



FOR THE LIFE OF YOUR BUSINESS

Peoria

# Building a Better Business Plan

Bill Axelrod

Fred Prager

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- ” Welcome & Introduction
- ” What is SCORE?
- ” What is a Business Plan?
- ” Elements of the Plan
  - Marketing
  - Financial Statements & Controls
- ” SCORE Resources

## WHAT IS SCORE?

- ” SCORE is a nonprofit association dedicated to educating entrepreneurs and helping small businesses start, grow, and succeed nationwide.
  - SCORE is a resource partner with the U.S. Small Business Administration (SBA), and has been mentoring small business owners for more than forty years.
- ” Founded in 1964, SCORE is headquartered in Herndon, VA and has 364 chapters with 13,000 volunteer mentors throughout the United States and its territories,

Visit our web site at:  
<http://score.org>

- “ Peoria SCORE provides free and confidential business mentoring and education tailored to meet the needs of Peoria area entrepreneurs and small business owners and tailored to each client’s personal objectives.
  - SCORE volunteers are real-world professionals with time-tested knowledge who donate thousands of hours to help small businesses succeed.
- “ The Peoria SCORE Chapter serves 10 counties in Central Illinois.
  - Peoria, Fulton, Knox, Marshall, Mason, Putnam, Stark, Tazewell, Warren and Woodford.
- “ Our office is located in the Peoria Chamber of Commerce

Visit our web site at:  
<http://scorepeoria.org>  
Or call us at  
309 676-0755

# MENTORING

- “ Our mentors have backgrounds and experience in a wide variety of disciplines.
  - Mentors span the spectrum from retired business owners through younger individuals currently in the workplace.
  - Typical experience includes: small business start-up and growth, accounting, finance, marketing, manufacturing, management, and business plan preparation.
- “ We like to work with clients from their early days when they first get the bug to start their own businesses, through their start up, help them grow, and finally execute their exit strategy.
- “ Mentoring can be face-to-face, via email, or on the telephone.

# WORKSHOPS

- “ SCORE Peoria offers a series of **FREE** workshops for local entrepreneurs and business owners.
  - Generally one a month
- “ Topics range from subjects like Legal Guidance for your Business, Taxes and your Business to Developing your Business Plan to Use of Social Media to Grow Your Business.
- “ Each workshop is approximately two to three hours long and is presented by local experts with small business experience such as business owners, lawyers, bankers, graphic artists, IT professionals and the like.

” Building a Better Business Plan

” Speakers: Bill Axelrod, Fred Prager

” Bill:

- Retired naval officer
- 10 ½ years in a large corporation
- 6 ½ years as President and CEO with a start-up
  - Went from \$0 to ~\$20M in annual revenues
- Chose to retire to Peoria in January 2009
- Have written countless business plans for small and mid-size businesses and for mergers and acquisitions

” Fred:

# **BUILDING A BUSINESS PLAN**

BUILDING A BUSINESS PLAN

# WHAT IS A BUSINESS PLAN?

“ A business plan is a road map for your business

➤ Defines:

- your vision and objectives for your business
- the resources, money, and time you will need to accomplish your goals
- your target customer set and marketing approach
- your financial plan

“ It becomes your guide to a successful outcome

*Your Business Plan is a living, breathing document!*

# WHY DO I NEED IT?

” You will need it for

- It forms your road map to starting and growing your company
- Obtaining financing from lending institutions and potential invertors
  - Start up money, business lines of credