pay. Your job is to figure out when they'll do so. If you grant your customer your normal 30-day terms, it usually takes 60 days to get paid. Here's why.

You make a sale on Day One, then write a statement at the end of the month and mail it to the customer, who pays it 30 days after receiving the statement. Of course, some people pay sooner and some people pay later. In a well-run business with good paying customers that grants 30 days to pay bills, the average turnaround will be 45 to 60 days.

Make an estimate of the number of months you anticipate as an average lag time between a sale and the collection of the bill. Most businesses use two months. It's easier to use whole months for this purpose than to use portions of months. If you think 45 days is the likely answer, use two months—don't use one and one-half months. Enter the number of months in the heading for Line 3.

EXAMPLE: If Mickey and Michele collect bills in an average of two months, the credit sales that were just subtracted from monthly sales will be added back two months later. In this example, the business starts up in January and there are no outstanding accounts from the previous year. As you can see below, the delay in collections means that the M & M Copy Shop will have an \$8,800 cash flow reduction in January and February. This means they need at least \$9,000 in working capital to sustain them during the first two months.

**M & M Copy Shop Cash Flow Forecast Credit
Sales and Collections, Six Months (\$000s)**

	Jan	Feb	Mar	Apr	May	Jun
Credit Sales	\$ 4.4	\$ 4.4	\$ 5.0	\$ 5.2	\$ 6.2	\$ 6.7
Collections of credit sales	0	0	\$ 4.4	\$ 4.4	\$ 5.0	\$ 5.2

Now that you see how it works, complete your monthly Cash Flow Forecast for two years, writing in the cash collections in the month you collect the money on Line 3.

4. Credit Purchases. Make an estimate of how the timing of your purchases will affect your cash flow. Most businesses buy merchandise from their suppliers on credit and delay paying them for a time. Most suppliers will grant you 30 days to pay your bills on a fairly routine basis, if they approve your credit application. That way, you get to use their money for a while, just like your customers use your money if you sell on credit.

Here's how to complete this section of the Cash Flow Forecast. First, make an estimate of the percentage of your total goods and services you expect to buy on credit. (See the section entitled "Break-Even Analysis: Will Your Business Make Money?" in Chapter 3, on how to make educated guesses, or SWAGs.) Write the percentage figure in the heading for Line 4.

Next you'll calculate the dollar costs of purchases your business will buy on credit each month. To derive that figure, multiply each month's cost of sales by the estimated percentage of credit purchases. And write the answer on Line 4. Note that they increase cash flow.

EXAMPLE: Mickey and Michele estimated that they'd buy approximately 60% of their purchases on credit. Their January cost of sales is \$3,600, so the credit purchases come to \$2,160 ($\$3,600 \times 0.6 = \$2,160$). They round this figure to \$2,200. Here's how it looks for a few months at the M & M Copy Shop. On Line 4 of their Cash Flow Forecast, they'll enter their credit purchases: \$2,200 for January; \$2,200 for February; \$2,500 for March; and so forth.

**M & M Copy Shop Cash Flow Forecast
Credit Purchases, Six Months (\$000s)**

	Jan	Feb	Mar	Apr	May	Jun
Forecast cost of sales	\$ 3.6	\$ 3.6	\$ 4.2	\$ 4.3	\$ 5.1	\$ 5.5
% bought on credit	<u>60%</u>	<u>60%</u>	<u>60%</u>	<u>60%</u>	<u>60%</u>	<u>60%</u>
Credit purchases	<u>\$ 2.2</u>	<u>\$ 2.2</u>	<u>\$ 2.5</u>	<u>\$ 2.6</u>	<u>\$ 3.1</u>	<u>\$ 3.3</u>

5. Payments for Credit Purchases. Here you show when you pay for the purchases you've made on credit. These payments are subtracted from profits on the Cash Flow Forecast. Make an estimate of how long you will take between the time you sell merchandise and the time it is reordered and paid for. Write your estimate of how many months will elapse between selling your merchandise and paying for the replacement in the heading for Line 5.

If you're in doubt, figure it this way: It usually takes about 60 days to make an inventory of what you've sold, reorder the merchandise, receive and restock the merchandise, and pay the invoice or statement. If that's true for you, then the merchandise you sell in January will be reordered and paid for by March.



CAUTION

Know suppliers' credit policies. It's not unusual for suppliers to expect payment within ten days of the date you receive the merchandise. If you're not sure of your suppliers' credit policies, it's a good idea to check them out before you complete this forecast. A mistake here can result in a dramatically incorrect cash forecast.

EXAMPLE: Here's how it works for the M & M Copy Shop, which expects a two-month delay between ordering and paying for merchandise:

M & M Copy Shop Cash Flow Forecast Credit Sales and Collections, Six Months (\$000s)

	Jan	Feb	Mar	Apr	May	Jun
Line 4: Credit purchases	\$ 2.2	\$ 2.2	\$ 2.5	\$ 5.2	\$ 3.1	\$ 3.3
Line 5: Paying for credit purchases	0	0	\$ 2.2	\$ 2.2	\$ 2.5	\$ 2.6

Now, enter the dollar amount of credit purchases you entered on Line 4, but in a later month, in a similar fashion to the M & M Copy Shop.

6. Withholding Tax. When you completed the Profit and Loss Forecast in Chapter 6, you added at least 7.65% to the total wages you'll pay each month as part of your payroll expense (Profit and Loss Forecast, Line 4b, Wages/Payroll Taxes). That's the employer's portion of Social Security and Medicare taxes. (As discussed in Chapter 6, you may also have to pay federal unemployment insurance and/or state taxes.)



RESOURCE

These are approximate tax figures, for your planning purposes.

Later, you'll need to learn more about the tax rules. Some good information resources include *Tax Savvy for Small Business: A Complete Tax Strategy Guide*, by Frederick W. Daily (Nolo) and IRS Publication 15, (Circular E), *Employer's Tax Guide*, available at the IRS website (www.irs.gov).

In addition, the government also expects you to withhold money from your employees' wages for their portion of income, Social Security, and Medicare taxes. You will pay the withheld amount directly to the government. While every employee is different because of his or her individual tax situation, the average employee has about 15% of total wages or salary withheld from every paycheck for federal income, as well as 7.65% for the employee portion of Social Security and Medicare taxes (or a total of about 23%). So every month, you will send the IRS both the amount withheld from your employees' paychecks as well as the amount you owe in payroll taxes (the employer's portion of Social Security and Medicare taxes). If you make these payments every month, they don't affect your cash flow, so they won't show up on your Cash Flow Forecast.

However, you may choose to pay taxes quarterly rather than monthly if your total tax liability (your employer payroll taxes plus the withholding amount for your employees' taxes) will be less than \$2,500 for each quarter. Make sure you verify your employees' actual withholding rates before deciding on this option. If you decide to pay quarterly, this will affect monthly cash flow, so you should enter the appropriate amounts on Lines 6 and 7 of the Cash Flow Forecast.

EXAMPLE: Let's say that you plan to hire one part-time sales clerk in your business for a total salary of \$1,500 per month, or \$4,500 per quarter. Assuming a 15% income tax rate, plus about 15% for both the employer and employee portion of Social Security and Medicare, your total tax liability would be about 30%, or \$1,350 each quarter ($0.30 \times \$4,500 = \$1,350$). In that case, you qualify for the quarterly option.



CAUTION

Please note that paying these taxes every three months instead of every month is a dangerous option because it means that you will be using your employees' money in your business. By far the simplest, safest, and best way to pay the government is to pay the total withholding amount every month.

7. Withholding Tax Payments. Skip this item if you'll be paying your employees' withheld taxes and your employer payroll taxes monthly instead of quarterly. Otherwise, add together three months' worth of your tax liability from Line 6 and enter the total amount every third month on Line 7. That is the amount you must pay every three months to the IRS. If this little exercise seems confusing to you, take your confusion as a sign that you should not attempt this option. You'll be much better off simply paying the withholding and taxes every month.

8. Depreciation. As discussed previously, depreciation is a fictitious expense you charge the business for using up fixed assets. If you included an amount for depreciation in Line 4g of your Profit and Loss Forecast (see Chapter 6) and reduced your profits accordingly, you must enter the same numbers here to get your monthly cash flow. If you wrote nothing in Line 4g of your Profit and Loss Forecast, you can leave this line blank and skip to Line 9.

9. Loan Principal Payments. In your Profit and Loss Forecast, you calculated how much interest you'd pay every month. You'll also make regular payments on the principal of your loan, which are shown in your Cash Flow Forecast. To get the amount of the principal payment, just subtract the interest payment, taken from Line 4f of your Profit and Loss Forecast, from the total loan payment. (Review the chart in Chapter 6 if you have trouble.)

If you have a loan with interest-only payments and a large principal payment every few months or at the end of the loan, it's essential that you write in the scheduled principal payments. That way, you'll be able to plan for them and avoid the nasty surprise of having to make a large loan payment you forgot about.



CAUTION

Interest and principal. Be sure that the interest expense from the Profit and Loss Forecast (Chapter 6, "Profit and Loss Forecast: Year One") and the principal repayment line from your Cash Flow Forecast add up to your total monthly payment.

10. Extra Purchases. Let's say that you plan to have a big sale sometime during the year and need to buy extra merchandise for the sale. These extra purchases are above and beyond normal inventory replacement, so they won't be covered by the amounts you have written for purchases resulting from your cost of sales. Include those extra purchases here.

11. Other Cash Items. Here is where you place any cash receipt or expenditure that is not covered in the Profit and Loss Forecast or elsewhere in your Cash Flow Forecast. For example, perhaps you anticipate an investment in your business in a few months and you need to show the positive cash infusion. Or you might plan to buy a new piece of equipment at some point down the road. If your total is negative, make sure you put brackets around it. Otherwise, your Cash Flow Forecast will be incorrect.

12. Monthly Net Cash. Take a moment to review your work to make sure you have understood the cash flow effect of each of the entries and that they are all on the right lines. Make a final check to be sure that any negative numbers have brackets around them.

Then add and subtract the various entries on the Cash Flow Forecast form to derive the monthly net cash for each of the 24 months. Positive cash numbers represent additions to your bank account, while negative cash numbers represent money you'll have to add to the business. Remember that numbers with brackets around them are subtracted from the total and that numbers without brackets are added to the total.

If the monthly cash flow figure is a negative figure, make sure you place a bracket around it. Do that as you complete each month's calculations; otherwise, you'll forget which numbers are positive and which are negative and you'll have to do all the arithmetic again.

Year Total. Add up each of the rows (Lines 1 through 13). Enter the yearly totals under the Year Total column. If you're using the Cash Flow Forecast form on this book's companion page (see Appendix D), the form will automatically populate these totals for you. If you aren't using that form, check your arithmetic by seeing if the total monthly net cash figures add up to the same figure as your yearly total. If your answer is the same whether you add vertically or horizontally, your math is correct. If not, you've made a mistake somewhere

**CAUTION**

Don't use Line 13 (Cumulative Net Cash) to check your math.

It won't work in the second and later years because those years start with a previous balance.

13. Cumulative Net Cash. This line shows how the monthly negative or positive monthly net cash numbers add across to derive the total cash required for working capital. Most businesses will show several months of negative cash flow followed by months of positive cash flow. By adding the monthly figures together, you'll see the maximum negative cash—that's the amount you'll need for working capital.

For Month One, simply copy the net cash amount listed in Line 12 for that month. To get Month Two's cumulative net cash, add together Month One's cumulative net cash (Line 13) and Month Two's net cash (Line 12). For Month Three, add Month Two's cumulative net cash (Line 13) to Month Three's net cash (Line 12). Continue that process for the entire 24 months. Remember that when you add two negative numbers together, you get a larger negative number—you do not get a positive number.

EXAMPLE: The M & M Copy Shop chart shows how to accumulate these figures. Note how the cumulative cash flow increases the negative amount when each individual month's net cash flow is negative. Then, when the individual monthly figures turn positive, the cumulative negative figure becomes smaller as the positive cash flow reduces the cumulative negative figure. Finally, in the fifth month, the cumulative figure becomes a small positive. This means that the fourth and fifth months of positive cash flow have offset the first three months of negative cash flow.

	1	2	3	4	5
<i>Line 12: Monthly Net Cash</i>	(2.5)	(1.8)	(0.2)	1.9	3.9
<i>Line 13: Cumulative Net Cash</i>	(2.5)	(4.3)	(4.5)	(2.6)	1.3

Required Investment for Your Business

This chapter's objective is to develop the amount of money you need to start or expand your business. That amount of money is the sum of two numbers:

- the total dollars you developed from the Capital Spending Plan, and
- the largest negative figure you developed on Line 13 (Cumulative Net Cash) of the monthly Cash Flow Forecast.

Make this calculation for your business. You'll use this figure later, when you write your plan summary and spell out your need for funds to start or expand your business.

EXAMPLE 1: For the M & M Copy Shop, the maximum negative cash flow of \$4,500 was reached in the third month (assuming that future individual monthly cash flow figures continued to be positive figures). That is the amount of working capital that M & M Copy Shop needs to begin operation. Mickey and Michele add together the amount listed in their Capital Spending Plan to \$4,500 to derive the amount of cash they need to open their business.

EXAMPLE 2: Antoinette's Cash Flow Forecast shows a positive cash flow from the beginning because her sales revenue starts out high. That means her total cash investment will be limited to the amount from her Capital Spending Plan or \$243,000. Another positive indication is that the business will generate a cash surplus at the end of Year 1, but only if—and it's a big if—her plan holds. She could easily be cash short if any of the plan assumptions don't work out.

Check for Trouble

You have completed most of the foundations on which your business will be built. The Cash Flow Forecast ties together all the previous work and allows you, or your backers, to see exactly how your business will function. I hope that you have gained an understanding of the relationship between sales, expenses, cost of sales, profits, and cash flow by completing your Cash Flow Forecast. If so, that understanding will help you a great deal in the future.

If you still aren't clear about those relationships, it is worth a little time to review your forecasts. It's important that you understand where the money comes from and where it goes. If necessary, take your forecasts to a business adviser or a friend who understands cash flow analysis and ask to have it explained to you.

Don't be surprised if the answers you develop aren't the ones you expected. It may mean that the business won't work or that you need to polish your plans a little. It could just mean that you have made a

mistake in arithmetic. It's best to let the Cash Flow Forecast rest for a day or two before looking for the problem.

No forecasting technique can ensure that your business will succeed. In addition to the problems outside your business that the future may bring (discussed in Chapter 3), you may have built into your plan some money problems that are lurking there, waiting to sabotage your efforts. Your only protection against problems like these is to know your business thoroughly. Sad to say, what you don't know can hurt you.

Antoinette's Inventory Problem

Antoinette estimated her first year's sales at \$1,020,000 and her cost of sales at 62% (see her Profit and Loss Forecast in Chapter 6). She also figured her opening inventory at \$60,000 (see her Capital Spending Plan, discussed earlier in this chapter). Unfortunately, this would mean Antoinette would have to turn her inventory 10.5 times per year ($\$1,020,000 \times 0.62 \div \$60,000$), just to meet her plan. This is not very likely.



TIP

Calculate inventory turnover by dividing annual cost of sales by inventory at cost. If annual sales revenue is \$1,020,000 and cost of sales is 62%, then annual cost of sales is \$632,400 ($\$1,020,000 \times 0.62 = \$632,400$). Inventory of \$60,000 at cost divided into \$632,400 equals 10.5 inventory turns per year.

Antoinette should probably plan for a more realistic inventory turnover of 3.5 times per year, which is typical in her business. To do this and end up with \$1,020,000 in sales, she would need an inventory of over \$180,000 ($\$1,020,000 \times 0.62 \div 3.5$). This would raise her initial cash requirement by \$120,000 to a total of \$363,000. With that much cash investment needed, her business idea may not be worth pursuing unless she can generate a good deal more profit than her Profit and Loss Forecast indicates. This would undoubtedly mean raising sales projections, and otherwise trying to force profits into a questionable

business. If your retail business has an inventory turnover of three to four times per year, you'll be doing pretty well. Many retailers are able to average only one or two turns per year.

Many people who plan new retail businesses expect to start with a fairly small inventory because they don't have much capital to invest. This will very likely cause problems if the sales figures they expect this inventory to produce are too high. For example, if you plan to sell widgets, but can only buy a starting inventory of \$10,000 at cost, it would seem unlikely that you could produce sales of \$200,000 per year. Even assuming you doubled the price of the widgets, this would mean turning your inventory over ten times in the year. For most businesses, it simply isn't realistic to expect inventory to turn over even seven or eight times a year.

Many retailers make a similar mistake; some catch the mistake at this stage, some catch the mistake when they have a business consultant review their plan, and some never catch it. They just sink slowly into bankruptcy, wondering why sales never met projections.

What about Antoinette and her inventory problem? I shall continue with Antoinette's original assumptions, including those for inventory turnover. I want Antoinette's problem (the fatal flaw in her plan) to really sink in. I hope Antoinette's predicament will give you a vague feeling of unease as you continue to read her plan. The lesson is this: Just because a business plan appears to be thorough and looks good on paper, that's no guarantee that it will be successful. It pays to be skeptical.

Typical Problems Retailers Face

You can skip the rest of this chapter if you're not planning to run a retail business. Otherwise, you'll find the following discussion extremely useful.

Here's what Antoinette should have known about inventory. Inventory management separates the professionals from the amateurs in the retail business. Inventory is usually the biggest single investment a retailer makes. Commonly, it happens that a retailer shows a high taxable income, but no cash. Why? Because all the cash went into increasing the inventory.


The goals of inventory management are:

- to have a wide enough selection of new, fresh merchandise to appeal to customers
- to quickly reduce or eliminate items that move slowly, and
- to keep the overall investment in inventory in line with profit expectations.

Good retailers keep current with the merchandise customers want now. They make it a point to always have the popular items in stock. No self-respecting electronics store would be caught dead without the latest phones and tablets. Good retailers quickly mark down slow-moving items for a quick sale. They then use the cash from selling these dead items to buy new and popular ones.

A good retailer has a wide enough selection to appeal to customers. In the case of a local independent bookstore, this might mean a strong backlist in several areas of local interest. Good inventory management also means deciding that some customers just aren't worth catering to. For example, if you wear odd size clothes, you are very aware of this merchandising policy. I wear shirts with 37-inch sleeves because I'm six feet, four inches tall, and it has only been in the last 20 years that some department stores carry this size. That's because retailers used to think that 37-inch-sleeve shirts never sold. Then the baby boom generation came of age, with many men needing larger sizes, and it became economical to serve these folks.

Good retail managers accomplish all of these ends, while keeping the total dollar investment in line with profit goals by carefully managing inventory turnover—how many times per year you completely replace the stock. For example, if your average cost of sales is 50%, your sales are \$300,000, and your inventory is \$40,000, you turn over your inventory 3.75 times per year ($\$300,000 \times 0.50 \div \$40,000$). As before, many retail managers strive for three to four turns per year. Some businesses, like gasoline stations, may turn over their inventory every week. Make sure your plans reflect your industry standard and good common sense.



Write Your Marketing and Personnel Plans

Marketing Plan	180
Review Chapter 3 Work.....	180
Competition Analysis.....	181
Differentiate Your Business From the Competition.....	183
Describe Your Target Customer.....	184
Decide How to Reach Customers.....	185
Create a Marketing Budget.....	188
Write Your Marketing Plan.....	191
Discuss the Risks Facing Your Business.....	193
Personnel Plan	196
Analyze Your Business Personality.....	196
Write Your Staffing Schedule.....	197
Write Job Descriptions.....	198
Write Your Personnel Plan.....	199

Decisions you make about marketing and personnel can spell the difference between your future success or failure. This chapter helps you answer these important questions about your business:

- Who is your competition and how are you different?
- Who are your potential customers and how can you contact them?
- Exactly what steps will you take to reach your sales projections?
- How can you hire the right people for your business?
- How can you make sure that your employees work effectively?

Marketing Plan

Marketing is a broad term that covers many specific issues. Your marketing plan will cover areas ranging all the way from determining how your business fits into the national and local economies to deciding what color your logo should be. The market plan you'll develop in this section will outline the specific steps you'll take to generate the sales dollars you forecast earlier.

Review Chapter 3 Work

In Chapter 3, you were deciding whether or not you chose the right business. As part of that work, you made some important assumptions that will influence your marketing plan:

- **Problem Statement.** This identifies the problem you'll solve for your customers and provides the underlying reason people will frequent your business.
- **Business Description.** This states exactly what your business does for your customers. After all, if you don't provide a valuable product or service, you won't have many customers.
- **Taste, Trends, and Technology: How Will the Future Affect Your Business?** This covers the developments you expect for the next few years and how they will affect your business. Even a "perfect" business can become obsolete overnight due to future developments.

- **Sales Revenue Forecast.** This shows your estimates of future sales revenue for your business. To finish your marketing plan, you'll need to spell out the specific actions you will take to achieve your forecast sales revenues.

Take a moment before proceeding any further and reread your work from Chapter 3 to decide if it still represents an accurate statement of how you view your business. If the statements are not accurate and complete, stop here and rewrite them. Make sure they correspond to your current thinking.

Competition Analysis

When customers consider patronizing your business, they first consider whether or not you can solve their problem. But they don't stop there. They also compare your business with other businesses.

It's helpful for you to make a similar comparison so that you understand how your customers think. This exercise, as any exercise in the marketing area, requires some mental gymnastics. Your job is to place yourself in your customers' frame of mind and objectively compare your business to the competition.

Sometimes business owners let their personal prejudices taint their opinion of a competitor. If your competitor provides a larger selection of merchandise or better service and lower prices than you, it won't matter much to your customers that you don't like the other business's logo or ads.

Think for a moment about the decisions your customers face. What specific methods can they use or places can they go to solve their problem? Incidentally, some of these places and methods may not involve a competing business. Customers do things for themselves or get their needs solved from friends, community, and government agencies or other sources.

First, identify the most likely three ways your customers are going to solve their needs in addition to your business, and make a note of each. These are your principal competitors. To be thorough, write a short statement of each competitor's main strengths and weaknesses. Remember to place yourself in the minds of your customers when you do this exercise.

In the accompanying example, note that Antoinette grouped her competitors instead of treating each store separately, because some stores are very similar. You might choose to group your competition or list more than three competitors.

Antoinette's Shop: Strengths and Weaknesses of Major Competitors

Online retail. Amazon and others

Principal strengths: Wide selection, 24/7 shopping

Principal weaknesses: Impersonal shopping experience, lack of feedback from sales associates, inability to try on items before buying, must pack and ship to return if not satisfied

Department stores. Bagnin's, Jerry's, Glendale's

Principal strengths: Wide selection of merchandise

Principal weaknesses: High prices, inconvenient hours, no alterations. Although these department stores offer long hours and frequent sales, they are understaffed, and customers often have no salesperson to help them make decisions.

Latest fashion stores. Wild Thing, Marian's, Golden Frog

Principal strengths: Fashion conscious, frequent new styles, low prices

Principal weaknesses: Casual wear only, don't cater to mature women, no alterations

Specialty stores. Morgan Olivia

Principal strengths: Sells our style merchandise to our type customers with personal service

Principal weaknesses: High prices, employees have reputation as snobs, alterations take a long time

Differentiate Your Business From the Competition

Your next job is to describe how your business differs from the competition's strong and weak points. Again, remember to carefully look at your business from the customer's perspective.

If you're not sure how your pricing policies compare to the competition, here are some guidelines. Most people associate high prices with high quality and extra service, while they associate low prices with low or average quality and minimum service. Make sure you provide extra quality and service if your prices are higher than your competition—or make sure that your prices are lower if your quality is average and your service is minimum. Check your assumptions by making a price survey of the competition.

Remember that customers may take for granted that you have the same strong points as the competition; if so, you can leave those out of your description. Customers hope that you do not share the same weak points as the competition. But if you do share some weak points, it is probably a good idea to mention the ones you have in common.

Antoinette's Shop: How My Business Differs From the Competition

Antoinette's will offer our target customers a more tailored selection of merchandise than online websites, department stores, or specialty shops. We will offer moderate prices and convenient hours for working women. Antoinette's will take particular pride in personalized services, such as special orders and alterations, as well as a stable, helpful, and knowledgeable sales staff. To summarize, Antoinette's will make clothes shopping fun and worry free by providing a unique selection, reasonable prices, excellent service, and helpful people who know their field.

Describe Your Target Customer

The next step is to describe your target customer in specific, individual terms. As you know, business is a very personal endeavor. When you sell services or merchandise, you sell to one person at a time. As a matter of fact, most people don't like being treated like members of a group instead of individuals. That's why the most successful restaurants have owners or waiters who remember your name and ask about your family or your interests whenever you patronize their business.

Additionally, most of us are more comfortable talking with one person than making speeches to a large group. So it makes sense to address your advertising, promotions, and other marketing activities to a single person instead of a group.

Of course, no two customers are exactly the same. But if you can personalize your marketing program to a typical customer, it will be more effective because it will seem more friendly to your customers. The easiest way to do that is to create a mythical target customer and individualize that target customer so that you consider her a friend. Be as specific and as personal as you can. If you have friends you hope will be your customers, describe one of your friends. Include age, education, occupation, income, hobbies, family status, and so forth.

In the accompanying sample, Antoinette describes her friend and target customer, Terry Chen. With Terry in mind, it is very easy for Antoinette to write ads, letters, and flyers and to decide how and where to promote her business.

Antoinette's Shop: Target Customer

Terry is 39 years old and has a B.A. in business communications; she is married and has a son, Jimmy, in elementary school. Terry works as a salesperson for a large corporation and makes about \$120,000 per year. She loves her job and is interested in working her way up to a management position in sales.

Terry travels frequently, mainly to corporate branches in large cities on both the East and West Coasts. Her colleagues are sophisticated, and Terry must present a stylish image without overspending on designer clothes.

Terry keeps current with the latest women's trends (she has lots of time to read her device on the plane!). She and her husband Peter have a close group of friends with whom they like to go out for dinner and to see movies or local plays a few times a month.

Terry mainly gets her fashion sense from seeing current styles in the workplace and online. She has little time for shopping, and she prefers to shop in a personalized environment (rather than online or at a mall an hour's drive away). Terry also enjoys talking with saleswomen who know what she likes and will handle any necessary alterations.

Decide How to Reach Customers

Once you describe your target customer, it's easier to create a list of possible ways to reach that person. One of your jobs as a businessperson is to decide which of all the possible methods of communication will give you the most exposure for the least cost in money or time. There are an infinite number of communication methods. These methods range from personal visits to each customer to mass media advertising, with a wide range of possibilities in between. We list some in "Ways to Reach Your Target Customer," below, as a stimulus to your thinking.

Ways to Reach Your Target Customer

Here are some common methods businesspeople use to reach customers:

- Create a business website and social media pages (such as Facebook, Twitter, and Instagram).
- Post updates and new items regularly.
- Collect customer email addresses and send regular newsletters and updates via email.
- Take each prospect to lunch.
- Visit or telephone each prospect regularly.
- Send a personalized letter or handwritten greeting card to every prospect.
- Write a technical article in a trade journal.
- Attend or make presentations at trade or industry shows and conventions.
- Appear on radio and television shows about your field.
- Write a newspaper or magazine column about your field.
- Mail brochures or flyers to each prospect.
- Advertise in print: newspapers and magazines.
- Advertise on radio and television.
- Advertise via Facebook and Twitter.
- Place leaflets on car windshields or home doorknobs.
- Put notices on supermarket bulletin boards.
- Join service clubs and take part in community affairs.

There are lots of alternative strategies you can use to reach your market. For example, businesses with a few large-dollar customers will have different choices than businesses with many smaller-dollar customers. Technical consulting businesses tend to fall in the category of having a few customers with large contracts, whereas fast food restaurants or retail stores have many customers who make small purchases.

Above all, remember that the most effective way to reach and keep customers in the long run is by word of mouth. All the marketing and advertising you do can only entice your customers to try your business the first time. After that, they will come back to your business if they like what they received, and they'll tell all their friends. But be aware that customers are even more likely to let friends know if a business doesn't meet their expectations.

Antoinette's Shop: Costs of Reaching My Target Customers

I have about 20,000 potential customers in the greater New City trading area. I don't anticipate reaching customers beyond this area.

1. I like Facebook ads; they reach my customer base quickly and relatively cheaply. I will try to keep a constant ad in FB for about \$200 per month.
2. I like direct mail too, since I can develop lists of active businesswomen in the area. I'd like to bulk-mail a flyer announcing our opening for about 30¢ to 50¢ each, for a total cost of \$6,000 to \$10,000.
3. Limited ads in the *New City Monthly* will run about \$300 to \$500 per month for a few months.
4. When anyone comes into the shop, I'll ask them to sign my mailing list to receive email notices of upcoming sales, new merchandise arrivals, fashion shows, and fashion tips.
5. I can place announcements of my fashion shows in the daily paper serving the area at no cost.
6. I'll see if the local paper will carry a column I'll write for free on fashion tips. I can always post my column online with links on social media.
7. I'll join all the professional women's groups in the area and become a visible spokesperson for my shop.
8. I'll create a simple but visually appealing website and be sure to showcase new arrivals four times per year. I will also create a Facebook page with weekly posts.

To complete this next exercise, write down the five or so methods you think will reach most of your customers. Remember to select methods that are appropriate for the overall number of people in your target market. For instance, if your target market is every married woman in the United States, you will probably use social media as an effective communication method. On the other hand, if your target market is the presidents of the 100 largest companies in your trade area, you are more likely to use individual contacts than social media.

Once you've chosen the communication methods you like best, figure out how much it will cost to reach your customers using each of the five methods.

Note that some of Antoinette's more sensible ideas don't take any money at all, just some time to convince the magazines and papers to carry her material and the time to produce it. Perhaps you can develop some similar ideas for your business.

Create a Marketing Budget

Now that you have a wish list of things you'd like to do, it's time to decide which of the promotional ideas you can afford and which are too costly. In Chapter 7, you prepared a Capital Spending Plan and estimated how much money you'd allow for an opening promotion to let people know you're in business. In Chapter 6, you prepared a Profit and Loss Forecast that took into account your monthly marketing costs. If you allowed enough money to provide the sort of promotion you want, you can finish writing your marketing plan now.

However, if you didn't allow enough money, or if you're not sure how much money is enough, you'll want to stop here for a moment and think about it. Ask yourself these questions:

- **How much money do I need for an opening promotion?** I suggest that you allow enough money to tell all your target customers one time that you are open for business. If you tell them all once, they can decide when to come see you. And if you have designed your business so that it truly addresses a customer need and is different from the competition, your target customers will be very alert to

your opening. Even if they don't see your first message, they may hear about you by word of mouth.

If your opening promotion plan exceeds your budget, you'll need to go back and revise your Capital Spending Plan to allow for the promotional expense. If that's your situation, complete this chapter, then go back to Chapter 7 and revise the cash totals.

- **Are my methods of promotion cost effective?** Once you've estimated the cost of reaching all your target customers with the first message, compare that cost with the amount of money in your budget. Your job is to get the most exposure for the least outlay. Making that final decision may mean that you have to refine your promotion cost estimates from rough guesses into bids and quotes from suppliers. Normally, unless you're really unsure of promotional costs, you shouldn't take the time to obtain those quotes for now. Just balance your wish list against your budget to develop your marketing plan.
- **Have I allowed enough money in my monthly expense budget for ongoing advertising and promotion?** Take a look at the advertising expenses you forecast in the Profit and Loss Forecast in Chapter 6. If that amount needs changing, you'll need to change both your Profit and Loss Forecast and the Cash Flow Forecast (Chapter 7). If that's your situation, do it after you complete this chapter. But if you're not sure about how much money to allow for monthly advertising and promotion, go back and reread the discussion about advertising in Chapter 6, "Complete Your Profit and Loss Forecast" Line 4d, "Marketing and Advertising."

To create a marketing plan, start by listing each of the promotional items you decided on for your preopening promotion together with their costs. Then add up the preopening promotional costs and fill in the total.

Next, list each of the promotional items you plan to use during the first two years of your business together with the monthly cost of each.

Those two groups of specific actions and costs, preopening promotion and monthly marketing, advertising, and promotional costs, will become the blueprint for your marketing plan.

Despite Antoinette's well-thought-out marketing plan, her original budget allowed nothing for an opening promotion and \$1,000 per month for ongoing advertising. She could, however, decide to take some of the \$15,000 contingency (see her Capital Spending Plan in Chapter 7) and use it for preopening promotions. It looks like Antoinette needs to make some hard choices about which marketing tools to drop and by how much to increase the marketing budget. We'll leave her now to solve that problem in peace and quiet while we move along to the next step.

If you're in the same predicament, take your time to balance costs and effectiveness the best you can, and then move ahead to the next step.

Antoinette's Shop: Marketing Budget

Preopening promotion

1. Mail 10,000 pieces announcing grand opening; create website, Facebook page, and online ads	\$ 5,000
2. Advertisement in <i>New City Monthly</i> ; one month (including graphics)	500
3. Publicity from papers, <i>New City Monthly</i> ; no cost (but much time to write articles and contact editors)	<u>0</u>
Total preopening costs	<u>\$ 5,500</u>

Monthly advertising

1. Email newsletter every two months to entire mailing list, and (upon request only) mail print newsletter; approximate cost per month	\$ 650
2. Update website and Facebook page; no cost (but time to write content)	0
3. Run Facebook ads constantly; estimated monthly cost	250
4. Join service clubs; estimated monthly lunch and membership fees	<u>100</u>
Total monthly cost	<u>\$ 1,000</u>

Write Your Marketing Plan

By now, you have asked some tough questions and faced some critical issues. You may wish to combine the major points of the exercises into a summary narrative, or you may wish to present the results of each exercise independently.

If you summarize the work into a narrative, your plan will read more easily and look more professional. However, the potential downside to combining the answers into a narrative format is that you may inadvertently leave out a point of major interest to your backers. If you do elect to combine the answers into a narrative, be careful to cover all the points in each exercise. Use Antoinette's marketing plan as a guide. You'll see that the work Antoinette did in Chapter 3 (writing a problem statement and business description) contributed to this marketing plan.

Antoinette's Shop: Marketing Plan

Antoinette's Shop will concentrate on developing a clientele consisting primarily of working women. We are particularly interested in professional women who expect to advance in their chosen careers in more creative fields, such as marketing and business communications. These women require clothing in line with current trends at reasonable prices. According to the Chamber of Commerce, the greater trading areas of New City include some 20,000 women who fit this description.¹ Forecasters expect this market to continue to show little growth in the near future, perhaps only 3%. We believe the trend toward a higher concentration of professional women in this county may even accelerate because of the increased concentration of professional and management industries locating here.²

Personal experience and market research³ demonstrate that upwardly mobile working women prefer fashionable, creative clothing at moderate prices. These women prefer to shop where they receive personal attention, especially prompt, free alterations that traditionally have not been provided

to women. Women in this group normally prefer to shop between 5 p.m. and 7 p.m., on their lunch hour, or on weekends.

Most of our target customers shop at three types of stores for their clothing:

- department stores such as Bagnin's, Jerry's, and Glendale's
- latest fashion stores such as Wild Thing, Marian's, and Golden Frog, or
- online sites like Amazon.

Some of our target consumers presently shop at the department stores for the type of business clothes we will sell, and others shop at fashion stores for casual clothing. However, we believe we can capture a lot of this business for a number of reasons.

Antoinette's will appeal to customers who are either shopping online, at one of the local stores, or going out of the area to meet their needs for personal service. For instance, many professional women travel as much as 25 miles to South City to shop at Freida's because their service needs are simply not being met locally.

Generally speaking, the department stores offer a wide mix of merchandise, but little professional sales assistance. However, it isn't easy to find an interesting selection of fashionable business clothing at reasonable prices in any of them. In addition, Bagnin's and Glendale's close at 5:30 on weekdays and are only open on Saturday for limited hours. Department stores offer fairly impersonal services, with a frequent turnover of sales people. Alterations (if available at all) are usually an additional charge and typically take a week or more to complete. Our policy of offering free alterations within 24 hours is sure to appeal to women.

While creative and fashionable clothes are widely available online at reasonable prices, many women want to try clothes on and make purchase decisions on the spot—rather than wait several days for an online order, which may not be right in terms of size, fit, color, or style.

¹ Annual Survey of Business Conditions, New City Chamber of Commerce, January 19, 20xx.

² Bank of New City economic forecast for 20xx.

³ See attached article from September 27, 20xx issue of *Woman's Monthly*.

Discuss the Risks Facing Your Business

Every business faces risks. The people whom you will ask for money will want to see that you can not only face reality but also deal with possible difficulties. The following discussion outlines risks small business owners typically face. Once you've analyzed these factors, you'll be ready to write a summary of the risks that apply to your own business.

Competition. Most businesses have competition. How will your business differ in significant and positive ways from your competition? If your competition is strong, don't minimize that fact, but figure out ways you will adjust to or use that strength. For example, if you plan to open a restaurant next to an extremely popular one, part of your strategy might be to cater to the overflow. Another might be to open on days or evenings when the other restaurant is closed.

Pioneering. If you anticipate no direct competition, your business probably involves selling a new product or service, or one that is new to your area. How will you avoid going broke trying to develop a market?

Cycles and Trends. Many businesses have cycles of growth and decline often based on outside factors such as taste, trends, or technology (discussed in Chapter 3). What is your forecast of the cycles and trends in your business? For example, if your forecast tells you that the new electronic product you plan to manufacture may decline in three years when the market is saturated, can you earn enough money in the meantime to make the venture worthwhile?

Slow Times. Every business experiences ups and downs. Is your business small and simple enough, or capitalized adequately enough, to ride out slow times? Or do you have some other strategy, such as staying open long hours in the busy season and closing during times of the year when business is dead?

Owner's Expertise. Nobody knows everything. How do you plan to compensate for the knowledge you're short on? For example, if you've never kept a set of books, you may need to hire a part-time bookkeeper and an accountant to make sure the bookkeeping system is adequate. Or you may need to buy an accounting program and devote some time to mastering this tool.

EXAMPLE: Doreen Cook wanted to establish her own restaurant. She had cooked for other restaurant owners for years and knew the practical side of putting good food on the table. However, she had little patience with financial matters and was honest enough to admit she didn't want to learn how to keep books. To solve this problem, she invited George, her CPA, to be her junior partner, with full responsibility for financial management. She and George emphasized this connection in her business plan and loan package, which George designed. In addition, George was invaluable in lining up a list of potential lenders.

Cash Flow. Seeing the money come and go on a daily and weekly basis is very different from looking at a yearly Profit and Loss Forecast (Chapter 6). You also want to be sure that your business can survive long enough so you can enjoy your profits. If you completed a Cash Flow Forecast such as the one set out in Chapter 7, you should be able to demonstrate that you can survive foreseeable cash flow problems.

Write your risk analysis by first thinking of the main dangers your business faces. This shouldn't be hard, as you have probably been concerned about them for some time. Some of these may be on the list set out above; others will be unique to your business. Once you have identified the principal risks facing your business, write out a plan to counter each. But don't bog yourself down worrying about all sorts of unlikely disasters.

**TIP**

A note of philosophy: This is the stage when remorse or jitters may set in. You may be thinking, "Am I really doing this? Think of all the things that could go wrong. I could lose everything!" Your purpose in writing a risk discussion is to force yourself to face your fears and concerns, not to scare yourself out of going into business. If your rational, intellectual analysis tells you that the risk factors are manageable, proceed as hard and fast as you can. You don't have time for useless and unnecessary worry. On the other hand, if you really do get overwhelmed worrying about potential disasters, pay attention to your anxieties. They may be telling you that you don't have either the personality or knowledge of your business to handle the risks you'll take in a small business.

Antoinette's Shop: Risk Analysis

Like every new business, Antoinette's faces several risks. I believe I can overcome each risk with the actions discussed below.

The primary risk we face is that my concept of specializing in reasonably priced, but trend-conscious, clothing for working women is new to this area. No one else in New City is presently doing exactly what we propose. Although we believe we have identified a market niche that the competition has failed to adequately exploit, our assumption remains to be proven here in New City. On the positive side, the population base of our target customers is more than adequate to support a store of our size and we have based our volume and profit projections on average figures for the industry. In addition, the type of store we propose has been very successful elsewhere. Nevertheless, we must demonstrate that this type store will work here. It must take sufficient business away from stores with a broader line of merchandise to make a profit.

A secondary risk is that we are thinly capitalized. If our sales volume fails to meet projections in the first year, our small working capital reserve may be inadequate to meet our cash flow needs. On the positive side, however, we believe our sales projections are conservative and that we will have little trouble meeting our sales revenue goals. In addition, by starting with relatively modest capital, we will have no large loan payments. Also, we have had several potential investors express an interest in the business. If our working capital reserves are exhausted, but the business demonstrates potential, we should be able to attract investors. *[But remember, we discovered that, on the basis of her Cash Flow Forecast, Antoinette's business has a fatal flaw (Chapter 7) and her entire plan will need reworking from the beginning.]*

Finally, there is a slight risk that our target market of trend-conscious working women in New City will change their tastes as they mature. However, we do not expect this to happen. White-collar jobs have doubled here in the last decade and it seems reasonable to expect that the population of working women will continue to grow and that we will profit from that expansion. This projection is based on the fact that many well-established firms have located here and more are expected to do so. Nevertheless, if for any reason general industry declines, or a significant number of local companies fail or move overseas, we could face some problems and might have to change our marketing strategy.

The purpose of this book is to help you understand the dimensions of the risks your business faces, but you, as the potential business owner, must put your money and belief on the line. Abe Lincoln said it: “Be sure you’re right, then go ahead.”

Personnel Plan

Chances are that you’ll need some help to run your business. It’s hard to overestimate the impact employees have on small businesses. First, your paperwork explodes when you hire the first employee. Many government agencies regulate your relations with your employees, and you’ll need help if you’ve never employed anyone before. Your accountant can help with payroll forms, and your local employment development agency can help with other regulations.

Second, how to successfully hire, manage, and fire people is a fine art, which this book can’t possibly cover. If you have any doubts about your abilities in this area, make sure you get guidance from employment agencies, the local employment development department, or a private consultant. And be sure to see the personnel resources in Chapter 12.

Fortunately, there are some basic steps you can take that will increase your chances of making hiring decisions correctly. Many business owners fail to be clear in their own minds about basic details affecting an employee; that’s a mistake almost guaranteed to cause trouble.

Analyze Your Business Personality

Every business has a personality that customers and suppliers spot right away. Your employees help create that personality in their daily interactions with customers, suppliers, and each other. Your job as the business owner is to decide what personality you want your business to have. Once you are clear about your business’s personality, you can easily look for employees who fit in well. Take out a blank sheet of paper or open a computer file and write a statement of the personality you want your business to have.

Antoinette's Shop: Business Personality

The impression I want my customers to receive is that our store provides the most interesting and creative selection of merchandise in our clothing category at reasonable prices. We also provide services that take the worry, regrets, and hassle out of shopping. Our employees should be sincerely helpful and dedicated to solving our customers' problems. I want them to be very knowledgeable so that our customers consider us as their clothing advisers, in addition to the best store.

Write Your Staffing Schedule

Now that you know what sort of people you want to hire, your next job is to decide how many people you need. (You may have completed this already in Chapter 6, "Complete Your Profit and Loss Forecast," Line 4a.)

The following example shows how Antoinette thought through her staffing schedule. You will make your decisions differently, depending on the needs of your particular business.

Antoinette's Shop: Staffing Schedule

My shop will need two people on the floor at peak times (lunch, after work, and weekends). I can open the store at 10 a.m. and can usually be available to fill in if the store suddenly gets busy at an unexpected time, as well as doing the books and ordering when the store is not crowded. Therefore, I plan to hire one full-time assistant manager and two full-time clerks, so that there will always be one employee in the store. That's a total of 120 hours per week of labor. The assistant manager will work from 10 a.m. to 6 p.m. Tuesday through Friday and from opening to closing on Saturday. The two clerks will be scheduled so that all the open hours are covered.

Write Job Descriptions

Next, write a separate description for each position you plan to hire. Each job description should include several items of information:

- job title
- job duties
- skills required, personality desired
- education required
- supervisor, and
- pay rate and monthly total wages/salary, including benefits, if any.

As an example, here's how Antoinette completed a job description sheet for her sales clerks. As mentioned several times in this book, the numbers here (for example, for pay rates, below) are for illustration purposes only (many of you will be paying a sales clerk more than \$11 per hour and an assistant manager more than \$15 per hour).

Antoinette's Shop: Job Description for Sales Clerk

Job Title: Sales Clerk

Job Duties: Sell clothing, interact with customers, and present a good image of my shop.

Skills and Personality: The clerk must have basic retail and cash handling skills and must demonstrate good math skills before hiring. She must be friendly and well-dressed. She must know current fashions and proper accessorizing as well as basics about alterations. She must be adept at working with the occasional irate customer.

Education: She must be at least a high school graduate.

Supervisor: Since she will be supervised by both my assistant manager and by me, the sales clerk must be comfortable in situations with more than one person able to give orders.

Pay Rate and Monthly Wages: The clerk will work about 40 hours per week for a total of approximately 170 hours per month. I think I can hire a suitable clerk for about \$11 per hour plus payroll taxes. That brings her monthly total to \$1,892 ($\$11 \times 40 \text{ hours} \times 4.3 \text{ weeks}$).

Once you complete a job description for each employee, add together all the monthly total wages/salary amounts you'll pay each employee. Verify your calculations against the numbers you used on Line 4a of the Profit and Loss Forecast (Chapter 6).

EXAMPLE: Antoinette learns that sales clerks often make minimum wage, even with one or more years' experience, and that there are lots of qualified people looking for clerk positions. Assistant managers with several years' experience make about \$15 per hour. In each case, Antoinette plans to pay above the low end of the wage range to ensure she'll find competent people and to minimize problems with turnover.

Accordingly, Antoinette plans to pay her sales clerks \$11 per hour. Although she could probably hire an assistant manager for \$12 per hour, she decides to pay \$15 because she knows an excellent person whom she really likes and trusts. If each of her two sales clerks and her manager work 40 hours per week, her weekly wage cost will be \$1,480 ($\$11 + \$11 + \$15 = \37 , multiplied by 40). Multiplying these weekly figures by 4.3 weeks results in an average monthly wage cost of \$6,364. Extra costs for the employer's contributions to Social Security and Medicare come to about 7.65% of each person's salary (up to a maximum that won't apply for Antoinette's employees). So, the total monthly cost for wages and payroll taxes is about \$6,850 ($\$6,364 + 7.65\%$). She plans no extra costs for benefits, like health insurance or vacations, until the business is a success and she can afford them.

When you work out these numbers for your business, check them against your entries on Line 4b of your Profit and Loss Forecast. You'll see that Antoinette's P&L numbers are different from the calculation in this example, but the differences have no significant impact.

Write Your Personnel Plan

As we discussed before under the marketing plan section, you may wish to summarize the information in these exercises into a narrative personnel plan. Just make sure you don't forget some important information when you do that. Here's Antoinette's written summary of her personnel plan.

Antoinette's Shop: Personnel Plan

Antoinette's Shop will employ a full-time assistant manager and two full-time clerks.

The assistant manager will be Sally Walters (résumé attached). I have known Sally for several years and believe we will work well together. Until recently, she was the assistant manager of the dress department of a large department store, where she helped modernize the merchandise line. Her department increased sales by 25% in two years.

Sally will be paid \$15 an hour. My goal is to fully involve Sally in the business so that I will feel comfortable leaving her in charge when I take time off or have obligations outside the store.

Sally will work a 40-plus hour week primarily assisting customers. She will also assist in ordering decisions. Sally will sometimes open and close the shop and make bank deposits, although she will not have to do so regularly. She will work from 10 a.m. until 6 p.m. Tuesday through Friday and all day Saturday.

The sales clerks will be paid slightly above prevailing wage. They must be personable, presentable, and have some prior retail sales experience. They will each work 40 hours a week, including weekends. They will also assist in keeping the store attractive by stocking, cleaning, and developing window displays. Sally and I know several acceptable candidates and the local unemployment office indicates that many more are available.

I will work six days a week at the start but will consider closing the store on Mondays if that proves to be a slow day. I will act as seamstress until business expands significantly. If business expands more rapidly than forecast, I will hire additional part-time clerks and a part-time seamstress, as appropriate.

Antoinette's will not offer health insurance or other employee benefits until the profit picture warrants them.

Editing and Finalizing Your Business Plan

Decide How to Organize Your Plan	202
Quick Plan (One-Day Plan)—Suggested Outline.....	202
Complete Plan—Suggested Outline.....	203
Write Final Portions of Your Plan	204
Write Your Plan Summary.....	204
Section Introductions.....	207
Personal Goal Statement.....	209
Create the Appendix	211
Create Title Page and Table of Contents	212
Complete Your Final Edit	212
Let Your Plan Rest.....	213
Final Details.....	213
Consider Using a Business Consultant	214

Readers and investors see lots of business plans. You'll want to make sure your plan gets the attention it deserves by presenting it in the best possible manner. This chapter shows you how.



TIP

If you've chosen the quick plan method to prepare a business plan (see Chapter 1), you need to read and complete these sections of Chapter 9:

- “Decide How to Organize Your Plan”
- “Write Your Plan Summary”
- “Create the Appendix,” and
- “Create Title Page and Table of Contents.”

Decide How to Organize Your Plan

Each business plan has a unique structure that to some degree is determined by the particular business and fundraising needs.

Although you'll be writing a few more short sections in this chapter, you'll probably want to take a few minutes now to get organized. Take out all the work you've completed so far using this book. Then arrange the various components in the order suggested below for a complete plan or a quick plan, whichever you've chosen. (See Chapter 1 for an explanation of these different methods.) Of course, you can vary the sequence if a different order makes more sense to you. If you're happy with the order in which the various parts appear, chances are that your readers will be also.

Quick Plan (One-Day Plan)—Suggested Outline

Title Page: See “Create Title Page and Table of Contents” in this chapter.

Plan Summary: See “Write Your Plan Summary” in this chapter.

Table of Contents: See “Create Title Page and Table of Contents” in this chapter.

Problem Statement: Chapter 3

Business Description: Chapter 3

Business Accomplishments (Résumé): Chapter 5

Sales Revenue Forecast: Chapter 3

Profit and Loss Forecast: Chapter 6

Capital Spending Plan: Chapter 7

Cash Flow Forecast: Chapter 7

Appendix: Table of Contents: See “Create the Appendix” in this chapter.

Appendix: Supporting Documents: See “Create the Appendix” in this chapter.

Complete Plan—Suggested Outline

Title Page: See “Create Title Page and Table of Contents” in this chapter.

Plan Summary: See “Write Your Plan Summary” in this chapter.

Table of Contents: See “Create Title Page and Table of Contents” in this chapter.

Problem Statement: Chapter 3

Business Description: Chapter 3

Business Accomplishments (Résumé): Chapter 5

Marketing Plan: Chapter 8

Sales Revenue Forecast: Chapter 3

Profit and Loss Forecast: Chapter 6

Capital Spending Plan: Chapter 7

Cash Flow Forecast: Chapter 7

Future Trends: Chapter 3

Risks Facing Your Business: Chapter 8

Personnel Plan: Chapter 8

 Business Personality: Chapter 8

 Staffing Schedule: Chapter 8

 Job Descriptions: Chapter 8

Specific Business Goals: Chapter 2

Personal Financial Statement: Chapter 5

Personal Background: (Your Strong and Weak Points, General and Specific Skills, Your Business Needs, Your Likes and Dislikes): Chapter 2

Appendix: Table of Contents: See “Create the Appendix” in this chapter.

Appendix: Supporting Documents: See “Create the Appendix” in this chapter.

Length of Your Plan

Some of you probably wonder how long a business plan should be. Should it be five pages or 500 pages? The best answer is that your plan should completely and concisely cover all the issues that we raise in this book. You may be able to place all that information on 15 to 20 pages or you may need more, especially if you provide several appendixes.

The key is to include all the information you need to tell your story and exclude any information that isn't needed. Remember, more isn't necessarily better. If you have any doubts about this, have a consultant review your plan's length.

Write Final Portions of Your Plan

Now that you have an overview of what your finished plan will include, it's time to begin writing the final sections. Every business plan needs a summary, which is covered below. In addition, you may choose to write several short statements that will improve your plan and make it more cohesive. Those optional statements are also covered below.

Write Your Plan Summary

The plan summary (sometimes called introduction) introduces and emphasizes the high points of your plan. It includes a statement of the total amount of money you seek. Because the summary is based on the rest of your plan, we've waited until now to cover it. Your job is to tell your readers who you are, what you want to do, how much money you need, and how much money you expect to make, all on one page.

**CAUTION**

Pay attention! Many people will never read your entire package.

They will make their preliminary decision about lending you money or investing in your project on the basis of their first impression of your plan summary.

Others will decide to read the rest of your materials only if your summary engages their interest. So put all your strong points in the first few paragraphs, saving the details for later. Absolutely follow these rules:

- Keep it short.
- Be specific.

Your plan summary needs a statement of the total cash you need to begin or expand your business. This is the sum of the preopening costs and the maximum negative cash flow. (See Chapter 7.)

EXAMPLE 1: This summary introduces Juanita's Waffle Warehouse.

"My Waffle Warehouse requires \$145,000 in preopening costs, which are detailed on the following pages. I have researched my equipment costs carefully, resulting in a potential savings of \$55,000 by buying secondhand (reconditioned and guaranteed) cooking equipment. Also, my grand opening costs are firm estimates resulting from verbal quotes from the ad agency recommended by the Waffle Warehouse franchising company. I am confident that these are accurate estimates and I look forward to proceeding."

**CAUTION**

Businesses seeking investors. If you will solicit equity investors instead of applying for a loan, you'll need a statement delineating what investors will receive for their money rather than information about how a loan will be repaid. As a small business, you will almost certainly not propose selling stock to the public at large. Therefore, you will need to propose that investors will receive a significant share of ownership of the business and perhaps some monthly or annual cash payment as well. (For more details on equity investments, see Chapter 4.)

EXAMPLE 2: An investment of \$20,000 in John's Roof Repair business will result in the investor receiving a 33% interest in the business. Present plans are to distribute one-half of the annual profit of the company to the owners each year. Based on projections contained in this proposal, this means a person who invests \$20,000 will receive \$5,000 the first year, \$17,500 the second year, and \$25,000 each year thereafter. In addition, investors will be entitled to have any necessary roof repairs done to their homes or business buildings and those of immediate family members at 50% off the regular rate.

If you're concerned about your ability to write in a businesslike style, consider following the same three-step process as Antoinette:

1. List the positive facts you want to cover; you'll probably need to review the work you've done to get that information.
2. Rearrange the facts in a logical sequence that presents the most positive facts in a coherent pattern.
3. Write the facts in simple prose.

Here is Antoinette's preliminary outline of the most positive facts of her business plan. Remember, at this stage she is only doing this exercise for herself, so she has no need to be fancy.

Antoinette's Shop Business Plan Summary: Outline of Most Positive Facts

- Clothing boutique will cater to working women.
- 20,000 potential customers are in the city and it's a growing market.
- No competitor exploits market systematically.
- Risks such as newness of my concept to our community appear moderate and I have a plan to overcome all identified risks.
- I have a good friend with solid qualifications to be assistant manager.
- My background includes responsibility and knowledge in all critical areas.
- My personal goals coincide with the financial success of the business.
- Detailed financial projections show that I can start the business and reach my goals with \$243,000.
- Creative marketing ideas include free alterations, clothing tips for working women, occasional fashion shows.

Next, Antoinette rearranges these highlights in a logical order. Here is how her second version looks.

**Antoinette’s Shop Business Plan Summary:
Outline of Most Positive Facts (2nd draft)**

1. Open a women’s clothing boutique catering to professional working women/need \$243,000 to do it.
2. My market analysis demonstrates the concept is sound and that I have more than enough potential customers (20,000) to make it work.
3. I have several unique marketing ideas that should attract customers.
4. No competitor targets our customers systematically.
5. Both my qualifications and Sally’s prove that I can do it.
6. Financial projections show the loan can be paid back with ease.
7. The money will be well used for opening inventory, equipment, working capital, and the other things necessary for starting the business.
8. Conclusion: This business represents my long-held dream and I am eager to begin.

Finally, Antoinette writes a narrative summary, which is shown below.

Section Introductions

When you look over your plan, you may notice that some of the sections seem incomplete or that one section doesn’t flow into the next. If so, you have these options:

- Write short introductions to those sections that need more explanation.
- Rewrite the entire plan into a single comprehensive narrative, taking care to cover every important point.
- Leave the plan as is—it’s possible that your circumstances make it appropriate to use rough drafts and financial documents and nothing more.

Antoinette's Shop Business Plan Summary

[In her summary, Antoinette puts her best foot forward and tries to answer any questions the lender may ask.]

This business plan requests a loan of \$200,000 to open a women's clothing boutique catering to working and professional women in New City.

Today, many working women want to shop locally for more unique clothing than offered by department stores and big chains. No local store caters to this group's needs for moderately priced, stylish work clothing—including carrying the three most popular labels: Narak, YYY, and Pag. Antoinette's will fill this gap. We will sell creative, high-quality, moderately priced clothing to working women. We will provide free alterations and help our customers dress well at a reasonable cost.

Financial projections show first year revenues of \$1,020,000, with a profit of \$147,000 before loan payments and a nominal personal draw. Second year revenues rise to \$1,224,000 and profits increase to \$224,000. Profits are adequate in both years to service the loan and provide me with a draw. To secure the loan, I will consider a second trust deed on my home, which has equity of about \$400,000.

I will combine loan proceeds with \$43,000 in savings to provide a \$243,000 cash fund. The fund will be allocated as follows: furniture, fixtures, and leasehold improvements, \$160,000; rent deposit, \$8,000; opening inventory, \$60,000; and contingency, \$15,000. Cash flow forecasts show a positive cash flow from opening, so no allocation is made for working capital.

My qualifications include three years of experience as a clothing buyer and assistant merchandise manager for the local Fashion Shoppe. I was able to show a 35% sales increase in my principal area of responsibility, the Designer Dress Department. During that time, I developed many industry contacts that will be invaluable at Antoinette's.

Sally Walters will be my assistant manager. She has five years' experience in the field, the last three as assistant manager of the dress department at Glendale's. We plan to open Antoinette's by Labor Day in the downtown Towne Plaza and have an informal commitment from the plaza manager to lease space to us. We will both continue our activities in New City service clubs, especially those that feature women members.

Many of you will take a middle course of rewriting some of your earlier work, presenting some of it intact, and providing written introductions and summaries for others. If you write an introduction, keep it short, while presenting all your conclusions and assumptions.

Sections that typically benefit by short narrative introductions include:

- **Profit and Loss Forecast.** You don't need a lengthy treatise, but you should describe the assumptions you made about the significant numbers. Explain how you derived the sales volume forecast you used to create the Profit and Loss Forecast; your backers will be extremely interested in those assumptions. Also list your major assumptions about cost of sales and fixed expenses that you used in creating the Profit and Loss Forecast. You may choose to make lists instead of writing a prose narrative. Finally, summarize the annual sales and profit figures you forecast.
- **Capital Spending Plan and Cash Flow Forecast.** This narrative should list the major assumptions you made in adjusting your monthly profits to derive the monthly cash flow. Also summarize the preopening costs you'll incur. Mention whether or not you will sell on credit or seek extended terms from your suppliers and how long it will be before your customers pay you and before you pay your suppliers. (See Chapter 7 for more details.)

Personal Goal Statement

You may include a statement of your personal goals as part of the personal background part of your plan. It is a tricky part of your plan, even though it's a big help to potential backers who don't know you personally. Your lenders and backers want you to be happy in your new venture, since you'll be likely to work hard at it. At the same time, people who back you will also want to be sure that you're truly committed to the financial success of your project.

Ideally, your personal goals and commitments will tie into the business goals exactly. In reality, you probably have at least some personal goals that don't have much to do with business profitability.

EXAMPLE 1: “My reasons for starting this business are to make a good living, prove I can be successful, enjoy the freedom of independence, and have lots of free time to work on my car collection. In addition, I would like to create a business that I can bequeath to my children.”

Most people starting small businesses are tied to them full-time (if not more), and it’s unrealistic to think that there will be a lot of time left to tinker with a car collection. Assuming our budding entrepreneur is willing to postpone most of his tinkering until his business is established, here’s how this statement could be rewritten to sound a little better to a potential backer.

EXAMPLE 2: “My personal and business goals largely coincide. Successful implementation of this business plan will enable me to meet the following personal goals: provide a good living for my family; work in a field I know and like; achieve the personal satisfaction of seeing my plan come true; enjoy the prestige and independence accruing to a successful business owner; provide a legacy for my children; and provide the means to a richer and more fulfilling life for both myself and my family.”

Notice that in Example 2, “time to work on cars” was translated to “provide the means to a richer life.” Perhaps your statement will neither be this lyrical nor obfuscatory, but hopefully you get the picture.

Antoinette Personal Goal Statement

I want to accomplish a number of goals by starting Antoinette’s Shop.

I want to prove that I can create a successful and worthwhile business by drawing on my educational background and work experience. I feel that choosing and selling unique, high quality clothes at a fair price will be an honest service to my customers and the community generally.

I want to spend my time working with customers and people in the clothing business who share my values.

I want the chance to make a better living than I can make by working for others, along with the responsibility and freedom to be my own boss.

Create the Appendix

This book covers the primary business building blocks all businesses share. Of necessity, it leaves out any mention of items that are specific to any one business. Yet, in many cases, specific items are critically important to the success or failure of your business. Your job is to decide which items to include in your business plan.

For example, if you are establishing a franchise business, include all copies of the franchise agreements and any information the franchisor provides you about the operation. Or if you've invented a revolutionary new gadget, include a copy of the patent, patent search, or patent application to support your claims.

The key to deciding what to include is whether the information helps the reader understand your proposal. Include proof of statements a lender or investor would be likely to question—for instance, horseshoeing is a growth industry. Do not include support for obvious statements—for example, people like ice cream. Don't be afraid to edit by cutting and pasting, as long as you don't unfairly change the meaning.

Here are several things that you should commonly include in your appendix:

- prior years' financial statements if you are expanding an existing business (profit and loss statements and balance sheets from at least two prior years)
- copies of proposed lease agreements
- copies of bids for any needed construction work
- plans for construction work
- drawings of business signs or logos
- a list of what will be purchased for your opening inventory
- key employees' resumes, if available, and
- copies of any print or online stories or other publicity you have received that relates to your business. This is particularly important for people who are entering service businesses, where they are their own main product.

Finally, organize your material in a logical order and include a table of contents for the appendix.

Antoinette's Shop: Table of Contents for Appendix

1. Annual Survey of Business Conditions, New City Chamber of Commerce, January 19, 20xx
2. Bank of New City Economic Forecast for 20xx
3. Article from September 27, 20xx issue of *Woman's Monthly* concerning the market for creative clothes for the working woman
4. Newspaper articles and photo of Antoinette when she put on a large and successful fashion show for working women at the Fashion Shoppe
5. Copy of proposed store lease (critical pages only, others available on request)
6. Planned fixture layout for Antoinette's Shop
7. Antoinette's Shop sign drawing and bid, Smith Sign Co.
8. Leasehold improvements bid for shop, Jones Construction Co.
9. Quote from Meyer Supply on clothing racks and cash register

Create Title Page and Table of Contents

Every business plan should have these two pages:

- **Title page.** This is a separate page with the title of your business plan, the date, and your name and address.
- **Table of Contents.** This appears after the Plan Summary and before the body of the plan. List the headings for the major sections of your plan as well as important subsections. After you assemble your plan and number the pages, come back and put the appropriate page number next to each heading.

Complete Your Final Edit

By now, your material should be assembled and ready for a final edit. It's wise to make a working copy of the entire plan that incorporates all the changes you've made so far. Read through everything you've written to spot any inconsistencies or obvious goofs. Make any necessary corrections.

**CAUTION**

First impressions count. You won't have time to show your potential backers a rough draft, followed by a final edit and more revisions. Somebody said that you only get one chance to make a first impression; make your first impression your best.

Let Your Plan Rest

Put your completed and organized business plan aside for a day or two. You want to come back to it as fresh as possible.

Assess the overall business message of your proposal. Does it make sense? Would you lend money on the strength of it? How can you make it more convincing? Can you document all your claims, and if necessary, elaborate on your plan with facts and figures?

Check for consistency one more time. Your plan should say the same things in the financial section that it says in the business description, and so on. For example, if Antoinette says she will do free alterations, she must budget enough money for a sewing machine.

Final Details

Your plan needs a neat and businesslike appearance to give the best impression. If you don't have a printer that produces high-quality copies, have your plan printed at a local copy shop. The plan should be placed in a three-hole binder or folio.

What about visuals, charts, colors, and so forth? Simply watch the sophistication level of your business plan. If you're going to market a new laser printer, your plan will include elaborate visuals that demonstrate your product's abilities as well as your ability to compete in a sophisticated market. On the other hand, if you're planning to establish a bait and tackle shop on Pier 37, your plan won't need fancy graphs and charts.

As one of the last steps, number the pages of the plan and place the numbers in the Table of Contents. If your report is thick, use divider pages with colored tabs to mark each major section, so readers can find what they want quickly.

It may seem obvious, but good writing, good organization, and good spelling can make all the difference. If you're uncertain about your plan, have it reviewed by an experienced writer or editor; this may be a friend or colleague or someone you hire. For a modest fee, you may well be able to improve your work substantially. But don't go overboard—just make sure that your writing is clear and to the point.

You may also want help with the layout and design of your business plan, especially if you want to include graphs or charts for improved visual appeal. Check out a local copy shop about binding your final plan. But above all, remember that your plan's content will speak the loudest. Don't make your document so fancy that it detracts from the message or suggests that you like to spend too much in inappropriate places.

When your plan is complete, make a point to hang onto the original or one complete copy; don't give all your plans away. Also, make sure you keep a list of the people who get copies and the dates they received them.

Finally, take yourself out for a terrific dinner with someone whose company you enjoy. You deserve it.

Consider Using a Business Consultant

It is often wise to have your plan reviewed after you think it is in good shape. For a modest fee, a good small business consultant or CPA who specializes in businesses similar to yours may be able to save you from a costly mistake or point out additional profit opportunities. At the very least, the consultant should be able to suggest how to improve the way your information is presented. If the suggestions are minor, you can incorporate them easily. If they're more major, give some thought before making changes. Remember, this is your business and your proposal and it's up to you to make the final decisions. (See Chapter 12 for a discussion of consultants.)

Antoinette's Discouraging Moment

Antoinette was pleased with her plan after putting it together, reviewing it, and polishing it. She was convinced she had a winner. Almost as an afterthought, she decided to have a business consultant review her business plan before taking it to the bank. She was glad she did. In brief, here is what the consultant told her: "Antoinette, you have written a fine business plan and have a good idea for a business, but your financial projections contain several potential problems. I believe that you have underestimated the amount of inventory you will have to carry by \$110,000 to \$130,000. Unfortunately, changing this number will influence all your other financial projections and will mean you have to rethink your entire plan."

The consultant then discussed the same inventory turnover problem we discovered in Chapter 7. The consultant suggested that Antoinette take a few days to decide if she wished to try and raise more money and rework her entire plan or drop the idea.

"Additionally," he continued, "your revenue projections of \$500 per foot per year are above the average sales revenues for your type of business. Those revenue numbers are obtainable, but reaching them requires that your business runs like a Swiss watch. Lastly, I don't think you have enough help in your plan. Your stated objective of providing personal service means that you need some sales folks who can provide that. But your labor costs are at the bare minimum needed to keep the store open. Also, you have no inventory assistant to receive and sort merchandise. I recommend that you plan to hire a few part-time sales folks on a base salary plus commission so you can meet your revenue projections, at least."

Antoinette was stunned. She expected to discover some minor flaws, not several serious issues. Nevertheless, after much soul-searching, she was relieved to have uncovered the problem before, not after, she began her business. She decided that raising the extra money for inventory wasn't an insurmountable problem, and neither were the extra sales assistants.

I shall leave the decision to you as to whether Antoinette was wise in deciding to proceed with her plans. After all, you may have to make a similar choice about your own business.

Selling Your Business Plan

How to Ask for the Money You Need	218
Prepare the Initial Pitch.....	218
Meet Your Backers.....	219
Ask for the Money.....	220
Leave Your Plan With Your Backer.....	221
Follow Up.....	221
How to Approach Different Backers	221
Friends and Relatives	222
Business Acquaintances.....	222
Supporters.....	223
Banks.....	223
Equity Investors (Venture Capitalists).....	225
Government Agencies.....	226
What to Do When Someone Says “Yes”	226
Plan in Advance for Legal Details	227
Loans	227
Equity Investments.....	230

How to Ask for the Money You Need

Once your business plan has been polished to perfection, you're ready to use it as part of your campaign to get financing. If you haven't done so already, you must decide where you'd ideally like to get the money you need. You should know whether you prefer to get financing from a lender or an investor. (This is discussed in Chapter 4, "Potential Sources of Money to Start or Expand Your Small Business.")

Before you call people and make appointments, give some thought to a few preliminaries. Like it or not, you're now a salesperson. Your task is to sell your plan. Don't let this discourage you, even if your experience with selling has been negative. There are all sorts of good ways to sell things, most of which depend on a good product and an honest, straightforward presentation. I can't tell you exactly how to sell yourself and your plan, but I can make a number of suggestions.



TIP

Personal phone calls if possible. If you can get through on the telephone to your potential lenders, do your first pitch by a personal phone call rather than an email. Emails can easily get lost in the recipient's crowded inbox. But you'll probably end up leaving a voicemail message, so you may have to call *and* send an email.

Prepare the Initial Pitch

Since some of your preliminary selling will be done over the telephone or by email, you'll want to be prepared. Write a short statement of what you're doing and why. Avoid lengthy telephone discussions or emails; you simply want to set up a personal appointment to discuss all the details and ask for the money.

In case you are able to get your potential backer on the phone, be prepared to answer a few basic questions, such as two or three reasons for entering or expanding this particular business and how you'll pay lenders or investors for using their money.

If you're not sure what to say, read the sample telephone script below. You can adapt it to suit your style and needs.

"Hello, Jack? This is Antoinette. How are you today? How's the family? Say, Jack, the reason I'm calling is that I have a great idea for a new business and I'd like to meet with you and show you my business plan to see what you think of it.

"Can we get together next Thursday morning in your office?" (If asked for more details about her idea, Antoinette briefly explains why she wants to open her business—she can read her list of reasons if she's nervous.) "Well Jack, I'm glad to hear that you like my ideas."

(Before she discusses the loan she wants, she asks Jack for an appointment. If she can personally meet with him, she will wait until then to discuss money.)

"What about next Thursday? Oh, how much money do I need? I need a good-sized loan that I can pay back in three years. So we can get together next Thursday morning in your office? Good. I'll see you at 10:00 in the morning. Bye, Jack."

Meet Your Backers

Show up on time, well-prepared to answer any questions that may arise. Then let your natural enthusiasm help you explain your business idea fully. Your basic objective in the meeting is to answer all the questions you are asked. If you can't handle a question on the spot, do not make up an answer—promise to find the information. Then promptly write, phone, or visit with the information later.

Talk about what the investment will do for your prospect. For example, bankers want to hear that their loan will be soundly secured and paid back with no problem. Your relatives, on the other hand, may be interested in family solidarity and the prestige of a family-owned business as well as making a good investment.

Offer investors/lenders a fair return, as much security as you're comfortable with, and a little romance. By romance, I mean to emphasize the fact that investing and lending money are very personal activities. Your backers want to feel good about you and your project.

They also want to share in your enthusiasm. So, in addition to presenting potential lenders or investors with a sound financial plan, make sure they know what makes the project exciting for you.

How to Handle Past Financial Problems

What if you've previously declared bankruptcy or have had other credit problems, such as a lawsuit for a delinquent student loan? Don't try to camouflage it. The banker or investor will probably find out this sort of information from a credit reporting agency anyway, so it will help you to be up front. However, you need to come up with a plausible—and true—explanation for your past credit problems. It should also reflect your determination to meet your obligations in the future.

Here's the wrong sort of explanation for a student loan lawsuit:

"Yes, I acknowledge that I took a student loan and didn't pay it back. I didn't pay it back because the militaristic system we live under is shameful. It's my firmly held conviction that students have an obligation to take what they can to partially balance the scales."

Here's a better way to handle the same situation:

"Yes, I did have a student loan and wasn't able to pay it back. I had a rough time adjusting to the working world for several years after I graduated and couldn't come up with the money in time. Since then, I have discovered work I like to do and am good at, as evidenced by my recent work history. I have arranged a sensible monthly payment schedule, which I have been honoring."

The second explanation shows that you will play by conventional credit rules. It also tugs at the heartstrings a little, something that never hurts a good cause.

Ask for the Money

Here's one bit of essential advice about meeting with your backers: You must ask for the money. Don't make the common mistake of discussing your plan in generalities and then saying "Thank you" as you walk out the door.

As part of every presentation, you must ask if the potential source of funds will invest in your venture or lend you the money. Repeat the following:

“Thank you for listening to my business plan. Will you invest/lend me the money I need to get started?”

If you are turned down, don't hang your tail between your legs and slink away in a puddle of embarrassed perspiration. Ask why. Sometimes the reasons why a person won't help finance your business will be more valuable to you than the money.

Leave Your Plan With Your Backer

Give potential backers a copy of the business plan after you've met with them. If at all possible, don't mail copies or summaries of your business plan to people before you meet. Your presentation loses a great deal without your personality and enthusiasm. It's also a good idea to keep track of who has received a copy of the plan. That way you can remember to follow up with everybody. Also, if you're selling stock in a private offering you need to keep track of who gets the plans.

Follow Up

After a week or ten days, telephone all of your potential backers and ask if they have any questions. If they do, you can provide answers on the telephone or make an appointment to meet. Remember to ask for the money you need.

How to Approach Different Backers

Chances are you have long since decided whom to approach first for a loan or investment. For example, you might decide to first approach your father, then the Bank of Newcastle, then the Small Business Administration. If you haven't decided yet, review Chapter 4 and develop a list of priorities now. Below are some ways you might approach specific types of backers.

Friends and Relatives

The first rule of borrowing money from people close to you is that you want to be very sure they can afford to lend it to you and that you will be able to pay it back. Everyone who works with small business financing can tell horror stories about business owners who had to deal with both the failure of their enterprise and a bunch of angry relatives.

If you want to ask a relative or friend for a loan, much of your approach depends on the people involved and your relationship to them. Beyond those issues, here are some general suggestions:

- Approach your friends in a respectful and organized way. Don't spring your request on anyone in a social context.
- Don't assume your relatives and friends know all your plans and accomplishments, even though they know you well. Make your presentation just as professional as for your banker, even if it's less formal.
- Tailor your presentation to your audience. For example, if you stop by your brother's place early Saturday morning wearing your banker-meeting best, he will probably laugh you out of the kitchen. But bear in mind that your brother will be as interested as a banker in seeing your well-thought-out business plan.
- Above all, give the person you're talking to a graceful way not to lend or invest. Remember, this is a business proposition, not proof of someone's feelings for you. Once everyone is assured an easy exit if they don't have the money or desire to invest, you may find they will be relaxed enough to give you a fair hearing.

Business Acquaintances

One good way to approach business acquaintances is by networking. For example, you might contact your attorney or accountant or someone you know who owns a small business and say, "I've got a great business proposal in the retail clothing business. I need about \$40,000 and the investor will get a 25% annual return on the money they invest, paid monthly. Do you know anybody who might be interested?"

Your business acquaintance might reply, “Well, I’m not interested myself, but why don’t you try Joe Spats? He just retired from the menswear business and has been a little restless lately.” Obviously, the next step is to contact Joe, mention your mutual friend’s name, and set up a meeting. If he’s not interested, ask if he knows anyone who might be. If you strike out with your accountant, attorney, or business friend, try your uncle, the owner of the local hardware store with whom you trade jokes, or the investor who put money into the bakery where you buy coffee.

Supporters

Supporters are people who care—often deeply—about the subject area of your business. Your best approach is to try to enlist this enthusiasm and to honestly involve these people in your dream. Often it’s best to involve supporters at an early stage so that you get the full benefit of their good ideas.

If your business (whether it’s a music store or a dentist’s office in a rural area where there is no dentist now) is likely to have enthusiastic supporters, these people may offer financial help. Figure out ways to get the word out in the correct circles. If people care, they may respond favorably.

Banks

The main point to remember about banks is that they lend money, they don’t invest it. A banker will want to know all about you and your business, but when it comes to saying “Yes” or “No,” the security of the loan will be paramount.

When approaching a bank for the first time, it is important to understand that within all banks, responsibility for different tasks is divided. You want to talk to the loan officer in charge of small business loans.

Bankers, like almost everyone else, prefer dealing with people they know. The ideal way to meet a bank lending officer is to know a bank vice president socially and have him or her refer you to the loan officer. However, if you are like most mere mortals and don’t have any old school ties or country club connections, you will have to be creative.

Almost anyone who owns a successful small business will have friendly contacts at a local bank, as will accountants or business consultants. See if you can arrange an introduction or at least get permission to use your contact's name. If all else fails, call the bank and ask the name of the small business loan officer.

Once you have a name, telephone for an appointment and briefly describe the subject matter you'll want to discuss. Show up on time with your business plan and loan package. Open the discussion by talking about your personal business and employment history. Highlight your community involvement while trying to discover common interests and acquaintances. Maybe you both have children in Little League or you both belong to the Rotary Club, the Symphony Association, or the Volunteer Fire Department. Who you are in the community and what you have accomplished in other jobs or businesses is an important part of the loan application process.

While it's important to be businesslike, it's also important to take your time. After all, you want to avoid giving the impression that you're in a hurry or are desperate; the loan officer is not going to approve your plan immediately under any circumstances. Expect lots of checking and probably a series of meetings. But never forget that to get a loan, you have to ask for it. As part of each meeting with the bank, ask politely but specifically about the status of your loan.

Here are a few things to emphasize when talking to bankers:

- **Your other bank business.** If you don't already patronize the bank in question, make sure the lending officer knows you plan to do so if you get the loan.
- **Security.** Remember that the loan officer wants to lend money, not invest it. Explain how the bank is sure to get its money back with interest. If you can offer collateral for the loan, emphasize it. (See the discussion of bank loans in Chapter 4.)
- **Be realistic.** Loan officers want to be assured about your knowledge and enthusiasm about your business. But they also need to know that you have your feet on the ground. If you puff too hard, the loan officer is almost sure to be turned off.

- **Be persistent.** There are lots of banks. People who work with small businesses in your area can probably suggest the banks that are most likely to lend to your type of business. If one bank turned you down, make sure you understand why. If it's realistic, change the items in your proposal that caused this rejection. Pay extra attention to aspects of your plan that continue to receive negative comments.

Equity Investors (Venture Capitalists)

I use the term “venture capitalist” a bit loosely to include people who invest relatively small amounts of equity financing. These may be relatives, acquaintances, or anyone else with money to invest in what looks to be a profitable business.

As you should know from reading the discussion in Chapter 4, the primary distinction between an equity investor and a lender involves risk, security, and amount of return. Venture capitalists are traditionally willing to take more risk in exchange for a chance to make a large profit. Here are some suggestions:

- **Prepare a summary of what you are offering.** In addition to the business plan you have already designed, you need to tell potential equity investors both what you are offering (partnership, limited partnership, shares in a corporation, and so on) and what the projected return is.
- **Do not promise a certain return.** Especially if your potential investors are unsophisticated, emphasize in writing that there is always some risk associated with a high potential return. Make certain the investors know your projections are just that—projections. In short, never guarantee a return that you may not be able to deliver. Investors should understand there is a possibility they may lose the entire investment if things go very badly.
- **Ask for names of others who might invest.** If potential investors turn you down, ask if they know anyone else who might be interested in investing. Don't be surprised if they suggest putting a deal together for you for a fee (meaning they would be acting as a finder or broker, as discussed in Chapter 4).

Government Agencies

The hardest thing about getting money from the government is finding out which program can help you. The second-hardest thing is finding out who in that agency can make a decision for or against your proposal. Compared to these two, filling out the forms is easy.

Ask your bankers if they know any of the programs. Most will have some experience with at least one of the agencies, such as the Small Business Administration (www.sba.gov), and can steer you in the right direction. If you run into a wall, try your local elected representatives. They have aides whose job it is to help people like you. If you find a program that looks good, be sure your elected representative knows about your application. (See the discussion of the SBA in Chapter 4.)

What to Do When Someone Says “Yes”

Your first job when someone indicates an interest in lending you money or investing in your plan is simple: Don't faint. It's fine to prepare for a negative result so you are not too disappointed if you are rejected, but remember also to be prepared for a positive reception. If your proposal is good, it will be funded sooner or later.

One good approach is to have a number of answers ready, depending on what the lender or investor offers. It's a little like being a baseball outfielder in a close game, with several players on base. Depending on where the ball is hit, you need several alternative plans. You can see some pretty funny plays when a fielder fails to think ahead and throws to the wrong base.

If you're asking for a loan for a set amount of money at a certain interest rate and the lender says “Yes,” presumably you will, too. But what if the lender offers you less than you want, asks for a higher interest rate, wants collateral, or proposes a different financial formula entirely? Make sure you understand exactly what the proposal is. Think through your risks, especially if the lender wants collateral. Compare the terms—for instance, a small increase in interest rate could mean that you will end up paying more money for a longer period of time.

Don't answer on the spot. Take the proposal home and see if you can live with it. If you can't, meet with the person again and explain exactly what you can't accept and why. Then propose changes. If this doesn't result in agreement, start looking for other funding sources. It's far better to say "No" than to accept a bad deal. People who have been in business for a while will tell you the times they turned down poor business proposals were at least as important to their ultimate success as the times they said "Yes."

EXAMPLE: Charlie wanted a loan of \$60,000 to start a limousine service. The bank offered him \$60,000, but wanted equal monthly payments of \$2,660 over two years. Charlie had expected to make payments of \$1,160 per month over five years. After he ran the different loan payments through his cash flow schedule, he discovered that he couldn't pay his own rent and grocery bill if he had to pay \$2,660 per month on the loan in the first two years. After he explained his problem to the loan officer, the bank offered Charlie interest-only payments for the first two years. That was a much better deal and Charlie took it.

Plan in Advance for Legal Details

Taking money into your business requires lots of legal documentation. You will present a more professional image if you understand some of the basics.

Loans

Whatever loan you arrange will have to be reduced to writing. If you deal with a bank or another institutional lender, it will have the necessary forms. However, if your arrangement is with a friend, family member, or private investor, these details will probably be up to you.

If your loan is simple—a specific amount of money, at so much interest, to be paid at regular intervals—you can safely design it yourself. While a course in contract law is beyond the scope of this book, the sample promissory notes provided below may help you focus on this task.

However, if the loan involves complicated default provisions, security, and balloon payments, you and the person you are dealing with would be wise to have it checked by an attorney. If you have done most of the work, this shouldn't be expensive; negotiate the fee in advance.

EXAMPLE 1:

Promissory Note

Robert Lee of 1411 South St., Homer, Alaska, and Gertrude Fox of 123 Main St., Fairfax, Alaska, agree that Gertrude Fox hereby lends Robert Lee the sum of Fifty-Six Thousand Dollars (\$56,000) to be repaid on the following terms:

1. Principal and interest of 10% per year will be paid in equal monthly installments on the first day of each month beginning the first day of September 20xx and continuing through the first day of August, 20xx.
2. On September 1, 20xx the entire unpaid balance of principal and interest shall be due and payable in full.
3. Should Robert Lee fail to pay an installment on the date due, as set out in Paragraph 1 of this agreement, the whole sum of the principal and interest then outstanding shall, at the option of Gertrude Fox or any subsequent holder of this note, immediately become due and payable.
4. Should Robert Lee fail to meet any condition of this agreement, and should Gertrude Fox or any subsequent holder of this note take legal action to collect it, Robert Lee shall be responsible for all attorneys' fees and costs.

Date

Robert Lee

Date

Gertrude Fox

EXAMPLE 2:

Promissory Note

\$8,639.00

July 30, 20xx

For value received, the undersigned promises to repay to Sebastian Grazowtski, of New City, Oregon, the sum of EIGHT-THOUSAND SIX-HUNDRED AND THIRTY-NINE DOLLARS (\$8,639.00) including interest at 12% per year. This money is to be paid in equal monthly payments of \$315.00 (principal only) commencing on September 1, 20xx and continuing until November 1, 20xx, at which time the monthly payments will increase to \$440.61 per month until the entire balance of principal and interest is paid.

Should default be made in the payment of any installment when due, then, at the option of the holder of the note, the entire amount of the principal and interest shall become immediately due and payable. In the event of any default on this note, the holder shall be entitled to recover all costs of collection of same, including reasonable attorneys' fees and costs.

Date_____
Sebastian Grazowtski_____
Date_____
Virginia Woo**RESOURCE**

You can find an online promissory note for sale on Nolo's website.

With this form you can choose various types of loans, such as installment payments (with or without interest) or a lump-sum payment. See the "Products" section of Nolo.com for details.


Equity Investments

If you plan to arrange for an equity investment, you have considerable work to do beyond the scope of this book. In short, you need to have a detailed plan for the legal form of organization you prefer—a general partnership, limited partnership, or small corporation.

Most entrepreneurs form corporations and sell shares to raise money. They are regulated by both the federal Securities and Exchange Commission and by their state's corporation department. All require conformity to numerous regulations designed to protect investors from dishonest promoters.

While the regulations are extensive, they are designed to help the process. For example, some stock offerings can be exempt from expensive filings if they involve a small number of shareholders and a small amount of money. (Chapter 4 discusses corporations and partnerships in more detail and you'll find useful resources in Chapter 12.)

EXAMPLE: Wilhelmina Whalen needed \$85,000 to start a coffee shop. She decided to form a small corporation and sell an investor 25% of the company for \$85,000. If the coffee shop succeeded, as she expected, the 25% investment would be worth \$200,000 in three years. Harrison Flyright liked Wilhelmina and her business idea. He offered \$60,000 but wanted 50% of the company. Wilhelmina thought that was too high a price and said "No." Sometime later, Harrison increased the amount to \$80,000, and Wilhelmina agreed to give him 49% of the stock, thereby retaining control of her business. As a California resident, Wilhelmina incorporated her business using *How to Form Your Own California Corporation*, by Anthony Mancuso (Nolo). She issued 49% of the stock to Harrison in exchange for his cash, and was off and running.



After You Open—Keeping on the Path to Success

Watch Out for Problem Areas	232
It's Lonely at the Top.....	233
Anticipate Problems Before They Arise.....	234
You May Be the Problem and Not the Solution.....	235
Plan Beyond Opening Day.....	235
Know When You've Succeeded—Or Failed.....	236
Prepare for Success.....	238
Getting Out of Business	239
Lock the Doors and Leave.....	239
Sell the Business.....	239
Close the Business and Negotiate With Your Creditors.....	240
Hold a Going Out of Business Sale.....	240
Declare Bankruptcy.....	241

If you have followed all the steps in this book, you have completed a thorough plan for your business. You should feel good about completing a hard, demanding task. It's also important to remember that completing your plan, finding the money you need, and opening or expanding your business are just the first three steps in your journey.

Many small business books take fairly extreme approaches. Two common ones can be summarized as follows:

- Here comes another lamb to the slaughter; hopefully this book can frighten you out of your dumb idea.
- Anybody can find fame and fortune in a small business; just read this book and get a big strongbox in which to store your surplus gold.

I hope to steer a middle course by offering you both encouragement and caution. In my view, small business is one of the last great frontiers of both individualism and opportunity, but like the prairies of yesteryear, there are more than a few rattlesnakes among the poppies. This chapter contains some highly personal recollections and observations on pitfalls and diversions you may encounter on your way to business success.

Watch Out for Problem Areas

As a small business owner, you'll have to work hard to meet your goals. It takes a lot of determination and drive to make things happen. As a result, you may focus so completely on the immediate goals at hand that you lose sight of the larger picture.

Recognizing that you don't know everything is a good first step toward business success. If you're unsure of yourself in any particular area, please take advantage of the advice and help that is there for the asking. That way, you're less likely to be sabotaged by something you didn't know—and didn't know that you didn't know.

It's Lonely at the Top

As a business owner, you often make decisions in a vacuum. Most of the time you won't have immediate peers who understand your business and can also offer you good, dispassionate advice. Probably you have to go it alone, and that can be pretty tough.

You and your business become targets for an army of job seekers, government regulators, charities, competitors, consultants, salespeople, insurance brokers, and so forth. All these people have their own goals and objectives, which may or may not coincide with yours. As a matter of survival, you must become skeptical about what people claim they can do for you or your business. This isn't necessarily either bad or good; it's just the way things are. You are the only one who can decide what is good for your business.

You also have to manage relations with your three primary sources of business success: customers, suppliers, and employees. Again, each person in these groups has his or her own set of goals and objectives. Your job is to reconcile all those competing interests so that your business prospers.

Incidentally, I hope this doesn't read like a nightmare to you, because it isn't a nightmare. In fact, I think it's one of the best parts about being in business for yourself. As a business owner, you decide the goals and the steps to reach them. The comparison is similar to the difference between riding in the back seat of a car and driving the car. If you're like me, you're a lot more comfortable when you're driving the car.

Axiom: *If you need approval from others to function at your best, you will be uncomfortable as a business owner.*

Advice: *Get tough. Learn how to set goals and reach them. Learn when to take others' views into consideration and when to ignore them.*

Anticipate Problems Before They Arise

Your business plan describes the risks your business faces. Periodically reread that risk discussion to see if you'd like to add anything to the list. If you're like most people, you'll admit that there may be something you missed and that you don't know what it is.

Things always go wrong in business. Your job is to notice troubles and problems before they become major hurdles. If you don't notice the mistake until others tell you about the unfortunate results, it may be too late for an easy, inexpensive cure.

If your business is like most, you'll spend some time every day creating solutions to problems. But if you don't like playing detective and prefer sailing along on smooth waters so much that you don't see the first signs of storms, you may have a problem surviving for long.

Here's one way to keep a handle on problems. Every month, make a line-by-line comparison of your actual profit and loss statement to the monthly Profit and Loss Forecast you made for your business plan. That way, you'll see problems as they develop and before they become serious. For example, if your profits are down by \$1,400 and your advertising expenses are up by \$2,000, you'll want to spend some time analyzing why that happened and what you should do about it.

Another way to spot problems early is to listen to what your customers, suppliers, and employees say about your business. While some of their comments may be self-serving, you can't afford to ignore them all. Most customers will tell their friends about a problem they had with your business long before they tell you. So you may have to develop creative ways to encourage your customers to communicate with you.

Axiom: *The business owner constantly makes small corrections to keep the business on course. The business may fail if the owner falls asleep at the wheel. Complacency kills.*

Advice: *Establish an information system that lets you know when the business goes off course. You may also choose to have an experienced business consultant review your business periodically.*

You May Be the Problem and Not the Solution

“To live is to change, and to be perfect is to have changed often.”
(Quote attributed to John Henry Newman, a 19th-century Cardinal.)
Unfortunately, most people aren’t very good at analyzing their own strengths and weaknesses objectively and then changing their behavior to compensate. They just go ahead doing what they’ve always done, regardless of the outcome.

Many businesses are started by people who are very good at a skill that people demand. But many of these people know little about the complexities of starting and growing a business and can be hurt badly by their lack of knowledge about basic management skills.

Axiom: *Everybody has blind spots. Your blind spots can determine whether your business will succeed or fail.*

Advice: *Ask a friend who knows you well where your blind spots are. You can’t afford not to get help if they are critical.*

Plan Beyond Opening Day

To illustrate the importance of planning for the operation of your business after it opens, I’d like to share the experiences of Molly, a friend and former student, who wanted to open a bath supply shop. Molly encountered a long series of depressing obstacles on the way to getting the money to open her business. But since she was both stubborn and a fighter, each setback made her even more determined. In truth, before long, getting the necessary money had become an obsession. Finally Molly succeeded. Unfortunately, at this point she became strangely lethargic. Molly had put an enormous push into opening her business, but she hadn’t prepared herself for the gritty day-to-day realities of owning a business. Now Molly lacked energy, innovative ideas, and the knowledge of how to compete in a changing marketplace. Her business closed in 12 months, which was just about how long it took to start it. She lost a lot of money and a lot of pride.

Axiom: *You need a flexible continuing operating plan for your business.*

Advice: *Make sure you can adapt your business plan to changing circumstances.*

Know When You've Succeeded—Or Failed

Success in a small business involves meeting your objectives, especially the goal of having a positive cash flow by a specific date. Normally it shouldn't take long to know whether your business will meet your objectives.

Many people wait a year or two to see whether the business will succeed. I think that's a mistake. Instead, figure out how long it should take for your potential customers to hear about your opening and then add a month or two. In a retail business, that's usually no more than three to six months, depending on the type of business and how good a promoter you are. Put another way, your sales will probably level out three or four months after you open. People in service, wholesale, and small manufacturing businesses may expect a longer start-up cycle. For example, a real estate agency normally allows six to 12 months for money to begin coming in. That's how long it takes to find clients, negotiate deals, and generally get known in the community.

What if your sales are less than you expected after you have been operating four months? Do you triple the advertising budget and hope that sales will pick up? I hope not. A more sensible approach is to make another business plan, adjusted to the sales you are actually getting. This is psychologically difficult for many people to do. It's all too easy to get hung up on proving that your original plans were right, rather than accepting what the numbers tell you.

EXAMPLE: Pierre, who had never run a business, bought a failed cafe. He was confident in his abilities to turn the cafe around, since he had a degree in hotel management and was an accomplished chef. Pierre projected \$60,000 a month in sales and budgeted accordingly. Actual sales in that first three months were \$24,000, \$36,000, and \$32,000. Sales leveled off at the \$28,000-per-month level for the next several months, resulting in a first quarter loss of \$120,000.

Pierre cut back to where he was only losing \$4,000 or \$5,000 per month for the next three months, but he stuck to the idea that he could generate monthly sales of \$60,000. In the meantime, he sold his house and his wife's jewelry to keep up with the bills. Many people suggested that he make cutbacks so that he could make a profit on sales of \$28,000 per month or, as an alternative, sell the restaurant. So far, he has refused. If he doesn't take in \$30,000 a month soon, he'll go broke.

Pierre's approach is not one I would recommend. Here is how I would tackle this sort of problem. I would take the first four months' total sales and divide by four to get a monthly average. Then I would design a Profit and Loss Forecast to make a profit at that level of sales. To do this, I would have to cut back. I would also pay a lot of attention to both the quality of my food and techniques to get the word out in the community. For example, if Monday and Tuesday evenings were slow, I might close the restaurant and start a cooking class those nights. If my efforts to generate more business failed, I would think about closing.

Axiom: *You can fool yourself into waiting too long for success.*

Advice: *Before you open your doors, establish a time when you will review your business performance to see if you are meeting your goals. This forces you to compare your results to your plan. If your business is not doing as well as it should be early, you still have a chance to make changes before your money and energy run out. If you must close, it's far better to close with a small loss than to hang on and end up in bankruptcy.*

Prepare for Success

Now let's assume your business succeeds. Why shouldn't it? After all, you've planned carefully and worked hard. When it happens, be sure you relax and enjoy your success for a while before you think about your next step. Everyone needs to know how to take a vacation, especially small business owners.

If you're considering expanding, first take a long look at your business and your personal goals. Many wise people would rather make a decent profit with a small business than deal with the headaches of a much bigger business.

Let me illustrate this point with the story of Fred and Fritz, who opened a breakfast restaurant several years ago. After they learned the ropes, they made a good profit. Best of all, they went home every day at 3 p.m. Then they opened a second breakfast restaurant and things were twice as good. Next, they made plans to open two more, on the theory that if two are good, four will be better. This meant they had to run the two existing restaurants while building the new ones. Inevitably, hired employees ended up managing the existing restaurants. About then, interest rates went up and there was a recession. Finally, they got all four restaurants open. The only problem was that without their personal attention, business had dropped 40% at the original locations and was less than half of what was expected at the two new ones. Within two years, they both lost their homes as well as their businesses and were back to working for someone else. Not surprisingly, their new bosses thought it unreasonable for employees to go home at 3 p.m.

Axiom: *Bigger is not necessarily better.*

Advice: *To make your business bigger, plan as carefully as you did when you began. Resist the urge to overexpand. You will very likely continue to do well if you expand slowly and sensibly.*

Getting Out of Business

What if your business is losing money and you've already scaled down your expenses, tried innovative marketing techniques, and made sure you have a high-quality product or service? You'll need to either fundamentally change your business or get out of it. You'll be wise to make these tough decisions promptly if you keep losing money. If you decide to get out of business, you have the following basic options.

Lock the Doors and Leave

Disappearing is almost always a bad idea unless you plan never to come back. Walking out creates more problems than it solves, not to mention the hassles you will cause your landlord, your lender, your other creditors, and your friends.

Sell the Business

This may be a realistic option if your business makes a small profit, or sometimes even if it doesn't. Someone else may be satisfied with less than you are or may have visions of how to make a better profit.

If you can't raise enough cash to pay your creditors and they aren't willing to take less than the face amount of what you owe them, you may have to declare bankruptcy just to get rid of the business. Or, if you're lucky, you may find someone willing to buy your business and try to turn it around.

Make a balance sheet for your business similar to the Personal Financial Statement you created in Chapter 5. A balance sheet is a snapshot at a particular moment in time that lists the money value of everything you own and everything you owe to someone else. A simplified version of a balance sheet might look like the following example, although you will want much more detail.

EXAMPLE: Lee’s bookstore has been limping along, almost breaking even for nearly two years, and Lee can’t afford to keep the store open any longer. After preparing a balance sheet, Lee sees that if she can sell her business for at least \$32,000 cash, she can pay her creditors and come out clean.

Lee’s Bookshop: Balance Sheet

Assets

Cash	\$ 600
Inventory at cost	65,000
Fixtures and equipment at estimated sales price	<u>10,000</u>
Total Assets	<u>\$ 75,600</u>

Liabilities

Accounts payable	\$ 30,000
Income taxes and withholding payable	<u>2,000</u>
Total Liabilities	<u>\$ 32,000</u>

Close the Business and Negotiate With Your Creditors

If you’re losing money every month and don’t think your cash flow will improve soon, you can close your doors and make deals with your suppliers and other creditors. You can often negotiate to pay much less than what you owe. You can offer them a small lump sum payment or you can offer to make monthly payments. Either choice can be a good option if you have the money or income to make payments.

Hold a Going Out of Business Sale

This usually involves selling all your merchandise at or below cost. It frequently makes sense for retailers, because inventory of goods for resale is usually the retailer’s largest asset. There are firms that make a business

of liquidating businesses, or you can do it yourself. A liquidation sale can sometimes be a better idea than selling a business. Take Sally's bookshop, for example. If she could sell her assets at cost, she could pay all her creditors and end up with \$43,600 in cash. Even if she only got 45¢ on the dollar, she would come out clean. Auctioneers and liquidators have lots of tricks to get the best prices for everything. It's worth investigating if you're thinking about a sale, especially if you have a lot of inventory.

Declare Bankruptcy

Federal bankruptcy laws are designed to help debt-burdened individuals and businesses get a fresh start. You declare bankruptcy by filing papers in a bankruptcy court. Your creditors are immediately barred from trying to collect what you owe them. At least temporarily, creditors (even the IRS) cannot legally empty your bank account, repossess your property, or cut off your utility services. However, with court approval, certain creditors may be entitled to repossess your property or resume their collection efforts.

If you own your business as a sole proprietor, you'll need to declare personal bankruptcy. Your obligation to pay your personal debts as well as your business debts can be discharged—that is, wiped out—through the bankruptcy process. But your nonexempt personal assets will be used to pay both your personal and business debts.

If your business is a partnership or corporation, the business itself can go bankrupt (although a business is not entitled to a discharge and bankruptcy rarely makes sense unless the business is a large corporation with a significant income stream). You won't need to declare personal bankruptcy, however, unless you have business-related debts for which you're personally responsible—which is likely all of them if you're a partnership, because a partner is responsible for the debts of the partnership. As a result, you can expect the trustee to come after your personal assets (as well as your partner's assets) to pay the business debts. If either of you have nonexempt funds or property, filing bankruptcy on behalf of the partnership might not be the right choice (and may turn out to be just as costly as paying the business debts directly).

Depending on your particular circumstances, you may have a number of different bankruptcy options available. Most small business owners opt to either:

- lose some of their personal or business assets and cancel their debts, or
- arrange to make payments on past bills from future income while keeping current on new bills and retaining their property. In many cases, past bills may be paid off at a fraction of their face value.

If you are thinking about filing for bankruptcy, you'll need to research your options. Your options will be affected by issues such as:

- the dollar amount of your debt
- whether you want to keep operating the business
- your personal liability (for example, if you pledged your home or cash for a loan), and
- the type of property you own (some of your personal property is yours to keep, regardless of your bankruptcy).



RESOURCE

For more about bankruptcy options for individuals, see *Solve Your Money Troubles: Strategies to Get Out of Debt and Stay That Way*, by Amy Loftsgordon and Cara O'Neill (Nolo). For more about bankruptcy options for businesses, see *How to File for Chapter 7 Bankruptcy*, by Cara O'Neill and Albin Renauer (Nolo).

Good Resources for Small Businesses

Business Consultants	244
SBA/SCORE.....	246
State and Local Agencies.....	247
Private Consultants.....	247
Online Business Resources	247
Books	248
Background and General Business Books	248
Choosing a Business.....	250
Finding Money.....	251
Taxes.....	252
Marketing/Advertising	252
Personnel	253
Business Location	254
Corporations, Partnerships, and Legal Matters.....	255
Women in Business	256
Magazines and Online Information Sources; Continuing Small Business Help	257
Formal Education	258

The key to getting the help you need is knowing the knowledge or business practice areas where you are weak. Once you've pinpointed areas where you need help, think about how you like to learn. Some people prefer classes and study groups, while others do better reading an online article or a book. Some people benefit most by seeking out a trusted adviser who'll take the time to analyze their situation and make specific suggestions.

As much as possible, the resources below are presented in time-sensitive order. You will receive faster help from the first source listed (business consultants) than you will from the last source (formal education).

Regardless of how you choose to receive information and help, there are many excellent resources available. As a wise consumer, take care to get your money's and time's worth. Just because some person, website, organization, or publication promises to help you doesn't necessarily mean you'll get good results.

Check Out Nolo's Small Business Resources

Nolo, the publisher of this book, provides many ways to assist you when it comes to small business information—whether it's researching which is the best business entity, forming a corporation, partnership, or LLC, downloading agreements, or providing lots of free information from financing to running your business. Visit the site (www.nolo.com) and click the "Small Business" and "Business Formation" sections under "Legal Articles." Nolo also offers an easy-to-use online directory of lawyers, organized by location and area of expertise.

Business Consultants

Business consultants are people who offer advice about how to run other people's businesses. Most have extensive business experience and want to help people like you succeed. Be careful, though; there are some inexperienced and unscrupulous people who call themselves business consultants.

You'll want to select a business consultant based on your needs. The two basic categories consist of:

- **General business consultants.** They look at a business from the owner's perspective and try to solve any and all problems the business has. One of the best ways to use a general business consultant is to meet for an hour or two each month and talk about your plans and upcoming projects. Most good consultants can suggest different ways to reach your goals that will save you time and money.
- **Specialists.** These people are experts in specific fields like advertising, marketing, sales, or employee benefits. Specialists try to solve limited problems as directed by the owner. For example, you may hire an advertising agency to help you introduce a new product.

Use a consultant if you're convinced that the advice will bring in more money than it will cost, or you require expertise you don't possess. Bear in mind that a consultant can only give you advice. If you don't follow that advice, then you've wasted your money and everyone's time.

Make sure that you like the consultant as a person; you probably won't listen to advice from someone with whom you're uncomfortable. For example, ask the consultant to outline how he proposes to approach your problem and about how much his approach will cost you. Your consultant should be open to your feedback on his proposals. If you dislike most of what he proposes, you'll be better off finding another consultant more in line with your thinking.



CAUTION

Consultant or future employee? Sometimes people use consulting as a way to find permanent employment. There's nothing wrong with that. Just make sure that you and your consultant communicate completely if you think that's an issue. You may or may not have any openings or interest in hiring the consultant. You'll want to be clear about the situation before you begin your work together.

Consulting Help

Several small business consultants whom I know and trust helped me with this book. They are available to review business plans for reasonable fees and for general guidance. Roger Pritchard (roger.pritchard@mindspring.com) advises individual small businesses and partnerships in Berkeley, California. His business is called Financial Alternatives and he can be reached at 510-527-5604. Additionally, most CPAs and tax advisers can help you with your plan. If you're not happy with the professionals in your area, I may be able to help. Call me at 415-816-2982 or email me at mckeever.mp@gmail.com. (Be sure to mention Nolo Business Plan Book in the subject line of the email so I don't trash it as spam.)

SBA/SCORE

This agency of the federal government is organized specifically to help people like you. The primary purpose of the Small Business Administration (SBA) is to help small entrepreneurs find financial assistance. (This is covered in Chapter 4.) The SBA also runs a consulting service called SCORE, which is an organized group of working and retired business executives who offer free consulting to any business owner.

Most SCORE consultants are genuinely interested in helping you prosper, and they have some valuable experience to share. The only cautionary note I offer is to make sure that you like the consultant and that he or she has some experience that will be helpful to you. For instance, some SCORE consultants with long, illustrious careers in big business may have little understanding of, or patience with, the problems of small business. If you don't feel the consultant assigned to your case is a good match, don't hesitate to ask for another.

For business owners on a tight budget, the help from SCORE can be invaluable. Make the nearest SCORE office your first stop in looking for help. SCORE also offers local workshops on topics such as social media

marketing, and lots of free articles on their website on topics such as how to grow your customer base. For more information, including how to make use of SCORE's email counseling service, check out the website (www.score.org).

State and Local Agencies

Many state and local agencies offer advice and assistance in addition to their help with securing financing. In fact, counseling and consulting may be part of the package. Refer to Chapter 4, for resources on how to locate them.

Private Consultants

To begin looking for a private general business consultant or a specialist, start with the local Chamber of Commerce, bankers, and the service clubs like Rotary or Kiwanis to find people with long community ties and stability. Many class instructors and college professors supplement their income by doing private consulting; if you take a class from a person you like and want some personal help, ask. And, of course, you can find a wide variety of resources by a targeted online search.

Online Business Resources

You can Google or use your favorite search engine for anything you need on a specific topic—from raising start-up money to minimizing the tax bill for a profitable business. There are many websites dedicated to small business issues, often with a particular focus such as marketing or management; many of these offer online user forums where you can ask questions and interact with other businesspeople online. You'll want to do your own searching for the most up-to-date and interesting websites. Whatever you use, make sure the source is reputable and the information is current and credible. If you're completely new to online research, get help from a local reference librarian or an Internet-savvy relative, friend, or colleague.

The U.S. Small Business Administration website (www.sba.gov), described above, is an excellent resource for preparing a business plan. The site also offers links (many in the “Starting and Managing” section of the site) to relevant state agencies, such as economic development agencies and state departments of labor, as well as the SBA’s local small business development centers (SBDCs) and women’s business centers (WBCs). Also, the Center for Business Planning (www.businessplans.org) provides links to relevant articles and sample plans.

As mentioned several times in this book, the Nolo website (www.nolo.com) has an extensive collection of free articles for small businesses. For tax publications, be sure to check out the IRS site (www.irs.gov).

Books

The books covered in this section offer good information, take a helpful stance, and are easily read by most people. This is my list, not a comprehensive study of the subject. If your local library and bookstores don’t have a particular book listed here, see if they can order it for you (assuming the book is still available). You can also check online with Amazon (www.amazon.com) or Barnes and Noble (www.barnesandnoble.com).

Oh, and one more thing. Several of the books I list are also published by Nolo. That’s because Nolo concentrates on how-to books and avoids the double-talk that makes many business books virtually unreadable. I recommend their approach highly, especially if you don’t have a graduate degree in business administration. After all, a wise man once said that if you can’t explain something to a 12-year-old child, you probably don’t know your subject thoroughly.

Background and General Business Books

Here are some general business books that are particularly helpful for small business owners. As you may already know, when you search for one of these books at Amazon or at other online retailers, the product page often contains helpful suggestions for similar books on the same subject.

- *Principles: Life and Work* (audiobook), by Ray Dalio (Simon & Schuster Audio). A bestseller on Amazon.
- *Business Ethics for Dummies*, by Norman E. Bowie and Meg Schnieder (Wiley Publishing). Clear exposition of the need for ethical business practices and the good results that can come from using them.
- *Small Time Operator: How to Start Your Own Business, Keep Your Books, Pay Your Taxes and Stay Out of Trouble*, by Bernard Kamoroff (Bell Springs Publishing). Gives you the basics of keeping books, paying taxes, renting a building, becoming an employer, and other important business details more thoroughly and better than any other book. If you never buy another business book, buy this one.
- *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It*, by Michael E. Gerber (Harper Business and HarperCollins e-books). Contains practical advice about small business management. Also, the author manages a telephone coaching business that specializes in small businesses and employs 30 people; for information, check out the website (www.emyth.com).
- *E-Myth Mastery: The Seven Essential Disciplines for Building a World Class Company*, by Michael E. Gerber (Harper Business) Another equally well-recommended title from the E-Myth team.
- *The Entrepreneur and Small Business Problem Solver: An Encyclopedic Reference and Guide*, by William A. Cohen (Wiley). You need this classic book unless you never have any business problems. It tells you how to do almost anything you want, from hiring a sales rep to negotiating a lease. Expensive, but highly recommended.
- *Business Skills All-in-One for Dummies*, by Consumer Dummies (Wiley). Compiled from eight of the best Dummies books on business skills topics.
- *Growing a Business*, by Paul Hawken (Simon & Schuster). This is a well-reviewed classic on moving beyond the start-up phase.
- *The Boss's Book List*, by John M. Fischette (author and publisher). A definitive list of idea sources from business leaders.

- *Free Help from Uncle Sam to Start or Expand Your Business*, by Fred Hess (e-book). Guide to getting help from many government agencies. Includes a listing of programs and which agency to contact. But note that it hasn't been updated since 2013.
- *RMA Annual Statement Studies* (Risk Management Association). Used by banks for analyzing business loan requests. Compiles current and historical financial data for nearly 350 industries by company asset and sales size; published annually. Expensive, so try your library first.
- *Sourcebook of Zip Code Demographics*, ESRI Business Information Solutions (Esri Press). A journal that provides population and income data by zip code; check for the latest edition in the library.

Choosing a Business

If you're having trouble selecting a business idea, you'll be interested in these books:

- *101 Best Businesses to Start*, by the Philip Lief Group and Russell Roberts (Broadway). Although a little old, it does offer a comprehensive guide on 101 businesses.
- *Ultimate Homebased Business Handbook: How to Start, Run and Grow Your Own Profitable Business*, by James Stephenson with Rich Mintzer (Entrepreneur Press). Run your business from home; some of the most successful companies were started from a kitchen, a spare room, or even a garage.
- *The Franchise Ratings Guide: 3,000 Franchisees Expose the Best & Worst Franchise Opportunities*, by Gary M. Kowalski (iUniverse). Helpful advice on franchising.
- *Creating Online Business 101: How To Start Best Online Work From Home Business*, by Helina Kebede (Kindle edition). Primer for online marketing in a competitive world.
- *Adams Businesses You Can Start Almanac*, by Editors of Adams Media (Adams Media). Ideas and choices for starting a business.
- *To Build the Life You Want, Create the Work You Love: The Spiritual Dimension of Entrepreneurship*, by Marsha Sinetar (St. Martin's Griffin).

An old classic with a spiritual approach to finding satisfaction in your business.

- *Do What You Love, the Money Will Follow: Discovering Your Right Livelihood*, by Marsha Sinetar (Dell). I recommend this book, which has become a cult classic on the relationship between motivation and reward.

Finding Money

If you need more help getting your business idea funded, these books may provide some good ideas:

- *The Guide to Venture Capital & Private Equity Firms* (Grey House Publishing). The 2018 edition of this large reference work slightly changed the title (it used to be called “a directory of”). A definitive list; something to check out at the library.
- *Get Financing Now: How to Navigate Through Bankers, Investors, and Alternative Sources for the Capital Your Business Needs*, by Charles H. Green (McGraw-Hill). Although a few years old, this book is well-reviewed; it includes lists of sources and negotiating tips.
- *Attracting Capital from Angels: How Their Money—and Their Experience—Can Help You Build a Successful Company*, by Brian Hill and Dee Power (John Wiley). Angel investors can be the best money source; read this book if you’re looking for one.
- *Financing Your Small Business: From SBA Loans and Credit Cards to Common Stock and Partnership Interests*, by James E. Burk and Richard P. Lehmann (Sphinx Publishing). Get a handle on the territory before starting.
- *How to Get the Financing for Your New Small Business: Innovative Solutions from the Experts Who Do It Every Day*, by Sharon Fullen (Atlantic Publishing). Here’s some practical help.
- *How to Raise Capital: Techniques and Strategies for Financing and Valuing your Small Business*, by Jeffrey Timmons, Stephen Spinelli, and Andrew Zacharakis (McGraw-Hill). Here’s more down-to-earth help.

- *Going Public: The Theory and Evidence on How Companies Raise Equity Finance*, by Tim Jenkinson and Alexander Ljungqvist (Oxford University Press). Get the overview of public stock offerings, which can be an expensive journey.
- *Equity Crowdfunding for Investors: A Guide to Risks, Returns, Regulations, Funding Portals, Due Diligence, and Deal Terms*, by David M. Freedman and Matthew R. Nutting (Wiley). A comprehensive, objective, and authoritative guide to the social and financial rewards of equity crowdfunding.
- *Step-by-Step Crowdfunding: Everything You Need to Raise Money From the Crowd*, by Joseph Hogue (Efficient Alpha). This manual for first-timers is a step-by-step guide to the actual process you need to make your fundraising or crowdfunding campaign a success—from idea conception through prelaunch to fulfillment.

Taxes

While there are a few mentions of tax issues throughout this book, most of the business planning information doesn't discuss how taxes will be calculated or paid. This book focuses its efforts on making a profit and a positive cash flow. If you make a profit, you'll pay taxes and if you don't make a profit, you'll pay fewer taxes. A CPA or tax adviser can help you with tax strategies. For useful guides to business taxes, check out Nolo's *Deduct It! Lower Your Small Business Taxes*, by Stephen Fishman, and *Tax Savvy for Small Business: A Complete Tax Strategy Guide*, by Frederick W. Daily.

Marketing/Advertising

- *Marketing Without Advertising*, by Michael Phillips and Salli Rasberry (Clear Glass Press, available on Kindle). An essential book about advertising and marketing. An indispensable source to help you understand your business from the customer's perspective.

- *The Complete Guide to Facebook Advertising*, by Brian Meert. In the age of social media, when nine in ten people check their phones within an hour after waking up in the morning, Facebook advertising is the perfect complement to your advertising strategy.
- *Positioning: The Battle for Your Mind*, by Al Ries and Jack Trout (McGraw-Hill). This classic book invented the concept of distinguishing you from your competition in the customer's mind. It explains how that process works and how positioning has become one of the most important factors in business success. You might also check out *Repositioning: Marketing in a Era of Competition, Change and Crisis*, by Jack Trout and Steve Rivkin (McGraw-Hill), which is out of print but still available online and in audiobook format.
- *Exceptional Service, Exceptional Profit: The Secrets of Building a Five-Star Customer Service Organization*, by Leonardo Inghilleri, and Micah Solomon (AMACOM). Primer on service; necessary for businesses where service counts.
- *Guerrilla Marketing: Easy and Inexpensive Strategies for Making Big Profits from Your Small Business*, by Jay Conrad Levinson, Jeannie Levinson, and Amy Levinson (Piatkus). A classic; essential reading.
- *The Elements of Copywriting: The Essential Guide to Creating Copy That Gets the Results You Want*, by Gary Blake and Robert W. Bly (Macmillan). Although this classic book is over 20 years old, it can still help you create effective ad copy.
- *Web Copy That Sells: The Revolutionary Formula for Creating Killer Copy That Grabs Their Attention and Compels Them to Buy*, by Maria Veloso (AMACOM). Writing ads that sell for any medium.

Personnel

If you need to hire anyone, you may want to glance through these books:

- *Smart Hiring: The Complete Guide to Finding and Hiring the Best Employees*, by Robert W. Wendover (Sourcebooks). Essential reading if you can't afford an HR consultant.
- *Smart Staffing: How to Hire, Reward and Keep Employees to Grow Your Company*, by Wayne Outlaw (Hotline Publishing). Essential reading if you can't afford an HR consultant.
- *The Employer's Legal Handbook: Manage Your Employees & Workplace Effectively*, by Fred S. Steingold (Nolo). Steingold shows you how to comply with the most recent workplace laws and regulations, run a safe and fair workplace, and avoid lawsuits. Nolo publishes several other useful employment books for small businesses, including *Consultant and Independent Contractor Agreements*, by Stephen Fishman.
- *Love 'Em or Lose 'Em: Getting Good People to Stay*, by Beverly Kaye and Sharon Jordan-Evans (Berrett-Koehler Publishers). The inside information on keeping good people.

Business Location

Running a business out of a home has its own special issues. You'll be interested in:

- *Work at Home Now: The No-Nonsense Guide to Finding Your Perfect Home-Based Job, Avoiding Scams, and Making a Great Living*, by Christine Durst and Michael Haaren (Career Press). Step-by-step guide to a good home-based work life.

If you'll be looking for business space outside your home, see:

- *Negotiate the Best Lease for Your Business*, by Fred S. Steingold and Janet Portman (Nolo). This practical handbook explains how to analyze your space needs, find the ideal location at the right price, and negotiate a lease that will protect your short- and long-term business interests.

Corporations, Partnerships, and Legal Matters

As I discussed in Chapter 4, you may want to organize your business as a partnership, limited partnership, or closely held corporation. The following materials will prove helpful.

Corporations and LLCs

- *Incorporate Your Business: A Step-by-Step Guide to Forming a Corporation in Any State*, by Anthony Mancuso (Nolo). Includes easy-to-read instructions on forming a corporation in any state, with tips on unique tax benefits, investment attraction, and more.
- *How to Form Your Own California Corporation*, by Anthony Mancuso (Nolo). Includes step-by-step instructions on how to incorporate a new or already existing business in California. The book comes complete with all tear-out forms necessary, including articles, bylaws, and stock certificates.
- *Inc. Yourself: How to Profit by Setting Up Your Own Corporation*, by Judith H. McQuown (Career Press). A popular guide to the “maze of legal and financial vagaries” of incorporating.
- *Form Your Own Limited Liability Company*, by Anthony Mancuso (Nolo). Provides the step-by-step instructions and forms businesspeople need to form an LLC. Includes how to handle ongoing legal issues and tax paperwork.

Partnerships

- *Form a Partnership: The Complete Legal Guide*, by Denis Clifford and Ralph Warner (Nolo). The book includes just about everything a small business owner needs to know to establish his or her own partnership. The book also discusses limited partnerships, but in less detail.

- *Compatibility Breeds Success: How to Manage Your Relationship with Your Business Partner*, by Marvin Snider (Praeger Publishers). Deals with the real issues of how to make a successful business with a real person.

Legal Matters

- *Legal Guide for Starting & Running a Small Business*, by Fred S. Steingold (Nolo). A comprehensive guide to making decisions about legal matters in business. Includes tax-saving methods, buying a franchise or an existing business, hiring and firing employees, and resolving business disputes.
- *The Encyclopedia of Small Business Forms and Agreements*, by Martha Maeda (Atlantic Publishing Group). Helps you keep up with the things you have to do.
- *Legal Research: How to Find & Understand the Law*, by Stephen Elias (Nolo). A good book on doing your own legal research.
- *Everybody's Guide to Small Claims Court*, by Cara O'Neill (Nolo). Can help you if you ever find yourself holding a handful of bad checks. It's a guide on how to properly prepare a small claims court case—which is far more than half the battle. It also contains good advice on who, where, and how to sue.
- *The Encyclopedia of Business Letters, Faxes, and E-mail*, by Robert W. Bly and Regina Ann Kelly. Guide to correspondence.
- *Ultimate Book of Business Forms (Ultimate Series)*, by Karen Thomas (Entrepreneur Press). More than 250 customizable forms covering all aspects of business.

Women in Business

These books are specifically geared to women who are starting or running their own businesses:

- *The Women's Small Business Start-Up Kit: A Step-by-Step Legal Guide*, by Peri Pakroo (Nolo). An award-winning, all-in-one resource for women starting a business, with practical and legal

information on all aspects of starting a business (online or off)—from raising money to marketing a business on a budget. Includes detailed resources for women-owned businesses, such as special certification programs and contracts.

- *A Woman's Guide to Successful Negotiating*, by Lee E. Miller and Jessica Miller (McGraw-Hill).
- *Dear Madam President: An Open Letter to the Women Who Will Run the World*, by Jennifer Palmieri (Grand Central Publishing). Palmieri creates a framework of inspirational and practical advice for women who are determined to seize control of their lives, their workplaces, and their countries.
- *Her Place at the Table: A Woman's Guide to Negotiating Five Key Challenges to Leadership Success*, by Deborah M. Kolb, Ph.D., Judith Williams, Ph.D., and Carol Frohlinger, J.D. (Jossey-Bass). How to get there from women who have done it.
- *Money, A Memoir: Women, Emotions, and Cash*, by Liz Perle (Henry Holt and Co.). Some women have issues about money that interfere with their success; here's how to deal with these issues.

Magazines and Online Information Sources; Continuing Small Business Help

Most big business publications, such as *The Wall Street Journal*, *Business Week*, and *Forbes*, are not directly helpful to small business owners.

Every industry has a trade magazine that offers practical advice specific to that industry; you can find these magazines by searching online. For general business questions, here are several publications I find of more value to start-ups:

- *Inc.* (www.inc.com). This is primarily oriented toward big small businesses (or small big ones); nevertheless, it is well put together and helpful.
- *Entrepreneur* (www.entrepreneur.com). This magazine covers a great many business opportunities in depth and purports to give all the secrets needed to be successful in the hottest new fields.


Don't neglect the obvious way to find answers to just about any business question: Do a Google search. If you strike out the first time, try rephrasing your question two or three different ways.

Formal Education

If you're a little weak in some important business areas, such as basic marketing, you may want to investigate some classes. But that doesn't mean that you have to enroll in a two-year MBA program with a major in marketing just to learn a little about how to sell your products.

The best way to spend your time and money wisely is to know specifically what you want to learn. If you have a certain direction in mind, you will be less likely to take a class that doesn't help you or to be taken in by a slick promoter. Study the class outline carefully to make sure you need the material covered in the class. Also make sure that the instructor is well qualified. Avoid classes that offer to solve all your problems or make you rich in one day; they are probably trying to sell you something. Here are your basic choices:

- **High school business classes.** Many high schools offer continuing education programs in evening classes. These classes provide basic, fundamental information and skills and generally don't offer the sophistication or broad coverage that you'll require. However, they can be an excellent choice if you lack a basic skill you'll need in your business. For example, high school bookkeeping classes and accounting classes can give you a basic foundation of knowledge and practical skills.
- **Junior or community college business programs.** Business education is a vital part of many two-year colleges. Classes often are taught by professionals from the community and offer specific, real-world information. The more popular classes are commonly taught in both day and evening sessions. You usually can take just the classes that interest you, unless you wish to enroll in a structured degree or certificate program.

- **Short classes and extension programs.** Some colleges and universities offer a variety of classes that are not part of a degree program. Some of these classes take place in one or two days, while others take longer.
 - **Universities and colleges.** Most universities and colleges offer classes only to students enrolled in a four-year program. Courses tend to be academically rigorous, but provide limited practical business information.
 - **Graduate business schools.** Many universities have specialized business schools and offer graduate degrees called a Master's Degree in Business Administration (MBA) for students who have received a four-year college degree. I should add, however, that I don't think an MBA degree is necessary to succeed in small business. I'm aware of no relationship between academic achievement and small business success. In fact, an MBA hinders some people.
 - **Entrepreneurial, profit-making programs.** Private promoters organize many classes and private seminars. Some classes can be very valuable, but many are a complete waste of time and money. Fees can range anywhere from free to hundreds of dollars. And supposedly free or inexpensive seminars can be ploys to induce you to buy something later.
- 

Business Plans for Nonprofits

Describe the Nonprofit Organization	263
Forecast the Nonprofit's Cash Needs	263
Find Donors	264

The basic idea of a standard, for-profit business plan is to accomplish the following:

- make a forecast of the income an organization will receive from selling products and/or services to customers
- correlate that income with expected costs to provide the products or services, and
- discover if there will be any money left over as a profit.

Both for-profit businesses and nonprofit, charitable organizations (called nonprofits here) need to raise money, but the basic financial decisions of their supporters vary. Unlike for-profit businesses, nonprofits (such as an arts, health, or environmental group) are designed to make no profits at all. (I'm referring here to properly organized tax-exempt 501(c)(3) organizations.) Unlike business investors, nonprofit donors (whether individuals, foundations, or other organizations), aren't motivated by the cash profit on the investment (in this case, a donation or grant). That said, many of the same calculations, projections, and discussions that go into a business plan are applicable to nonprofit ventures.

In fact, a business plan is often more important for a nonprofit than for a traditional business, since a nonprofit will not have sales revenue as a main support of its activities; as a result, a nonprofit plan will need to be more convincing and explicit than a for-profit business plan because the nonprofit's results will typically not be measured in money terms. Further, even if a nonprofit can fund all of the start-up costs and ongoing expenses of its venture, a business plan has a major advantage of keeping the nonprofit on track (and its board of directors happy).

The job of a nonprofit is to convince donors that the nonprofit can define specific goals that will accomplish the convictions shared by the donors and the people who run the nonprofit. A nonprofit can do that by explaining thoroughly and exactly what it will do to deliver actions and/or services or products that will satisfy the need. That's what a nonprofit business plan is designed to accomplish. Chapters 3 through 9 of this book provide guidance on writing a business plan that can be applied to nonprofit planning.

The following sections highlight some of the key steps of preparing a business plan for a nonprofit.

Describe the Nonprofit Organization

Before a nonprofit can begin asking folks for money, it needs to write out a complete description of what the nonprofit will do, whom it will employ, and how much it will cost to do those things. The description should include a short mission statement of what the organization is trying to accomplish.

For example, the mission statement of a nonprofit (let's call it Greens!) that aims to reduce global warming by planting trees might read something like this:

The mission of Greens! is to reduce the effect of greenhouse gas emissions in the earth's atmosphere by planting as many trees as we can in various rain forests around the world.

After preparing a mission statement, a nonprofit would complete the description by describing how it will accomplish the particular mission. See the “Describe Your Business” section of Chapter 3 for advice on the basic questions a nonprofit will answer in its plan.

Forecast the Nonprofit's Cash Needs

The next step is to write a forecast of how much money the nonprofit will need to start and sustain its organization. Chapter 6, “Your Profit and Loss Forecast,” explains the basics of forecasting income and expenses on a monthly basis for any business, nonprofit or not. The main difference is that a nonprofit will substitute expected donations for sales revenue (the first line of the Profit and Loss Forecast). Chapter 7, “Your Cash Flow Forecast and Capital Spending Plan,” discusses the essential methods a nonprofit will follow to create the forecasts discussed in Chapter 6. The concepts are similar for both for-profit and nonprofit organizations.

Find Donors

Once a nonprofit knows how much money it needs and has a written plan as to what exactly it will accomplish and how, then the real work begins by showing the plan to potential donors or using it as a blueprint when preparing grant proposals specifically targeted to the goals of potential funders.

The information in Chapter 4 about crowdfunding will be relevant to any organization seeking donors.

Resources for Nonprofits

If you're running a nonprofit, or thinking of starting one, check out the dozens of free articles available in the Nonprofits section of Nolo.com; these cover everything from starting and managing a nonprofit to building a board and fundraising. In addition, Nolo publishes several useful books for nonprofits, including

- *Starting and Building a Nonprofit: A Practical Guide*, by Peri Pakroo
- *How to Form a Nonprofit Corporation: A Step-by-Step Guide to Forming a 501(c)(3) Nonprofit in Any State*, by Anthony Mancuso, and
- *Effective Fundraising for Nonprofits: Real-World Strategies That Work*, by Ilona Bray.

I also recommend the following books for those interested in starting or managing a nonprofit:

- *Managing the Nonprofit Organization: Practices and Principles*, by Peter Drucker (CollinsBusiness)
- *A Legal Guide to Starting and Managing a Nonprofit Organization*, by Bruce R. Hopkins (Wiley)
- *The Executive Director's Guide to Thriving as a Nonprofit Leader*, by Mim Carlson and Margaret Donohoe (Jossey-Bass), and
- *The Generosity Network: New Transformational Tools for Successful Fund-Raising*, by Jennifer McCrea, Jeffrey C. Walker, and Karl Weber (Deepak Chopra Books).

A

Business Plan for a Small Service Business

Service businesses have simple financial projections. Usually, fixed expenses are equal to total costs and the owner's objective is to make sure that sales revenue exceeds fixed expenses. Investors and lenders look for proof of the plan's revenue forecasts, since the plan succeeds or fails on that forecast. The following plan contains a thorough projection of sales revenue and a discussion of why the owner thinks the revenue forecasts are achievable. Keep in mind that this is an old business plan—in other words, don't be shocked by the low numbers or outdated discussion of this personnel agency. The point here is to simply give you an example of a business plan for a service business.

This plan contains a different way of looking at a Cash Flow Forecast. I think this different presentation is easy to follow. You can use this new format or the format in Chapter 7.

I lost track of the owner and don't know whether she was successful. The plan is for a small personnel agency located in a city of about 70,000, which specializes in placing people in secretarial, clerical, and word processing positions. Basically, all you need to get started in this business is a state license (in many states), a desk, and a telephone. However, as in most other businesses, to do well you also need to know the business intimately, be able to manage your time effectively, have good sales ability, and be convinced that you will succeed.

This plan would benefit from a more thorough presentation of its components, and I recommend that your plan take the more thorough route.



FORM ON NOLO.COM

The text of this Business Plan for a Small Service Business is included on this book's companion page on Nolo.com. See "List of Forms Available on the Nolo Website" at the end of Appendix D for details.

Business Plan

CENTRAL PERSONNEL AGENCY

By: Eleanor Buss

November 3, 20xx

Table of Contents

A. Introduction and Request for Funds.....	3
B. My Experience and Background.....	3
C. Résumé: Eleanor “Ellie” Buss	5
D. Business Description of Central Personnel Agency	6
E. Central Personnel Agency Marketing Plan	6
1. How I Will Find Qualified Employees.....	6
2. Competition	7
3. Market Growth.....	8
F. Financial Projections	9
1. Introduction.....	9
2. Loan Security	9
3. Profit and Loss and Cash Flow Forecasts.....	9
G. Personal Financial Statement: Eleanor “Ellie” Buss	12
H. Business Risk Analysis.....	13
1. Partner Problems.....	13
2. Competition.....	14
3. Slow Times	14
4. Owner’s Ability.....	14
I. Capital Spending Plan	15
J. Personal Goals	15

A. Introduction and Request for Funds

This is a request for a loan of \$15,000 to establish the Central Personnel Agency as my sole proprietorship. Central Personnel will specialize in providing South City employers with secretarial, clerical, and computer (word processing) skilled personnel. I am presently a junior partner in Mid-Mountain Personnel Services, a similar type of personnel agency with headquarters in North City. I manage the branch office in South City. Mid-Mountain provides me with an office in a good, downtown location and a moderate salary. I like what I do and feel that helping people find work is a creative and satisfying activity.

The \$15,000 loan, which I am hereby requesting, will enable me to open my own employment agency, make my own business decisions, and substantially increase my income. To do this, I will be competing with my former employer, Ms. Jackie McCabe (dba Mid-Mountain Personnel Agency), to some extent, even though her headquarters is, and will remain, in North City. To minimize any hostility that could hurt business, I have kept Ms. McCabe informed of my plans. She supports them, has agreed to allow me to take over the lease on the South City Office, and is enthusiastic about working out a referral plan under which we will work cooperatively when we are dealing with employers located in each other's prime geographical area.

My best estimate of sales revenue and cash flow (both of which are spelled out in detail in this plan) shows that even using conservative estimates, I will earn a significant profit once my new business has been underway six months. My background experience in the personnel agency field, and past record of success, support my view that I will succeed. I am eager to begin.

B. My Experience and Background

As my résumé sets out in detail, since 2012, I have worked for three different employment agencies in this area, successfully finding jobs for many people. This has given me the opportunity to learn the personnel agency business thoroughly, including how to find employers needing workers and how to locate and screen desirable employees.

During the years I was acquiring this valuable experience, I always planned to open my own business. In the hope of achieving this goal, I formed a partnership with Ms. Jackie McCabe, who has operated Mid-Mountain Personnel Service in North City for several years. As a junior partner, my responsibility was to open a South City branch office, which I did. My goals were to increase my income and to have more control over business decisions than I had as an employee. While the personal relationship between Ms. McCabe and myself is cordial, the partnership has not worked to our mutual satisfaction. This has been largely because Jackie's main office in North City has grown so fast it has consumed all of her energy. This has left me operating the South City branch largely by myself, at the same time that a substantial portion of the profits I have generated go to Jackie under the terms of our partnership agreement.

As part of terminating our partnership agreement, Jackie and I have agreed that I will retain the lease on the present Mid-Mountain office in South City. In addition, we have signed a written agreement (available upon request) that provides that we will share all fees and commissions when one of us places an employee with an employer in the other's primary market area. Having made this agreement, I need accomplish only two more tasks before I can open my business. The first is to take and pass the state personnel agency license examination. I expect to do this in January with little difficulty, as I have received top grades in the preparatory course given by North State Community College. My other task involves the purpose of this proposal. I need to borrow enough money to begin business.

C. Résumé: Eleanor “Ellie” Buss

Address: 564 Sampson Avenue, South City, OR 96785; Telephone 503-567-8976

Business Address: c/o Mid-Mountain Personnel Services, 453 Second Street, Suite 300, South City, OR 97208; 503-765-8970; ebuss@personnel.com

Professional Experience:

- May 2013 to Date **Junior Partner, Mid-Mountain Personnel Services.** As account executive, I locate employers needing assistance; meet with employers to ascertain their personnel requirements; screen, counsel, and evaluate applicants; and refer qualified applicants to employers. Also, I assist applicants in preparing résumés and in preparing for interviews. I average ten placements per month, of which one-half are positions where the applicant pays the fees; my gross average billings are \$3,500 per month.
- 2012 to 2013 **Account Executive, Woodshaft Personnel Agency.** Responsible for all the same functions as listed above. Average gross billing was \$3,500 per month, which represented an average of ten placements per month.
- 2012 **Trainee Account Executive, Yolo Personnel Agency.** Screened and evaluated applicants; solicited job openings with appropriate clients; completed placements; average billings \$2,500 per month.
- 2011 **Purchasing Agent, Parsifone Electric.** Ordered material and inventory to coincide with contract process; estimated commercial and residential jobs; negotiated all materials purchased to ensure cost control and maintain profit margin on bids.
- 2010 to 2011 **Scheduler, Graphicscan.** Production scheduling for printing and graphic studio; estimated jobs for clients.
- 2005 to 2010 **Production Scheduler, Acme Pre-Built Components Co.** Scheduler/coordinator for large manufacturer of structural components; coordinated finish room schedule with customer priority and transportation availability; interfaced with other departments and sales staff to ensure customer satisfaction.

D. Business Description of Central Personnel Agency

Central Personnel will specialize in secretarial, clerical, word processing, and computer operator jobs, a field in which there is constant turnover. I will also provide services for technical and midmanagement jobs, but expect it to take several years before these latter areas provide a substantial portion of my income.

My particular specialty will be people (especially women) reentering the workforce after completing family-raising responsibilities. In this connection, I have developed a successful liaison with the South City Women's Resource Center. This group, which is partially funded by grants from local businesses, provides training, seminars, and counseling for reentry women and will provide me with a source of many highly motivated potential employees.

Because of my history in the personnel business in South City, I have placed many employees and expect that the already developing trend toward much of my business coming from repeats and referrals will continue. Also, in cooperation with the Women's Resource Center, I shall continue to provide detailed counseling to applicants (especially those who have been out of the labor market for several years or more) on how to compose résumés and take interviews, as well as on which jobs to seek. In addition, I plan to work closely with employers to assist them in determining what type of employee they need, how much they should pay, etc. I want employers to feel that my prescreening is honest and thorough and that by dealing with me they can save time by not having to interview clearly unsuitable candidates.

E. Central Personnel Agency Marketing Plan

1. How I Will Find Qualified Employees

The secret to success in the personnel business in South City is finding high-quality employee applicants. Because of the relatively rapid turnover among clerical employees, and because the South City economy is expanding, it is relatively easy to place highly motivated employees with good skills once they have been identified. Because of my prior experience in this business and this area, many of my initial candidates will come

from repeats and referrals from people I have placed. Others will be referred as part of my work with the Women's Resource Center.

In my experience, there are several other effective marketing techniques to develop a wider community base. Advertising of job openings (online and off) develops many prospective employees. Also, maintaining an active presence in the Chamber of Commerce and other traditional business and civic organizations enables prospective employers to recognize me as a person of integrity and stability. In addition, as discussed above, I shall continue to expand my association with the South City Women's Resource Center, a group that counsels women reentering the labor force. I also intend to provide free seminars of my own on "How to Find a Satisfying Job." Finally, I will regularly mail a brief newsletter to all major area employers listing all the job areas for which I have qualified applicants.

2. Competition

South City has three active personnel agencies in addition to the branch of Mid-Mountain, which I now run and which will close as part of the opening of my new business.

a. Bill's Personnel Services: This is the oldest and largest in the city. Recently, Bill's has suffered from their own high employee turnover, largely because it is run by an absentee owner. Bill's traditionally advertises heavily and depends on aggressive pricing policies to compete. They provide little employee counseling and, in my opinion, do not screen potential employees with sufficient thoroughness. At Mid-Mountain, I have already demonstrated that my personal approach to the needs of both employers and employees as opposed to Bill's high-volume approach is welcomed by the South City marketplace.

b. Strictly Business: This firm was recently acquired by an experienced professional counselor who heads a staff of three good counselors. Its primary emphasis is on technical management people and it handles clerical and computer operator jobs only as a sideline. Eventually, Strictly Business will be a competitor as I develop more midlevel management clients, but initially, they will not be a problem as our markets are so different.

c. The Woodshaft Organization: This agency has a staff of three and is directly competitive. Woodshaft spends about \$1,000 per month on advertising, but does little work with community organizations, such as the South City Women's Resource Center. The owner's husband died recently and as an understandable result, the business seems to lack energy. I believe that the Woodshaft Organization will offer the most competition over the next several years. However, because of the expanded South City job market, my own proven track record at Mid-Mountain, and my commitment to hard, creative work, I feel there is plenty of room for my new enterprise to prosper.

3. Market Growth

South City has a large number of the type of jobs I specialize in, with plenty of growth potential. Most of the other agencies are more interested in technical job categories. South City's growth as a regional financial and market center will ensure commensurate growth in job openings and should encourage the trend for women to reenter the job market. My approach to counseling both employers and employees is unique locally and I expect a continuing growth from my commitment to individual service, because this approach saves everyone time and expense in the long run.

My new downtown location (the office I will take over from Mid-Mountain) is already established, convenient, and close to the Women's Resource Center, with which I work closely.



TIP

Note: If you plan a large service business and need to borrow more money, it would be wise to back up this section with growth projection statistics. These are probably available from local banks, the Chamber of Commerce, and so on.

F. Financial Projections

1. Introduction

The key to the prosperity of Central Personnel Agency lies in quickly getting the business into the black and then building on that initial success.

The Profit and Loss and Cash Flow Forecasts in this section show a significant profit and positive cash flow from the beginning of operations. These results depend on my ability to generate revenue at the rate of \$6,000 per month for the first three months and \$7,000 or more for each month thereafter. I have no doubt about my ability to do this based on the job orders already on the books. This is because I have most of the employee applications necessary to fill these jobs on file and know how to locate the rest.

2. Loan Security

My personal financial statement is included in Section G, below. I believe my personal signature is more than enough security for a loan of \$15,000, since I have substantial assets. Nevertheless, I will consider the possibility of pledging some assets as additional security if appropriate. Incidentally, my past personal credit reports will show that several years ago I got behind on my payments on several accounts (I have never defaulted or declared bankruptcy). During the period in question, I was helping several family members who were experiencing emergencies (e.g., illness or sudden loss of work). These necessitated the diversion of the maximum amount of my financial resources to members of my family who were in greater need. All these problems have since been resolved, the money repaid me, and I am happy to say that all my accounts are current.

3. Profit and Loss and Cash Flow Forecasts

Financial forecasts for Central Personnel follow.

Central Personnel Agency: Profit and Loss Forecast—Year One

	Mar	Apr	May	Jun	Jul
1. Placement Revenue	6,000	6,000	6,000	7,000	7,000
2. Fixed Expenses	—	—	—	—	—
a. Rent	1,000	1,000	1,000	1,000	1,000
b. Advertising/Marketing	500	500	500	500	500
c. Phone/Internet	150	150	150	150	150
d. Supplies/Postage	50	50	50	50	50
e. Interest	300	300	300	300	300
f. Travel/Entertainment	100	100	100	100	100
Total Expenses	2,100	2,100	2,100	2,100	2,100
3. Profit Before Taxes	3,900	3,900	3,900	4,900	4,900

Central Personnel Agency: Cash Flow Forecast—Year One

	Pre-opening	Mar	Apr	May	Jun	Jul
1. Uses of Money						
a. Licenses/Deposits	1,100	—	—	—	—	—
b. Working Capital	2,000	—	—	—	—	—
c. Fixed Expenses	2,000	2,100	2,100	2,100	2,100	2,100
d. Principal Repayment	0	200	200	200	200	200
e. Computer/Phones	2,000	—	—	—	—	—
f. Owner's Draw	4,000	4,000	4,000	4,000	4,000	4,000
2. Total Uses	11,100	6,300	6,300	6,300	6,300	6,300
3. Sources of Funds						
a. Loan	15,000	—	—	—	—	—
b. Revenue	—	6,000	6,000	7,000	7,000	7,000
4. Total Sources	15,000	6,000	6,000	6,000	7,000	7,000
5. Net Cash (Line 4 – Line 2)	3,900	(300)	(300)	(300)	700	700

Central Personnel Agency: Profit and Loss Forecast—Year One (continued)

Aug	Sept	Oct	Nov	Dec	Jan	Feb	Year Total
7,000	8,000	8,000	8,000	8,500	8,500	8,500	88,500
—	—	—	—	—	—	—	—
1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
500	500	500	500	500	500	500	6,000
150	150	150	150	150	150	150	1,800
50	50	50	50	50	50	50	600
300	300	300	300	300	300	300	3,600
100	100	100	100	100	100	100	1,200
2,100	2,100	2,100	2,100	2,100	2,100	2,100	25,200
4,900	5,900	5,900	5,900	6,400	6,400	6,400	63,300

Central Personnel Agency: Cash Flow Forecast—Year One (continued)

Aug	Sept	Oct	Nov	Dec	Jan	Feb	Year Total
—	—	—	—	—	—	—	1,100
—	—	—	—	—	—	—	2,000
2,100	2,100	2,100	2,100	2,100	2,100	2,100	27,200
200	200	200	200	200	200	200	2,400
—	—	—	—	—	—	—	2,000
4,000	4,000	4,000	4,000	4,000	4,000	4,000	52,000
6,300	6,300	6,300	6,300	6,300	6,300	6,300	86,700
—	—	—	—	—	—	—	15,000
7,000	8,000	8,000	8,000	8,500	8,500	8,500	88,500
7,000	8,000	8,000	8,000	8,500	8,500	8,500	103,500
700	1,700	1,700	1,700	2,200	2,200	2,200	16,800

G. Personal Financial Statement: Eleanor “Ellie” Buss

Balance Sheet

ASSETS (at market value):

Cash in banks	\$ 4,000
Stocks	
United Inc.	4,500
Universal Corp.	3,000
Household furnishings	10,000
China collection	2,000
Car, Mazda RX	17,000
Residence	<u>295,000</u>
Total Assets	<u>\$ 335,500</u>

LIABILITIES:

First on property, \$1,100 per month	\$ 185,000
Auto loan, \$166 per month	6,000
Credit cards	
Visa \$80 per month	1,500
Macy’s \$40 per month	700
Business loan, \$100 per month	<u>15,000</u>
Total Liabilities	<u>\$ 208,200</u>
NET WORTH (Total Assets – Total Liabilities)	<u>127,300</u>
TOTAL LIABILITIES & NET WORTH	<u>\$ 335,500</u>

ANNUAL INCOME:

Professional fees	\$ 48,000
Dividends	<u>600</u>
Total Income	<u>\$48,600</u>

ANNUAL EXPENSES:

Loan payments	
1st	\$ 13,200
Car	2,000
Visa	960
Macy's	500
House-related expenses	6,000
Property taxes	1,950
Insurance	1,300
Living expenses	<u>15,000</u>
Total Expenses	<u>\$ 40,910</u>

H. Business Risk Analysis

Every business faces risks. Central Personnel Agency is not an exception. However, I believe that the risks facing my business are manageable. I see nothing that will seriously threaten the business.

Here are the major risks I anticipate and how I plan to deal with them.

1. Partner Problems

When faced with the prospect of my leaving and taking an income source away from her, my current partner, Jackie McCabe, the owner of Mid-Mountain Personnel Services, was initially somewhat angry. However, when we discussed the fact that she had more work on her hands in North City than she could cope with and that we could cooperate on future job placements, she became supportive of my starting my own business. Nevertheless, Jackie could still open a competitive agency at any

time—which might threaten my new accounts. Therefore, I am volunteering to pay her a one-third share of all future job orders developed from connections I made while the partnership was active. My budget will support this concept as long as my payments to Jackie do not exceed one-third of revenues. I do not expect this to happen, but should it, Jackie had indicated she will accept a deferred payment plan. Within six months to a year, I expect the great majority of my business will stem from new contacts and I will no longer need to pay Jackie.

2. Competition

There are several competing employment agencies in South City, as discussed in Section E, above. As I am aiming for a slightly different market from the other agencies and have a track record of success in my target area, I do not feel that the competition will hurt me. Even if the other agencies expanded their clerical placements, I think my personal rapport with my clients and the Women's Resource Center should prevent me from suffering any real problem.

3. Slow Times

People are hiring now and times are good. When the economy slows down, as it inevitably will, so too will new hires, although because of the high turnover, there is always some demand for clerical help. However, I plan to put aside money when times are good to cushion against future bad times. Also, I plan to reduce the effect of slow times by keeping my overhead low.

4. Owner's Ability

I have never operated an independent business before. However, I have been paid on a straight commission basis for some time and am used to the need to perform in order to be paid. I can see no insurmountable problems resulting from being on my own and have already determined the licenses, tax permits, and so on, I will need to begin. I plan to use the same bookkeeper and accountant who do the books for Mid-Mountain Personnel to help with paperwork. In addition, I have a friend who is a small business consultant, and I can rely on her advice should I need it.

In short, I believe that I have addressed the major risks facing my business and have demonstrated that those risks are manageable.

I. Capital Spending Plan

Most items of equipment will be leased or rented, so there will be little need for capital beyond working capital and some fees and printing costs:

Printing/stationery	\$ 500
Initial advertising	1,000
License application fee	250
Employment agency license fees	250
Business license	50
Insurance deposit	50
First/last months' rent & deposit	2,100
Computer/phone	2,000
New furniture	500
Working capital	<u>2,000</u>
Total Capital	<u>\$ 8,700</u>

Other capital items and most of the furniture have already been paid for. The office building provides a receptionist and copy service as part of the rent.

J. Personal Goals

After trying various careers, I discovered a career I am very good at and that provides me great personal satisfaction. I feel a deep sense of personal accomplishment when a client pays a fee for completing a job hire. That validates my ability. My goal in opening the Central Personnel Agency is to make some money while doing work I basically love.

B

Business Plan for a Manufacturing Business

The business plan for Day International, Inc., that follows is roughly based on a real plan, although I have changed some details, including the financial projections. And because of space limitations, I have omitted a number of charts and exhibits contained in the appendix to the original plan.

Founders of the company asked for \$75,000 to bring their product to market. They expected sales of nearly a million dollars by the end of the second year of operations. Here are some of the strengths and weaknesses of their business plan.

Sales Projections

The best part of the plan is the discussion of sales projections, because it gives you a sense of the support you'll have to provide if you plan to introduce a new product. Note the effort they put into developing a logical sales revenue forecast. Since most new products introduced into the marketplace do not sell well enough to produce a profit, investors and lenders want to see solid data to support a claim that your product will be different.

Also, they plan for two different products using the same technology. The first is aimed at the commercial market and is reasonably costly; the second targets the consumer market and carries a somewhat lower price.

The founders of Day International, Inc., believe that a successful business needs more than one product to survive. While there are some exceptions to that rule, diversification can achieve powerful benefits if one product meets resistance in the marketplace.

Items Excluded

This plan does not cover two important items I think should be included:

- **Marketing and advertising.** Day International, Inc., plans to have their distributors and sales representatives handle a great deal of these activities. Were this my business, I would pay a little more attention to marketing. I've learned that a new small business that leaves marketing to someone else often courts disaster. The reason for this is simple: When a product is new, no sales representatives or wholesale or retail outlets have much of a stake in its success. Until they do, they are unlikely to do much to push it.
- **Business accomplishments.** While Eleanor in Appendix A sells herself first and her business second, Frederick Jones and Phillip Court, the principals in Day International, Inc., concentrate on selling their new technology and the manufacturing specifics that will bring it to market, and keep themselves in the background. Either approach can be effective, although in the case of Day International, Inc., I wouldn't mind knowing a little bit more about why the founders think they will be good businesspeople.

And, again, keep in mind that this is an old business plan, with information that was relevant at the time this plan for a manufacturing business was done. The point here is to simply give you an example of how to assemble a business plan.



FORM ON NOLO.COM

The text of this Business Plan for a Manufacturing Business is included on this book's companion page at Nolo.com. See "List of Forms Available on the Nolo Website" at the end of Appendix D for details on accessing this page.

DAY INTERNATIONAL, INC.

AN INVESTMENT OPPORTUNITY

April 16, 20xx

DAY INTERNATIONAL, INC.

123 Smith Place

San Jose, CA

Telephone 408-555-1212

www.dayinternational.com

Table of Contents

A. Introduction	3
B. Company Description	4
C. Patent Status	4
D. Corporation Management	5
E. Product Description.....	6
F. Marketing Plan	9
G. Company Facilities	11
H. Product Development Status	11
I. Production Status.....	12
J. Product Selling Prices and Costs	13
K. Financial Statement and Projections	13

A. Introduction

After several years of development work, DAY INTERNATIONAL, INC., is ready to market two unique electronic devices, both of which use the same patented new technology. This technology utilizes computerized optic displays to create a programmable message. In commercial application, this is valuable in creating commercial signs and displays that use a scrolling technique to attract and inform customers. As a recreational product, computerized optical displays using this technology can be made to respond directly to music and voice patterns. In other words, full-color visual displays result from sound. This product application is particularly attractive to young people.

Extensive market research suggests a large market for both the commercial (Kinet-O-Scroll) and the recreational (Kinet-O-Scope) applications of this product. The commercial programmable sign market already exceeds one million dollars in the United States and is sure to grow quickly. Many units are purchased by retailers for what amounts to instant in-store advertising. In this application, retailers can program signs with information on that day's specials, and presto, they have created their own attractive electronic displays. The product, which is described more fully in the accompanying Product Description (Section E, below), has several features not now commercially available, including a wide choice of type styles. It will also have a substantial price advantage over other products now on the market. The consumer recreational market for this product is not fully tested, but there are a number of exciting potential uses (see Section E, Product Description).

DAY INTERNATIONAL, INC., is incorporated under the laws of the state of California and is ready to begin operations. The founders have spent several years of hard work preparing for this time and have made substantial personal investments. They are eager to proceed. However, because their personal financial resources are not adequate to manufacture and distribute sufficient units, they are prepared to offer a one-third share of the corporation for an equity investment of \$75,000. The enclosed financial projections demonstrate that if projections are met, there will be a very profitable return for the investor.

B. Company Description

DAY INTERNATIONAL, INC., was incorporated in California on June 1, 2009 as an outgrowth of Day Kinetics, a partnership formed in November of 2008. The corporation was organized to manufacture and sell several electronic display items for commercial and recreational purposes. The technology on which these products is based is covered by U.S. Patent (Smith #5676890123), for which an exclusive license has been obtained by the corporation. DAY INTERNATIONAL's offices are at 123 Smith Place, San Jose, CA, and the telephone number is 408-555-1212. All stock is held by Frederick R. Jones and Phillip Court who, along with several family members, occupy seats on the Board of Directors.

Two seats on the Board of Directors are still to be filled. A minority shareholder, or shareholders who invest \$75,000, will be permitted to seat two directors by majority vote. The majority shareholders are willing to prepare a formal shareholders' agreement, with the idea of protecting the interests of the minority shareholders.

C. Patent Status

Phillip Court, one of the directors and officers of DAY INTERNATIONAL, INC., obtained an exclusive license to the U.S. patent on which the Kinet-O-Scroll and Kinet-O-Scope are based (Smith #5676890123) in 2008. This license was granted by the original inventor of the process, Elmo Smith, for 2% of any eventual sales of either product during the term of the patent, until Smith receives \$200,000, 1.5% until Smith receives a total of \$400,000, and 1% thereafter. This license is cancelable if Smith does not receive \$20,000 per year, with the first payment due November 2008. The license excludes certain applications of the Smith patent that are not related to the corporation's products.

In 2010, Phillip Court assigned an exclusive sublicense for the remaining term of the patent (ten years) to DAY INTERNATIONAL, INC. The payment to Court for this sublicense is 2% of the sales, expiring when sales of \$100 million have been attained. In addition, the corporation has assumed the obligation for the royalty payment to Smith. All patent documentation, license agreements, and contracts are available to the potential investor or his or her agent upon request.

D. Corporation Management

The founders of DAY INTERNATIONAL, INC., are: Phillip V. Court and Frederick R. Jones, Jr.

The directors, officers, and key employees of this corporation are as follows:

1. Frederick R. Jones, Jr., president, treasurer, and director;
2. Phillip V. Court, vice-president, secretary, and director;
3. Edmund R. Jones, project manager and accounts payable manager.

Frederick R. Jones, Jr., age 52, has over 25 years of experience as an engineer, project engineer, program manager, proposal manager, marketing specialist, department head, program director, marketing manager, and so on. His specialty has been in automatic control systems and advanced display systems for manned aerospace vehicles. Mr. Jones's prior associations have been with Butterworth Aircraft (1984–1999), Vokar Electronics (1999–2009), and National Computer (2009 to date).

Phillip V. Court, age 46, has over 19 years of experience as an analog design engineer and manager. He is presently engineering manager of data conservation products at a major corporation headquartered in Santa Clara, California. Prior to this, he was the first vice-president of engineering of Ultradesign, a \$200M sales semicustom integrated circuit house. Mr. Court has authored numerous applications and brochures and several articles for a national electronics publication, and holds three U.S. patents.

Edmund R. Jones, age 23, holds a Bachelor of Science degree in marketing from the University of California, Irvine. He has gained valuable work and customer interface experience at such companies as Reliable Insurance, VSV Associates, and West Coast Semiconductor. In addition to his varied work experience, he has demonstrated community service and leadership capabilities, most significant of which are his leadership of a troop of Explorer Scouts and his membership in several regional opera societies. Edmund R. Jones is the son of Frederick R. Jones, Jr.

E. Product Description

The corporation plans to manufacture two products, both based on the Smith patent. One of these is the Kinet-O-Scroll, which is designed for commercial applications. The other is the Kinet-O-Scope, which is designed for home recreational use. They are more fully described below:

The Kinet-O-Scroll: This consists of a scrolling “Times Square”-type message sign. Using its patented technology, DAY INTERNATIONAL, INC., can produce a moving sign that is more versatile, attractive, and economical than existing units. Basically, the Kinet-O-Scroll displays alphanumeric, graphic, and animated characters in full color. While the sign can be manufactured in numerous sizes, we plan to start with a unit with a screen measuring three feet vertically and four feet horizontally. All sorts of businesses, including restaurants, bars, banks, stores, real estate offices, airline terminals, bus stations, and so on, can use the Kinet-O-Scroll sign to inform customers of special events or offers at a comparatively low cost. The cost of the unit may further be reduced by users who make arrangements (tie-ins) for reimbursement by advertisers. This could be the case where companies that manufacture products or services that a retailer sells (e.g., clothing, insurance, soft drinks) pay for advertising or provide their product at a better discount in exchange for advertising. There are hundreds of thousands of potential locations for such a low-cost merchandising tool.

The Kinet-O-Scroll is completely developed and tested. The first 100 production units have been completed and a production capacity of over 200 units per month is established. It is projected that the sales rate will rapidly build to a minimum of 100 units per month. This sales estimate, as well as long-term sales projections for the Kinet-O-Scroll, is based on extensive research into the need for this type of product, as well as into the sales history of existing (but inferior) products. This research has also involved consumer studies in which potential customers were asked to rate a variety of existing products against our new product.

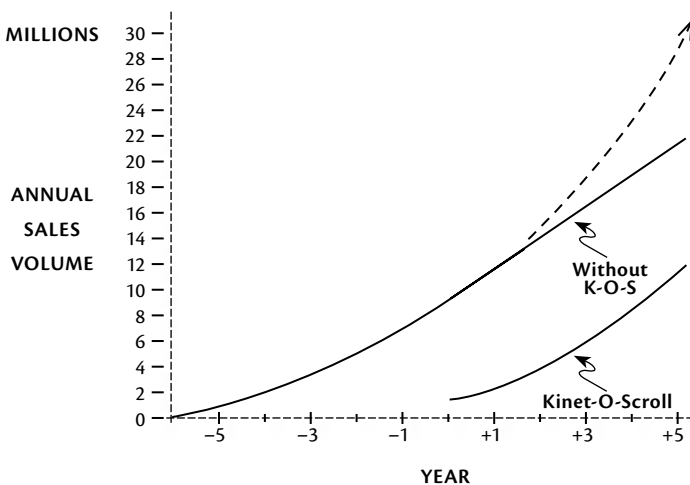
In outline form, here is what we believe to be an objective summary of the “strip sign” market and the sales potential of the Kinet-O-Scroll:

- The Kinet-O-Scroll is unique in its mode of operation and its technical capacities. For example, it provides at least twice the visual resolution of other scrolling signs.

- There are at least a dozen manufacturers of programmable strip signs that can perform a somewhat similar but less efficient function. The total annual sales of these products has been estimated to be \$10,000,000. This represents a 27% increase from the year before.¹ The existent products are all very similar. No one manufacturer commands a dominant share of the market.
- The published prices of the strip signs that come the closest to having features similar to the Kinet-O-Scroll are in the \$1,500 to \$2,000 range. As a result of efficiencies of design inherent in the patented technique used in the Kinet-O-Scroll, DAY's published list price is under \$1,000.
- DAY's service contract (available on request) is above average for the industry.
- DAY's warranty policy (available on request) is above average for the industry.

The accompanying chart shows the sales volume of programmable signs in the United States in millions of dollars. One year from now, the total market for programmable signs is estimated to be \$12,000,000. The corporation forecasts sales of 1,200 Kinet-O-Scroll units by the second year of production at a wholesale price of \$550. These sales forecasts are considered conservative in that they are based on a market penetration of only 5%.

Programmable Sign Annual Sales



The Kinet-O-Scope: The Kinet-O-Scope features a small-sized screen that produces optic displays in response to the human voice, music, and other sounds. The display is in full color and the patterns created in response to sound are stunning. It is particularly attractive to young children experimenting with the sound of their own voice, although this is by no means the only market. People who love music, for example, are commonly fascinated by the Kinet-O-Scope. To accurately estimate the sales potential of the Kinet-O-Scope in the consumer market is difficult, as no directly comparable products exist.

In an effort to arrive at as accurate an estimate as possible, extensive consumer interviews were conducted. The Kinet-O-Scope Market Research Chart that follows summarizes the results of these interviews. When compared directly with the most similar products available (these are not nearly as good, but there is nothing else), 56% of the people asked preferred the Kinet-O-Scope. Even more persuasive, 49% of those tested would buy it for themselves, while 62% of those tested would buy it for a gift.

While there are no specific competitive products to the Kinet-O-Scope, it is clear that there is a distinct market for products of this type. This conclusion is arrived at by looking at good sales figures for Light Organs, Infinity Lights, Wave Devices, Volcano Lights, Rain Lamps, and other products that use light in innovative and creative ways.

Perhaps the best example of the size of the market is the Volcano Light, a less technically advanced, but lower-cost product. According to its manufacturer, Volcano Simplex International, over 6,000,000 units have been sold in four years, with 3,000,000 sold last year. If we consider a wholesale average selling price of \$90, this represents over \$270,000,000.

DAY INTERNATIONAL, INC., conservatively estimates that it will sell about 2,800 units of the Kinet-O-Scope in the second year of operations, for a wholesale dollar sales volume of \$420,000 (\$150 per unit). Further sales growth is expected in later years. Note that this unit volume is a tiny fraction of the Volcano Light's sales volume for last year.

Market Research

	Wave	Kinet-O-Scope	Rain Lamp	Light Organ	Volcano Light	Infny Light
Preferred product	9%	56%	9%	1%	10%	13%
Already own it	2%	0%	2%	3%	4%	0%
Would buy it for self	32%	49%	18%	9%	16%	24%
Would buy it as gift	43%	52%	18%	11%	5%	31%
Estimated retail price	**	\$104.52	**	**	**	**

Age: Under 16: 3% 16–20: 11% 21–34: 41% 35+: 45%

**Average Total Estimate: \$168.69; Actual: \$160.00

F. Marketing Plan

The channels of distribution for the Kinet-O-Scroll and Kinet-O-Scope will include direct sales by corporate personnel to selected major accounts, and the use of manufacturer’s representatives (sales reps), distributor’s dealers (wholesalers), and international trading companies to reach the rest of the market. We do not anticipate establishing our own factory sales force. With regard to international sales, except for “opportunity sales,” we will not launch our formal effort until we have adequately penetrated the domestic market. However, we will explore licensing our technology abroad.

In the beginning, DAY will team with a limited number of sales reps and wholesalers who have proven abilities in successfully introducing new electronic products. At first, the emphasis will be on developing market penetration in a few carefully chosen regions near our manufacturing facility. The reason for this approach is to properly identify effective pricing techniques and marketing strategies. Information gathered will be used to fine-tune stocking requirements, manufacturing rate requirements, and so on, for general North American

distribution. In short, we want to be sure we are walking with a firm and steady tread before we begin to run.

It is particularly important that we work with good sales reps. To this end, we have contacted a number of people knowledgeable in the field (retailers, several small manufacturers of retail products, and two major wholesalers) for recommendations. We have received a number and plan to hold interviews soon. We also plan an aggressive campaign of marketing at consumer electronics and related trade shows. We have designed and built an attractive display booth that will effectively demonstrate both products in operation. We plan to attend up to ten trade shows in the next six months and will use them as showcases around which to meet potential sales reps, wholesalers, and customers. In addition, this will be our opportunity to introduce our products to the consumer electronics industry press. As such, we have hired an experienced media consultant to work with us in developing a press package. She has already arranged for several articles about the Kinet-O-Scroll to appear in several popular electronics magazines.

DAY INTERNATIONAL, INC., anticipates expanding the principal sales areas toward the end of the first year of operation. As part of doing this, we hope our higher manufacturing volume will allow us to lower prices as well as to improve our products based on feedback from buyers. In subsequent years, DAY will continue to use sales reps and wholesalers as our main sales force, since they provide many advantages over employee salespeople. The principal advantage, of course, is that these people are paid a commission (sales reps) or fixed percentage (wholesalers) of each sale, but receive no salary.

Wholesalers have been included in the overall merchandising effort because they offer an established way to get our product onto the retailers' shelves. Many have been in business for years and offer retailers local delivery, computerized ordering, and other valuable services. They are expected to play a supportive role to our sales reps, who will have the primary responsibility to call on retailers, write orders, and so on. Many of these orders will be forwarded to the wholesaler to be filled (depending on the territory and our contractual relationship with the wholesaler), while others will be processed directly by DAY. It is important that the sales reps and the distributors work as a team. The representatives will be brought on early enough to have a strong voice in distributor selection.

G. Company Facilities

DAY INTERNATIONAL, INC., presently occupies a leased facility of slightly over 1,800 square feet at a very reasonable rental. We use this for both manufacturing and offices. We rent an additional 150 square feet of storage space nearby. There is no concern for the continuation of the lease on our principal location, as it contains three yearly options to renew at the same rate, plus a percentage increase equal to the yearly increase in the consumer price index. The existing space is adequate to support production of at least 400 Kinet-O-Scrolls per month. Nearby space is available for expansion at reasonable rates when we need it. An adequate workforce of assembly workers and shipping room personnel is available.

Several additions to the corporation's existing manufacturing equipment are required. Assuming, however, that the Kinet-O-Scroll production rate does not exceed 400 units per month, these expenditures will not exceed \$30,000. When production increases above 400 units per month, we expect to show enough profit that a bank loan to finance more equipment will be easy to obtain. We can supply a potential investor with more details about these estimates upon request.

H. Product Development Status

Phillip Court began development work based on the Smith patent in 2007. The idea was to develop operational prototypes of both the Kinet-O-Scroll and Kinet-O-Scope to prove manufacturing feasibility. After design and operation of several early prototypes of each product, a full set of engineering drawing and parts specifications was prepared for each in 2008. Parts were procured from suppliers and a number of units assembled. Next, units manufactured and assembled were subjected to life testing. With some minor modifications, an operational life of up to 4,488 hours without failure was achieved for the Kinet-O-Scope. This compares to an expected typical homeowner's usage of 1,000 to 2,000 hours. We are confident from these results that with some minor material changes, which are now in the works, and the introduction of improved mechanical alignment techniques, which we plan to do soon, a 10,000-hour design goal is achievable. This is our goal.

The Kinet-O-Scroll must, of course, be designed to meet far more stringent requirements. We aim to market a product that will last at least four years, even if used 24 hours a day. Tests based on time simulations indicate that we have achieved this goal.²

The Kinet-O-Scroll is already in production (units are available for testing), as described in Section I of this proposal, just below. The Kinet-O-Scope can be in production within 120 days after additional financing is obtained.

I. Production Status

The Kinet-O-Scroll is the first and only DAY product currently in production. Here is a summary of both how things are going on the shop floor and how our marketing efforts are developing, as of April 16 of this year.

Material: There is no difficulty obtaining parts for the Kinet-O-Scroll. The two parts with the longest order lead time are the motor and keyboard, which at present take about eight weeks to get. There has been some recent indication of possible stretch-outs on certain semiconductor products we have been getting on a next-day basis, but this is not expected to be a significant problem. Just in case, however, we have identified several alternative suppliers.

Inventories: The first 100 Kinet-O-Scroll units have been committed to production. At the time of this writing, 35 are complete and the remainder are 90% finished, requiring only cabinets and final assembly. All materials, with the exception of the cabinets, which should arrive in ten days, are in stock to complete these units, as well as an additional 100 units. The first 100 units are primarily for demonstration purposes. We will use several at trade shows, give others to the electronics press for evaluation, and use still others as samples for our sales reps and wholesalers.

Credit Terms: Although DAY has established 30-day terms with over half of its suppliers, we are presently on cash terms with the rest, due to our low cash position and because we are a new corporation with no proven credit history. We expect to arrange 30- to 60-day terms with all our suppliers within six months. New financing will help us accomplish this.

J. Product Selling Prices and Costs

The projections included in this business plan are based on several assumptions about product selling prices and costs.

Wholesale Selling Price		
Kinet-O-Scroll	(Commercial Unit)	\$550.00
Kinet-O-Scope	(Recreational Unit)	\$150.00

Direct (Variable) Cost of Each Unit				
	Packaging	Direct Labor	Direct Material	Total Cost
Kinet-O-Scroll	\$11.00	\$24.00	\$100.00	\$135.00
Kinet-O-Scope	\$2.00	\$12.00	\$ 30.00	\$44.00

These figures do not allow for any corporation overhead, such as rent, management costs, and so on. They are based solely on the cost of producing each unit. All costs and selling prices have been developed through extensive market research and profitability analysis. They reflect the realities of the marketplace, as well as the price objectives of management.

K. Financial Statement and Projections

As DAY INTERNATIONAL, INC., is still in the start-up phase, we have yet to develop positive cash flow.³ As the attached Profit and Loss Forecast and Cash Flow Forecast indicate, however, we expect the corporation to begin to generate a positive cash flow and profit before the end of the first year of operations. To accomplish this, however, the corporation needs a total infusion of \$150,000 equity capital. The founders have contributed half of that amount and are seeking additional investors

for the balance. In exchange for a \$75,000 investment, the investor would receive a one-third interest in the company. This would take the form of one-third of the stock in DAY INTERNATIONAL, INC., and one-third representation on the board of directors. As noted in Section B above, the existing shareholders are willing to design a shareholders' agreement to protect the interests and representation of the minority shareholders.

Profit projections show that if all goes according to plan, the investor can expect no return of his or her investment in the first year of operation and substantial profit in the second. (The accompanying Profit and Loss Forecast shows a \$338,255 profit for DAY INTERNATIONAL, INC., by the second year.) While the dividend policy of the corporation will be to pay modest dividends to investors in order to generate capital for growth, it can be expected that some of the available profits will be distributed to the shareholders. In addition, the investor can expect significant capital gains should the corporation make a public stock offering. The founders plan to do this after several years of profitable operations.

Warning to investors! Heretofore you have read an optimistic review of DAY INTERNATIONAL, INC., and its chances for future success. However, you should realize that the electronics business is a risky one. Many new products fail, while others succeed for a brief time, only to be supplanted by new technology, changing public taste, or foreign competition. While we believe we have planned carefully and well for each of these eventualities, we want to emphasize one thing loud and clear: Anyone who invests in DAY INTERNATIONAL, INC., is taking a substantial risk. While we believe chances of success are excellent, this is by no means guaranteed. In short, please do not invest money that you can't afford to lose.

Endnotes

- ¹ Many small manufacturing operations will have a local marketing strategy, at least to start. Don't let the sort of marketing survey presented here intimidate you. The same sort of approach can be used for any manufacturing business. For example, if you plan to make a better raisin-chocolate-chip cookie, or a crisper lemon tortilla chip for local distribution, think about ways you can convincingly tell a potential lender or investor that it will sell.
- ² Test results are based on the brush/slip ring life-methods at three times normal speed, which have been independently monitored and are available upon request.
- ³ Since DAY is already in operation, it would be normal practice to include a balance sheet of operations to date. I do not do this here both because of space limitations and because we have not discussed balance sheets in the text. If your business is in operation, ask your bookkeeper or accountant to help you prepare a balance sheet and include it.





Business Plan for Project Development

Project developments differ from normal businesses in several ways. Most importantly, the development business ends when the project is sold. That means that the developer normally knows the selling price of the project before beginning development, and it means that any profit depends almost solely on his or her ability to control costs. Sometimes the project is sold before it is finished, making cost control even more critical.

The cash flow projection in this example is a model for project development forecasting, and I recommend that you use it for your project (keeping in mind that this is an old business plan with information that was current at the time this project was done). The point here is to simply give you an example of a business plan for project development.

John Reynolds plans to fix up a house that has inadequate plumbing and electrical work. In addition, the house has been unoccupied for several years and most of the windows are broken and the floors are in sad shape.

He plans to invest \$5,000, paying himself a salary of \$1,500 per month for three months while the house is being refurbished. When complete, he'll sell it for an immediate cash profit of \$12,445 plus a note from the buyer for an additional \$12,000.

Extensive documentation is required because John will need to borrow money from a bank to complete the work. With private financing, it's possible to complete a development project with less data.

Obviously, a developer working on more than one project may have an ongoing business independent of any particular development.

Regardless of project specifics, this developer must establish his ownership of the property or concept, back up his assumption about its projected selling price and the terms of sale, and verify his estimates of the costs necessary to complete the project.

Copies of many of the documents referred to in this example have not been included because they are all imaginary. Of course, for a real project, all relevant documents should be included. In this instance, John Reynolds would surely include copies of the preliminary title report, showing him as property owner; copies of a title insurance policy, showing that the title is good; a copy of the note in favor of the Joneses, showing that the balance due them is really \$55,000; and copies of all bids from the subcontractors who will do the work. In addition, the bank will surely require that a written appraisal of the property be included. If the bank has experience with John Reynolds on other house rebuilding projects in the particular area, it may accept his judgment as to the amount of work needed to put the house in a condition to justify the projected selling price. If not, he may have to provide a written report from the city inspector's office, stating what work must be done to get an occupancy permit.



FORM ON NOLO.COM

The text of this Business Plan for a Project Development is included on this book's companion page on Nolo.com. Please see "List of Forms Available on the Nolo Website" at the end of Appendix D for details on accessing the page and all forms in this book.

Loan Request for Single-Family Residential Reconstruction

November 18, 20xx

Jonathan Reynolds
847 Market Street
Chicago, Illinois
Telephone 312-555-7896

Table of Contents

Introduction.....	3
Market Value of the House on Completion	3
Terms of the Expected Sale.....	4
Title to the Property.....	4
Costs to Remodel the Property.....	4
Sales Price	7
Cash Flow.....	7

Introduction

This is a request for a loan of \$30,000 for the purpose of improving a single-family residence at 2246½ Hamilton Street, Chicago, Illinois. This house has been condemned by the city because of faulty plumbing and wiring, and because it has been unoccupied for about three years. As a result, there is substantial work to be completed before the house can be legally and profitably sold. According to city inspectors and a private structural engineer, the house is basically sound, except for the items referred to. Specifically, the city has stated it will issue an occupancy certificate once the tagged items are completed to its satisfaction.

Upon completion, the house will have a market value of \$120,000, based on comparable sales in the area. Since I have acquired the house for \$60,000, the proceeds from the sale of the house will be more than enough to pay the existing note on the house and to pay back the new loan.

Market Value of the House on Completion

Comparable Values

Address	Sold For	Sq. Ft.	Features	Age	\$/Sq. Ft.
2357 7th St.	\$119,000	1,385	3 br, 1 ba	50+	85.92
406 Bean Ave.	\$125,000	1,500	3 br, 2 ba	45+	83.33
2765 9th St. (This house was condemned also)	\$75,000	1,200	2 br, 1 ba	50+	62.50
567 Bacon Ave. (This house was condemned; the developer thinks he will sell it for \$130,000 upon completion of work)	\$50,000	1,400	3 br, 2 ba	60+	35.71
1988 7th St. (This house just sold after being fixed up)	\$135,000	1,450	3 br, 2 ba	40+	93.10

Although I have not yet acquired a formal appraisal of the value of the house, a study of recent sales of comparable property in the area supports the value of \$120,000. This area of Chicago is undergoing gentrification, as younger, upwardly mobile families are

buying older houses and fixing them up to live in or resell. People in the market appear to be willing to pay a premium for a rebuilt house, both in terms of selling price overall and on a square-foot basis. An appraisal can be obtained from any number of qualified appraisers at the lender's request.

Terms of the Expected Sale

Lenders in this neighborhood have been lending 80% of the appraised value of a first mortgage. Buyers normally expect to make a down payment of 10% to 15% of the selling price. Many sellers are willing to carry a second mortgage on the houses for up to 10% of the selling price. This loan request is based on that set of assumptions about the terms of the resale.

Title to the Property

As evidenced by the preliminary title reports and policy of title insurance issued to me by Chicago Title Insurance, I presently own the property. The escrow closed on October 3, 2013 at the Third National Bank. A copy of the escrow documents and title policy are available upon request. I bought the property for a total price of \$60,000, by making a down payment of \$5,000 in cash with the seller, Mr. and Mrs. Timothy Jones of 2336 South Whale Drive in Joliet, agreeing to carry back a \$55,000 mortgage on the property. The mortgage calls for monthly payments of \$800 until October 3, 2014, one year from the close of escrow, when the entire remaining amount of \$52,500 becomes due and payable.

Costs to Remodel the Property

As previously discussed, the house needs new plumbing and wiring, a new roof, and other repairs, including replacing most of the windows, refinishing the floors, and making improvements to the kitchen to make it marketable for the \$120,000 value. I plan to have the electrical and plumbing, floor, roof, and kitchen work done by licensed subcontractors and to do most of the additional cosmetic work myself.

Here is a summary of the low bids I have received so far to the portion of the work to be completed by outside contractors. Copies of the bids are available on request.

Plumbing: Install new water and gas pipe, install new water heater, use existing sinks and tub, but install new faucets and toilet	
Low bid from Smith Brothers, 114 Prince William St., Gary, Indiana	\$ 12,998
Electrical: Pull new wiring throughout, install good quality fixtures and outlets, using existing boxes and wall holes wherever possible, all to code	
Frank Rochioloi, Chicago, Illinois	4,006
Roof: Install four-ply roof over entire house with 20-year guarantee, to code	
Johnson Roofing, Chicago, Illinois	800
Flooring and Carpeting: Repair flooring and install new wall-to-wall carpeting and/or linoleum throughout	
Acme Floors, Chicago, Illinois	4,958
Kitchen Cabinets: Build and install new cabinets in kitchen	
Urizola Cabinets, Chicago, Illinois	1,995
Range and Refrigerator:	
Gordon's Appliances, Chicago, Illinois	<u>1,398</u>
Total Bid Items	<u>\$ 26,155</u>

I plan to do some of the cosmetic work myself during the three months' construction time. That work will include painting inside and out, replacing window glass, and other miscellaneous items as the need arises. Cost of materials for those items will be about \$500. Building permits and fees for the electrical, plumbing, and roof work will add another \$500. This will put the total costs, excluding finance costs, at \$78,155. As seen on the project Profit and Loss Forecast that follows, I have estimated financing and other costs to total an additional \$10,200.

In making my financial projections, I made the following assumptions:

- The house will be sold within six months of the start of construction, and the Joneses' note will then be paid off. (The interest portion of this \$800 note is \$550.)

- Costs of the new loan of \$30,000 secured by a second mortgage are assumed to be two points, which amounts to a \$600 loan origination fee.
- Interest is assumed to be at a 12% annual rate, for a six-month total interest cost of \$1,800 for that loan.
- Finally, I assume that I shall pay myself a salary of \$1,500 per month during the time I actually work on the house.

Profit and Loss Forecast for the Remodeling and Resale of Single-Family Residential House at 2246½ Hamilton St., Chicago

Item	Amount
Sales price	\$ 120,000
<i>Less:</i> 6% Commission	<u>7,200</u>
Net Proceeds	<u>112,800</u>
<i>Less:</i> Cost to acquire house	60,000
Plumbing	12,998
Electrical	4,006
Roof	800
Flooring and carpeting	4,958
Kitchen cabinets	1,995
Range and refrigerator	1,398
Miscellaneous supplies	500
Building permit, city fees	<u>500</u>
Subtotal Costs	<u>78,155</u>
Carrying costs, 6 months—interest on mortgage	3,300
Interest and loan fees on new loan, 6 months	2,400
Developer overhead (3 months' living expense at \$1,500)	<u>4,500</u>
Total Project Cost	<u>88,355</u>
Project Profit	<u>\$ 24,445</u>

Sales Price

The sales price of the 2246½ Hamilton Street house, after remodeling, is forecast to be \$120,000, with a 6% real estate commission paid in cash from the proceeds of the sale. We expect to carry back a new second mortgage in favor of the buyer of approximately \$12,000, which means the seller will pay a cash down payment of \$12,000 and obtain a new first mortgage of \$96,000 from a bank or savings and loan. The new first mortgage will pay off the existing first and second loans on the property. Thus, at the conclusion of the transaction, I expect to receive the cash difference between the total of all outstanding loan balances, sales commissions, and other cash expenses. In addition, I shall have a second mortgage on the property in the amount of \$12,000.

Cash Flow

As seen on the attached cash flow for this project, there are only three infusions of cash into the project. The first one is the money from my savings account with which I made the down payment on the property and with which I obtained the engineering studies that convinced me that the project will make money. The second infusion will be the proceeds from the loan being applied for here. The third and final infusion will be from the sale of the property, and that will be sufficient to pay off the other loans on the project and leave a cash profit of \$12,445. The difference between the cash profit and the book profit shown earlier is accounted for by the \$12,000 second mortgage I'll carry in favor of the buyer.

Based on demand for housing in the subject area, I believe that the house will probably sell far more quickly than I have forecast; in fact, I have already had two inquiries about selling it. Based on my experience with remodeling houses of this age and location, I am sure that the \$30,000 requested will be adequate to complete the repairs necessary to increase the value of the house.

Project Development Cash Flow—Remodel House at 2246½ Hamilton

	Pre-Const	Construction Period						Total Cost	House Sale
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6		
Sources of Cash									
Savings	5,300								
New second		30,000							
Sales—down payment									12,000
New first									96,000
Total Sources	5,300	30,000							108,000
Uses of Cash: Preconstruction									
Down payment to buy house	5,000								
City inspection fee	100								
Engineer consultant	200								
Total Preconstruction	5,300								
Uses of Cash: Construction									
Contractors	5,718	5,718	5,719					17,155	
Supplies	167	167	166					500	
Permits/fees	250	-0-	250					500	
Interest on old first mortgage	550	550	550	550	550	550		3,300	
Principal on old first mortgage	250	250	250	250	250	250		1,500	
Loan fees on new 2nd	600							600	
Interest on new 2nd	300	300	300	300	300	300		1,800	
Developer overhead	1,500	1,500	1,500	-0-	-0-	-0-		4,500	
Total Construction	9,335	8,485	8,735	1,100	1,100	1,100		29,855	
Sales—pay off savings of J.R.									5,000
Pay off old first									53,500
Pay off new 2nd									30,000
Sales commission									7,200
Total Sale									95,700
Net Cash	-0-	20,665	(8,485)	(8,735)	(1,100)	(1,100)	(1,100)	(29,855)	12,300
Cumulative Net Cash	-0-	20,665	12,180	3,445	2,345	1,245	145	145	12,445



How to Use the Downloadable Forms on the Nolo Website

Editing RTFs.....	312
List of Forms Available on the Nolo Website	313

This book comes with downloadable files and forms that you can access online at:
www.nolo.com/back-of-book/SBS.html

Here is a list of the types of files provided by this book, as well as the software programs you'll need to access them:

- **RTF.** You can open, edit, save, and print these form files with most word processing programs such as Microsoft *Word*, Windows *WordPad*, and *Pages* for Mac and iOS.
- **PDF.** You can view these files with *Adobe Reader*, free software from www.adobe.com.
- **XLS.** You can open, edit, save, and print the XLS spreadsheet files with Microsoft *Excel* and other spreadsheet programs that read XLS files.

Editing RTFs

Here are some general instructions about editing RTF forms. Refer to the form instructions (in the book) for help about what should go in each blank:

- **Underlines.** Underlines indicate where to enter information. After filling in the needed text, delete the underline.
- **Bracketed and italicized text.** Bracketed and italicized text indicates instructions. Be sure to remove all instructional text before you finalize your document.
- **Optional text.** Optional text gives you the choice to include or exclude text. Delete any optional text you don't want to use. Renumber any numbered items, if necessary.
- **Alternative text.** Alternative text gives you the choice between two or more text options. Delete those options you don't want to use. Renumber numbered items, if necessary.
- **Signature lines.** Signature lines should appear on a page with at least some text from the document itself.

Every word processing program uses different commands to open, format, save, and print documents, so refer to your software's help documents for help using your program. Nolo cannot provide technical support for questions about how to use your computer or your software.



CAUTION

In accordance with U.S. copyright laws, the forms provided by this book are for your personal use only.

List of Forms Available on the Nolo Website

To download any of the files listed on the following pages, go to:
www.nolo.com/back-of-book/SBS.html

The following business planning spreadsheets are in Microsoft's *Excel* format (XLS):

Form Name	File Name
Cash Flow Forecast	CashFlow.xls
Personal Financial Statement	FinancialStatement.xls
Profit and Loss Forecast	ProfitForecast.xls
Sales Revenue Forecast	SalesRevenue.xls

The following checklists are in rich text format (RTF):

Checklist Name	File Name
Self-Evaluation Checklist	EvaluationChecklist.rtf
General Business Questions Checklist	QuestionsChecklist.rtf

The following sample business plans are in portable document format (PDF):

Plan Name	File Name
Business Plan for a Small Service Business	SmallService.pdf
Business Plan for a Manufacturing Business	Manufacturing.pdf
Business Plan for a Project Development	ProjectDevelopment.pdf



Index

A

- Accomplishments. *See* Business accomplishment résumé
- Accountants, 147, 246, 252
- Accounting software, 146
- Accounting systems and costs, 147–148, 249
- Accounts payable, 164
 - in cash flow forecast, 167–169
- Accounts receivable
 - in cash flow forecast, 164–166
 - as funding source, 92–93
 - on personal financial statement, 112
- Advertising, 143–145, 186, 252–253.
 - See also* Marketing *entries*
- After you open, 232–242
 - closing or selling the business, 237, 239–242
 - day-to-day operations, 235
 - evaluating business performance, 234, 236–237
 - success and expansion, 238
 - watching for problems, 232–238
- Angel investors, 77, 89–90. *See also* Investors
- Annual income, on personal financial statement, 120–123
- Annual living expenses, on personal financial statement, 124–127
- Antoinette’s Shop example, 8, 9
 - appendix table of contents, 212
 - break-even sales revenue forecast, 58–61
 - business description, 38
 - business personality analysis, 197
 - business plan problems, 175–176, 215
 - business plan summary, 206–207, 208
 - capital spending plan, 159–160
 - cash flow forecast, 162–163, 174, 175–176
 - competition analysis, 182, 183
 - cost of sales determination, 133–134
 - fixed costs forecast, 53
 - future trends statement, 44
 - goal statement, 210
 - gross profit determination, 55
 - job description, 198
 - marketing budget, 190
 - marketing methods, 187
 - marketing plan, 191–192
 - personnel plan, 200
 - problem statement, 35
 - profit and loss forecast, 140–141
 - required investment determination, 174
 - risk analysis, 195
 - sales revenue forecast, 48–49

- self-evaluation exercises, 19, 21, 22, 23
 - staffing schedule, 197
 - target customer description, 185
 - Appendix, 4, 211–212
 - Assets, business
 - depreciation, 139, 150, 158, 159, 170
 - as loan collateral, 78, 92
 - selling, 239–241
 - See also* Accounts receivable; Inventory
 - Assets, personal
 - co-owned property, 111, 113
 - as loan collateral, 68–69, 76
 - net worth calculation, 120
 - on personal financial statement, 111–116, 127, 128
 - as source of funds, 77, 83
 - vs. income, 111
 - See also* Secured loans
 - Attorneys. *See* Lawyers
 - Average cost of sales. *See* Cost of sales
- B**
- Balance sheet, 239–240
 - Balloon payments, 67
 - Bank loans
 - basics, 86–88
 - for expansions, 92
 - the ideal loan applicant, 24–26
 - on personal financial statement, 117
 - talking to bankers, 94, 219, 223–225
 - trying more than one bank, 94, 225
 - See also* Loans
 - Bankruptcy
 - declaring bankruptcy, 239, 241–242
 - explaining past financial problems, 101, 220
 - past, on résumé, 100
 - Bonds, on personal financial statement, 112
 - Book and magazine
 - recommendations, 248–257
 - Bookkeeping and bookkeeping costs, 147–148, 249
 - Break-even analysis, 45–61
 - basics, 45–47
 - break-even sales revenue, 56–58
 - fixed cost forecast, 52–53
 - forecasting sales revenue, 47–52
 - gross profit forecast, 54–56
 - if your forecast shows a loss, 58
 - as preliminary profit forecast, 44, 131
 - revising/considering alternative numbers, 58–61
 - Business accomplishment résumé, 4, 100–109, 283
 - basics, 100–103
 - examples, 103–109, 269–271
 - negative information on, 100–101
 - Business acquaintances, as funding sources, 80–82, 89, 222–223
 - Business assets. *See* Assets, business
 - Business books and magazines, 248–257
 - Business classes and seminars, 258–259

- Business consultants, 214, 244–247
- Business debts. *See* Liabilities, business
- Business description, 4, 35–39
 - basics, 31–32, 35–36, 180
 - as basis for marketing plan, 180, 191
 - examples, 38, 272, 288–291
 - mission statements for nonprofit organizations, 263
 - problem statement, 4, 34–35, 180, 191
 - questions to consider, 36–39
- Business expansions, 238
 - cash flow and, 157
 - financing options, 72, 77, 78, 91–94
 - including financial statements in your plan, 211
 - See also* Financing your business
- Business expenses. *See* Expenses, business; *specific expense types*
- Business failure
 - factors in, 29, 31, 235, 236–237, 238
 - friends or relatives as funding sources and, 81
 - investors' exposure to losses, 69
 - past failures or other negative information on résumé, 100–101
 - risk analysis basics, 193–196
 - risky businesses, 30
 - See also* After you open; Business success
- Business goals. *See* Goals
- Business location, 254. *See also* Leases
- Business ownership, 16–24
 - the banker's ideal business owner, 24–26
 - business plan as a tool for considering, 6–7
 - identifying your goals, 16–17, 22–23
 - legal forms of shared ownership, 72–75, 230, 255–256
 - motivations for, 16–17, 25
 - self-evaluation exercises and checklist, 17–24
 - See also* Choosing a business
- Business personality analysis, 196–197
- Business plan basics, 2–7
 - benefits of a plan, 5–7
 - charts and other graphics, 213, 214
 - complete vs. quick plans, 3–5, 202–203
 - customized plans, 5
 - final review and editing, 212–215
 - getting help, 13, 214, 215, 244–247
 - getting started, 11–12
 - length of plan, 204
 - online resources, 13, 96, 244, 247–248, 257–258
 - optional components, 204, 207, 209–212
 - organizing plan components, 202–203
 - preparation time required, 11
 - presentation basics, 218–221
 - supporting documents, 4, 5, 211–212

using the downloadable forms, 312–314

writing final portions, 204–210

See also Finalizing your plan; Presenting your plan; Revising your plan; Sample business plans; *specific plan components*

Business plan summary, 4, 204–207

examples, 208, 269, 287, 305

Business problems

anticipating and dealing with, 232–238

closing or selling your business, 237, 239–242

Business skills, 20–21, 28–29

the banker’s ideal, 24–26

management skills, 20, 25, 233, 235

See also Business accomplishment résumé

Business success

handling, 238

plan as prediction and operations tool, 6–7

your role in, 17–22, 26, 28–29, 233, 238

See also After you open

Business types

basics, 8, 32–34

nonprofit organizations, 262–264

online businesses, 30, 42

risky businesses, 30

See also specific types

Business USA, 97

C

Capital expenses

common types, 158

leasehold improvements, 139, 158

See also Capital spending plan; Start-up capital

Capital investment, 157. *See also* Start-up capital

Capital, raising. *See* Financing your business; Investors; Loans

Capital spending plan, 4, 189, 283

basics, 157–159

determining total capital needed, 173–174

examples, 159–160, 281

introduction to, 209

Cash and cash equivalents, on personal financial statement, 111, 114

Cash flow, 156

how long it should take to meet projections, 236

inventory turnover and, 175–176

Cash flow forecast, 4, 10, 161–177, 283

alternative formats for, 265, 276–277, 301, 309–310

basics, 156–157

credit purchases and payments, 167–169

credit sales and collections, 164–166

depreciation, 170

determining start-up funding needs, 173–174

- examples, 162–163, 175–176, 209–210, 276–277, 309–310
- extra inventory purchases, 171
- introduction to, 209
- loan payments in, 148–149, 170–171
- net cash, 171–173
- nonprofit organizations, 263
- other cash items, 171
- payroll taxes, 169–170
- profit or loss, 164
- reviewing/improving, 174–175
- risk analysis and, 194
- Center for Business Planning, 248
- Certified public accountants (CPAs). *See* Accountants
- Choosing a business, 28–62
 - basics and resources, 28–31, 61–62, 250–251
 - businesses with high failure rates, 30
 - considering future trends, 40–41, 43–44
 - identifying business type, 32–34
 - jitters and second thoughts, 194
 - questions to consider, 36–39
 - writing a business description, 31–32, 35–39, 180
 - writing a problem statement, 34–35
 - See also* Break-even analysis; Business ownership
- Classes and seminars, 258–259
- Collateral, 68–69, 76, 83, 224
 - verification of ownership, 128
 - See also* Secured loans
- Collections, in cash flow forecast, 165–166
- Commercial leases. *See* Leases
- Commission costs, 135, 143
- Competition and competition analysis, 36–37, 181–183, 193, 273–274
- Complete business plan
 - components and outline, 3, 4, 203
 - See also* Business plan basics; *specific plan components*
- Co-owned property, on personal financial statement, 111, 113
- Corporate bonds, on personal financial statement, 112
- Corporations, 74–75, 255
 - bankruptcy declarations, 241
 - stock offerings, 75, 85, 98, 230
- Cosigners, 67, 121
- Cost of sales (cost of goods sold), 131
 - average, calculating, 132–135
 - based on inventory value, 153–154
 - determining from gross profit, 133
 - inventory purchases, 53
 - in inventory turnover calculations, 175, 177
 - piece-rate and commission costs, 135, 143
 - in profit and loss forecast, 131, 137
 - retail, manufacturing, or wholesale businesses, 132–134
 - service businesses, 135
 - start-up expenses as, 158

CPAs. *See* Accountants

Credit card cash advances, 78

Credit card debt, on personal financial statement, 117

Creditors
 bankruptcy declarations and, 241
 business failure and, 239–240, 241
See also Suppliers

Credit problems, disclosing/
 explaining, 100–101, 220

Credit purchases, 164, 167–169

Credit reports, 127–128, 220

Credit sales, 164–165

Crowdfunding, 84–85, 252, 264

Customers, 233, 234
 communication methods and costs, 144–145, 185–188
 target customer description, 184–185
See also Marketing *entries*

Customized plans, 5

Cycles and trends. *See* Trends

D

Debts. *See* Accounts payable; Liabilities

Deposits, 139, 158, 169–170

Depreciation, 139, 150, 158, 159, 170

Developers. *See* Project development businesses

Direct costs. *See* Cost of sales

Discretionary expenses, 52. *See also* Fixed costs

Dividend income, 75, 121

Donors (nonprofit organizations), 264

Draw. *See* Owner compensation

E

E-commerce, 30, 42

Economic changes, 40, 42
 considering future trends, 40–41, 43–44, 180

Editing your plan. *See* Finalizing your plan

Employee compensation
 corporate shareholders, 75
 payroll taxes, 142, 143, 146, 169–170, 199
 in personnel plan, 198, 199
 piece-rate and commission payments, 135, 143
 in profit and loss forecast, 142–143
 your wages on personal financial statement, 121

Employees, 233, 234

in business description, 36
 hiring consultants as, 245
 hiring resources, 253–254
 job descriptions, 198–199
 personnel plan, 196–200
 staffing schedule, 197
 theft by, 153, 154
 vs. independent contractors, 146
 workers' compensation insurance, 146

Employment taxes. *See* Payroll taxes

Equipment, 158

- Equipment leasing companies, 92
 - Equity investments. *See* Investors; Start-up capital
 - Existing businesses
 - business income and expenses on personal financial statement, 121, 124
 - financial statements for, 91, 110–111, 211
 - funding sources for, 91–94
 - See also* Business expansions
 - Expenses, business
 - creative cost-cutting, 77, 83
 - credit purchases, 167–169
 - discretionary costs, 52
 - See also* Capital expenses; Cost of sales; Fixed costs; Profit and loss forecast; Start-up expenses; *specific types of expenses*
 - Expenses, personal
 - deferring for business funding, 78–79
 - on personal financial statement, 124–127
- F**
- Factoring companies, 92–93
 - Failure. *See* Business failure
 - Federal securities law, 75, 85, 98, 230
 - Finalizing your plan, 202–215
 - adding a personal goal statement, 209–210
 - appendix, title page, and table of contents, 211–212
 - final review and editing, 212–215
 - organizing plan components, 202–203
 - writing a plan summary, 204–207, 208
 - writing section introductions, 207, 209
 - Financial problems
 - anticipating and dealing with, 232–238
 - bankruptcy on résumé, 100
 - declaring bankruptcy, 241–242
 - explaining to potential backers, 101, 220
 - See also* Business failure
 - Financial statements
 - actual, comparing to profit and loss forecast, 234, 236–237
 - for existing businesses, 91, 110–111, 211
 - See also* Personal financial statement
 - Financing your business, 5–6, 65–98
 - approaching prospects a second time, 94–95
 - basics and resources, 65, 76–77, 251–252
 - creative cost-cutting, 77, 83
 - crowdfunding, 84–85, 252, 264
 - determining how much money you need, 82, 173–174
 - equity investment basics, 69–74, 75–76, 89–90, 205, 225
 - financing expansions, 72, 77, 78, 91–94

friends, relatives, or business acquaintances as funding sources, 71, 80–82, 89, 222–223
 loan basics, 66–69, 75–76, 86–88, 223–225
 nonprofit organizations, 264
 secondary funding sources, 95–98
 selling or borrowing against existing assets, 68–69, 76, 77, 78, 83
 supporters as funding source, 77, 84, 223
 trade credit, 79–80, 91
 using a money broker or finder, 93–94, 225
 using your personal funds, 70, 71, 77–79
See also Bank loans; Investors; Loans; Presenting your plan; Start-up capital
 Finders, 93–94, 225
 Fixed costs
 basics, 131, 151
 in break-even analysis, 52–53, 57, 59–60
 fixed costs forecast, 52–53
 labor costs as, 135, 142–143
 loan payments as, 53, 148–149
 in profit and loss forecast, 138–139, 142–152
 start-up expenses as, 158
See also specific types
 Forms, downloading and using, 8, 13, 312–314

Friends and relatives
 as funding sources, 71, 80–82, 89, 219, 222
 as volunteer labor, 79
 Full finance leasing companies, 92
 Future trends
 future trends statement, 4, 40–41, 43–44, 180
 in risk analysis, 193

G

General business questions
 checklist, 36–37
 General partnerships, 72–73, 74, 241, 255–256
 Gifts, 80
 Goals
 evaluating profit goals after you open, 234, 236–237
 identifying, 16–17, 22–23
 personal goal statement, 4, 209–210, 281
 Going out of business, 237, 239–242
 Government loan programs and small business resources, 86, 96–97, 226, 246–247, 250
 Gross profit, 54–56, 60, 133, 136–138
 Gross sales. *See* Sales revenue
 Guaranteed returns, equity investments, 71, 225
 Guerrilla marketing, 144, 253

H

Hiring. *See* Employees
Home businesses, 250, 254

I

Income, business
 forecasting for nonprofits, 263
 See also Profit entries; Sales revenue entries

Income, personal
 on personal financial statement, 120–123, 127
 U.S. Census data, 50
 vs. assets, 111

Income taxes, business
 cost of sales calculations for, 153–154
 depreciation basics, 150
 See also Tax entries

Income taxes, personal
 gifts of funds and, 80
 on personal financial statement, 124
 See also Tax entries

Incremental costs. *See* Cost of sales

Independent contractors, 146.
 See also Accountants; Tax advice

Initial working capital. *See* Start-up capital; Working capital

Insurance
 policies as assets, 112, 117
 types and costs, 124, 146–147, 158

Insurance companies, as funding sources, 98

Intellectual property, on personal financial statement, 113

Interest expense, 66–67, 76, 80, 87, 148–149

Interest income, 121

Interest-only loans, 67, 87, 171

Interest rates, 66–67

Internal Revenue Service. *See* IRS; Tax entries

Introductions. *See* Plan summary; Section introductions; *sample business plans*

Inventory, 53
 basics, 153, 176–177
 extra purchases, in cash flow forecast, 171
 going out of business sales, 240–241
 inventory valuation to determine cost of sales, 153–154
 markdowns, 133, 177
 opening inventory, 158, 175–176, 211
 turnover and cash flow, 175–176
 See also Cost of sales

Investors, 5–6
 angels and venture capitalists, 77, 89–90, 93
 basics and resources, 69–72, 76, 77, 251–252
 equity crowdfunding, 85, 252
 friends and relatives as, 71, 80–82, 89, 219, 222
 handling offers from, 226–230
 legal forms of shared ownership, 72–75, 230, 255–256
 plan summary and, 205
 presenting your plan to, 219–220, 225

- returns offered to, 71–72, 89–90, 93, 219, 222, 225
- securities law and stock offerings, 75, 85, 98, 230
- using a money broker or finder, 93–94, 225
- See also* Presenting your plan
- IRS
 - depreciation rules, 150
 - publications, 80, 143, 248
 - See also* Tax entries
- J**
- Job descriptions, 198–199
- JOBS (Jumpstart Our Business Startups) Act, 85
- L**
- Labor costs. *See* Employee compensation
- Landlords. *See* Leases
- Lawyers
 - legal fees, 158
 - to review loan agreements, 227
- Leasehold improvements, 139, 158
- Leases, 5, 211
 - basics and resources, 138–139, 254
 - equipment leases, 92
 - insurance requirements, 146
 - lease costs in profit and loss forecast, 138–139, 142
 - personal guarantee requirements, 74
 - related deposits, 139, 158
- Leasing companies, 92
- Legal fees, 158
- Legal matters
 - accepting funding offers, 226–230
 - business ownership forms, 72–75, 230, 255–256
 - resources, 8, 13, 255–256
- Lenders. *See* Bank loans; Financing your business; Loans
- Liabilities, business
 - balance sheet, 239–240
 - personal liability for, 73–74, 76
 - See also* Accounts payable
- Liabilities, personal
 - net worth calculation, 120
 - on personal financial statement, 117–120, 127
- Liability insurance, 146
- Licenses and permits, 158
- Life insurance policies, 112, 117
- Likes and dislikes, personal, 21–22, 29, 30–31
- Limited liability companies (LLCs), 73, 74, 255
- Limited liability partnerships (LLPs), 74
- Limited partnerships, 241, 255
- Liquidation sales, 240–241
- Living expenses
 - deferring, for business funding, 78–79
 - on personal financial statement, 124–127
- LLCs (limited liability companies), 73, 74, 255
- LLPs (limited liability partnerships), 74

- Loan guarantees
 - personal guarantee requirements, 74
 - SBA guarantees, 86, 96
 - Loans, 5–6
 - banker's ideal loan applicant, 24–26
 - bank loan basics, 86–88, 223–225
 - basics, 66–69, 76, 77
 - cosigners, 67, 121
 - evaluating loan offers, 226–227
 - for expansions, 92
 - from friends or relatives, 80–82, 222
 - government loan programs, 86, 96–97, 226, 250
 - loan agreements and promissory notes, 227–229
 - loan payments in financial forecasts, 53, 148–149, 170–171
 - on personal financial statement, 112–113, 117, 121, 124
 - prepayment penalties, 66
 - principal payments, 148, 149, 170–171
 - repayment options, 66–67, 80, 87
 - talking to bankers, 219, 223–225
 - trying different banks, 94, 225
 - using a money broker or finder, 93–94
 - See also* Financing your business; Mortgages; Notes receivable; Presenting your plan
 - Local government business resources and funding programs, 97, 247
 - Location, 254. *See also* Leases
 - Losses
 - after opening, dealing with, 236–237
 - in cash flow forecast, 164
 - equity investors' exposure to, 69
 - in profit and loss forecast, 152
 - See also* Profit and loss forecast
 - Low- or no-interest loans, 80
- ## M
- Magazine recommendations, 257
 - Management skills, 20, 25, 233, 235
 - Manufacturing businesses
 - basics, 34
 - cost of sales determination, 132–134
 - gross profit margins, 54
 - how long it should take to meet projections, 236
 - product liability insurance, 146
 - questions to consider, 39
 - sales revenue forecasting, 50–51
 - sample business plan, 283–299
 - trade credit from suppliers, 79–80, 91
 - See also* Inventory
 - Marketing, 36, 143–145, 185–188, 252–253
 - Marketing costs, 52, 145, 158, 188–190
 - Marketing plan, 4, 180–196, 284
 - basics, 180
 - competition analysis and differentiation, 181–183

examples, 191–192, 272–274, 293–294
 marketing budget, 145, 188–190
 methods for reaching customers, 144–145, 185–188
 reviewing basic assumptions, 180–181
 risk analysis, 193–196
 target customer, 184–185
 writing a narrative version, 191–192

Medicare taxes, 143, 169. *See also* Payroll taxes

Mission statements (nonprofit organizations), 263

Money brokers and finders, 93–94, 225

Mortgages, on personal financial statement, 112–113, 117, 124

Mutual funds, on personal financial statement, 112

N

Needs statement. *See* Problem statement

Net cash (cash flow forecast), 171–173

Net profit, 57–58, 132, 152–153. *See also* Break-even analysis; Profit and loss forecast

Net worth, on personal financial statement, 120

No-interest loans, 80

Nonprofit organizations, 262–264

Notes receivable, as personal assets, 112

O

Online businesses, 30, 42

Online crowdfunding, 84–85, 252, 264

Online resources, 257–258
 accounting software, 146
 business entity formation, 74
 consultants, 13, 246
 credit reports, 128
 downloading forms, 8, 13, 313
 employment taxes, 143
 general small business resources, 244, 247–248
 government small business services and loan programs, 96, 97, 246–247, 248
 IRS publications, 80, 143, 248
 legal updates, 8, 13
 loan interest calculator, 149
 promissory notes, 229
 securities registration exemptions, 98
 state regulation of financial service providers, 94
 vehicle values, 113

Operating expenses. *See* Fixed costs

OPIC (Overseas Private Investment Corporation), 97

Overhead. *See* Fixed costs

Overseas Private Investment Corporation (OPIC), 97

Owner compensation, 52, 53, 75

Owner's expertise
 risks related to, 193–194
See also Business skills

Owning a business. *See* Business ownership

P

- Partnerships, 72–73, 74, 241, 255–256
- Payroll taxes, 142, 143, 146, 169–170, 199
- Pension funds, as funding sources, 98
- Permits and licenses, 158
- Personal assets. *See* Assets, personal
- Personal background (self-evaluation), 4, 17–24
- Personal bankruptcy, 241
- Personal expenses. *See* Expenses, personal
- Personal financial statement, 4, 110–128
 - annual income, 120–123
 - annual living expenses, 124–127
 - assets, 111–116
 - basics, 110–111
 - examples, 114–116, 118–119, 122–123, 125–126, 278–279
 - liabilities, 117–120
 - net worth, 120
 - verification and credit checks, 127–128
- Personal funds, as start-up capital, 70, 71, 77–79
- Personal goals. *See* Goals
- Personal guarantee requirements, 74
- Personal information, on résumé, 101
- Personal liability
 - for business debts, 73–74, 76
 - to equity investors, 76
- Personal property
 - loans secured by, 117
 - on personal financial statement, 113
- Personnel plan, 196–200. *See also* Employees
- Piece-rate costs, 135, 143
- Plan summary, 4, 204–207
 - examples, 208, 269, 287, 305
- Positive facts, in plan summary, 206–207
- Presenting your plan, 10, 218–230
 - to bankers, 94, 219, 223–225
 - basics, 218–221
 - to business acquaintances and supporters, 222–223
 - to equity investors, 219–220, 225
 - explaining past financial problems, 101, 220
 - to friends and relatives, 82, 219, 222
 - to government agencies, 226
 - handling funding offers, 226–230
 - handling refusals/disinterest, 221, 225
- Pricing policies, 183
- Principal payments, loans, 148, 149, 170–171
- Problem statement, 4, 34–35, 180, 191
- Product liability insurance, 146
- Profit and loss forecast, 4, 10, 130–154
 - accounting and bookkeeping costs, 147–148
 - basics, 130–132
 - as basis for cash flow forecast, 164

break-even analysis as preliminary estimate, 44

calculating your actual cost of sales, 153–154

comparing to actual financial statements, 234, 236–237

cost of sales, 132–135, 137

depreciation, 150

examples, 140–141, 276–277, 308–309

fixed expenses, 138–139, 142–152

forecasting for nonprofits, 263

gross profit, 138

insurance costs, 146–147

introduction to, 209

loan payments, 148–149

marketing and advertising costs, 143–145

other expenses, 151

payroll taxes, 142, 143, 199

rent or lease expenses, 138–139, 142

reviewing, 152–153

revising after you open, 236, 237

sales revenue, 136

wages and salaries, 142–143

Profit, gross, 54–56, 60, 133, 136–138

Profit, net, 57–58, 132, 152–153.
See also Break-even analysis;
Profit and loss forecast

Project development businesses, 34, 130, 301

gross profit, 54

questions to consider, 39

sales revenue forecasting, 52

sample business plan, 301–310

Promissory notes

for loans to fund your business, 227–229

as personal assets, 112

Promotion. *See* Marketing *entries*

Property taxes, 124

Publicity, including in plan, 211

Q

Quick business plans, 130

components and outline, 3, 4, 5, 202–203

R

Raising money. *See* Financing your business; Investors; Loans; Start-up capital

Real estate

loans secured by, 117

on personal financial statement, 113

Real estate taxes, 124

Rent expenses, 138–139, 142

Rent income, 121

Résumé, 4, 100–109, 283

basics, 100–103

examples, 103–109, 269–270

negative information on, 100–101

Retail businesses

ancillary retail sales, 33

basics, 32–33

break-even sales revenue forecasting, 56–58

closing or liquidating, 240–241

cost of sales determination, 132–134

- gross profit forecasting, 55–56
 - how long it should take to meet
 - projections, 236
 - online businesses, 30, 42
 - questions to consider, 37
 - sales revenue forecasting, 48–50
 - sample balance sheet, 240
 - sample business accomplishment
 - résumés, 104–105, 109
 - trade credit from suppliers,
 - 79–80, 91
 - typical inventory turnover rates,
 - 175–176
 - See also* Antoinette’s Shop
 - example; Inventory
 - Retirement assets, on personal
 - financial statement, 113
 - Return on investment, equity
 - investors, 71–72, 89–90, 93, 219, 222, 225
 - Revising your plan
 - after opening, 236, 237
 - before presenting it, 11–12, 212–215
 - break-even analysis, 58–61
 - profit and loss forecast, 236, 237
 - Risk analysis, 4, 193–196
 - examples, 195, 279–281
 - revisiting after you open, 234
 - Risk, discussing with potential
 - investors, 225
 - Risky businesses, 30
 - Rural Development loans, 97
- S**
- Salaries. *See* Employee compensation; Owner compensation
 - Sales revenue, 131
 - credit sales, 164–165
 - how long it should take to meet
 - projections, 236
 - if revenue falls short, 236
 - in profit and loss forecast, 131, 136
 - typical marketing budget
 - percentages, 145
 - Sales revenue forecast, 4, 47–52, 181
 - break-even sales revenue, 56–61
 - determining cost of sales from,
 - 132–135
 - examples, 48–49, 51, 283, 290–292
 - Sample business plans
 - manufacturing business, 283–299
 - project development business,
 - 301–310
 - service business, 265–281
 - See also* Antoinette’s Shop
 - example
 - Savings. *See* Personal funds
 - SBA (Small Business Administration)
 - loan programs, 86, 96
 - publications, 248
 - SCORE, 246–247
 - website, 96, 97, 226, 248
 - SBDCs (Small Business Development Centers), 248

- SBICs (Small Business Investment Companies), 97
- SCORE, 246–247
- SEC (Securities and Exchange Commission). *See* Securities law
- Section introductions, 207, 209.
 - See also* Sample business plans
- Secured loans, 68–69, 76, 83
 - bank loan basics, 86–88, 223–225
 - for expansions, 92
 - on personal financial statement, 117
 - See also* Bank loans; Collateral; Loans
- Securities and Exchange Commission (SEC). *See* Securities law
- Securities law, 75, 85, 98, 230
- Securities, on personal financial statement, 112
- Self-evaluation exercises and checklist, 17–24
- Selling your business, 239–240
- Selling your plan. *See* Presenting your plan
- Service businesses
 - basics, 33
 - cost of sales determination, 135
 - gross profit margins and forecasting, 54, 55–56
 - how long it should take to meet projections, 236
 - including publicity with your plan, 211
 - questions to consider, 39
 - sales revenue forecasting, 50, 51
 - sample business accomplishment résumés, 107–108, 269–271
 - sample business plan, 265–281
 - sample capital spending plans, 160, 281
 - volunteer start-up labor for, 79
- Service Corps of Retired Executives (SCORE), 246–247
- 7(a) SBA loans, 96
- Small Business Administration.
 - See* SBA
- Small business consultants, 214, 244–247
- Small Business Development Centers (SBDCs), 248
- Small Business Investment Companies (SBICs), 97
- Social Security taxes, 143, 169.
 - See also* Payroll taxes
- Software development businesses.
 - See* Project development businesses
- Sole proprietorships, bankruptcy declarations by, 241
- Staffing schedule, 197. *See also* Employees
- Start-up capital
 - annual profit goals and, 152
 - basics, 157
 - determining amount needed, 82, 173–174
 - initial inventory purchases, 175–176
 - in plan summary, 204–205
 - See also* Capital spending plan; Cash flow forecast; Financing your business

- Start-up expenses, 158, 159
 - opening inventory, 158, 175–176, 211
 - opening promotion, 158, 188–189, 190
 - State business assistance and loan programs, 97, 247
 - Stock offerings, 75, 85, 98, 230
 - Stocks, on personal financial statement, 112
 - Strengths and weaknesses
 - business competition analysis, 182–188
 - personal, 18–20, 235
 - Summaries. *See* Plan summary; Section introductions
 - Suppliers, 233, 234
 - business failure or bankruptcy and your creditors, 239–240, 241
 - credit purchases from, 167–168
 - trade credit, 79–80, 91
 - Supporters, as funding source, 77, 84, 223
 - Supporting documents and graphics, 4, 5, 211–212, 213, 214
- T**
- Table of contents, 4, 212
 - for appendix, 211, 212
 - examples, 268, 286, 304
 - Target customer description, 184–185
 - Taste trends. *See* Trends
 - Tax advice and resources, 76, 80, 246, 248, 252
 - Tax deposits, 158, 169–170
 - Taxes
 - cost of sales on business tax return, 153–154
 - depreciation, 139, 150, 158, 159, 170
 - gifts and, 80
 - income taxes, corporate shareholders, 75
 - payroll taxes, 142, 143, 146, 169–170, 199
 - on personal financial statement, 124
 - property taxes, 124
 - Tax returns, to verify personal financial statement, 127
 - Technology, 43
 - online businesses, 30, 42
 - See also* Project development businesses
 - Telephone pitches, 218–219
 - Theft, by employees, 153, 154
 - Title page, 4, 211–212
 - Trade credit, 79–80, 91
 - credit purchases in cash flow forecast, 167–169
 - Trends, 41
 - future trends statement, 4, 40–41, 43–44, 180
 - Trust deeds, on personal financial statement, 112–113, 117

U

- Unemployment taxes, 143. *See also* Payroll taxes
- Unsecured loans, 69, 76
 - on personal financial statement, 117
 - See also* Loans
- U.S. Census income data, 50
- USDA Rural Development loans, 97

V

- Variable costs. *See* Cost of sales
- Venture capitalists, 77, 89–90, 93. *See also* Investors

W

- Wages and salaries
 - corporate shareholders, 75
 - owner compensation, 52, 53, 75
 - payroll taxes, 142, 143, 146, 169–170, 199
 - on personal financial statement, 121
 - in personnel plan, 198, 199
 - in profit and loss forecast, 142–143
- WBCs (Women's Business Centers), 248

- Weaknesses. *See* Strengths and weaknesses
- Websites, 42, 144, 145. *See also* Online businesses; Online resources
- Wholesale businesses
 - basics, 33
 - cost of sales determination, 132–134
 - gross profit margins, 54
 - how long it should take to meet projections, 236
 - questions to consider, 38
 - sales revenue forecasting, 50–51
 - trade credit from suppliers, 79–80, 91
 - See also* Inventory
- Withholding taxes, 142, 143, 169, 170. *See also* Payroll taxes
- Women in business, 256–257
- Women's Business Centers (WBCs), 248
- Workers' compensation insurance, 146
- Working capital, 157, 160, 173, 174. *See also* Cash flow forecast; Start-up capital

Z

- Zoning restrictions, 138 ●

**NOLO**

Online Legal Forms

Nolo offers a large library of legal solutions and forms, created by Nolo's in-house legal staff. These reliable documents can be prepared in minutes.

Create a Document

- **Incorporation.** Incorporate your business in any state.
- **LLC Formations.** Gain asset protection and pass-through tax status in any state.
- **Wills.** Nolo has helped people make over 2 million wills. Is it time to make or revise yours?
- **Living Trust (avoid probate).** Plan now to save your family the cost, delays, and hassle of probate.
- **Trademark.** Protect the name of your business or product.
- **Provisional Patent.** Preserve your rights under patent law and claim "patent pending" status.

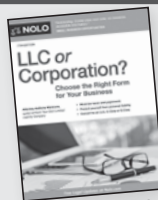
Download a Legal Form

Nolo.com has hundreds of top quality legal forms available for download—bills of sale, promissory notes, nondisclosure agreements, LLC operating agreements, corporate minutes, commercial lease and sublease, motor vehicle bill of sale, consignment agreements and many more.

Review Your Documents

Many lawyers in Nolo's consumer-friendly lawyer directory will review Nolo documents for a very reasonable fee. Check their detailed profiles at Nolo.com/lawyers.

Nolo's Bestselling Books



LLC or Corporation?

How to Choose the Right Form for Your Business
\$24.99



Form Your Own Limited Liability Company

\$44.99



The Small Business Start-Up Kit

A Step-by-Step Legal Guide
\$29.99



Legal Guide for Starting & Running a Small Business

\$39.99



The Corporate Records Handbook

Meetings, Minutes & Resolutions
\$69.99

Every Nolo title is available in print and for download at Nolo.com.



NOLO

Save 15% *off your next order*

Register your Nolo purchase, and we'll send you a **coupon for 15% off** your next Nolo.com order!

[Nolo.com/customer-support/productregistration](https://nolo.com/customer-support/productregistration)

On Nolo.com you'll also find:

Books & Software

Nolo publishes hundreds of great books and software programs for consumers and business owners. Order a copy, or download an ebook version instantly, at Nolo.com.

Online Legal Documents

You can quickly and easily make a will or living trust, form an LLC or corporation, apply for a trademark or provisional patent, or make hundreds of other forms—online.

Free Legal Information

Thousands of articles answer common questions about everyday legal issues including wills, bankruptcy, small business formation, divorce, patents, employment, and much more.

Plain-English Legal Dictionary

Stumped by jargon? Look it up in America's most up-to-date source for definitions of legal terms, free at nolo.com.

Lawyer Directory

Nolo's consumer-friendly lawyer directory provides in-depth profiles of lawyers all over America. You'll find all the information you need to choose the right lawyer.

SBS14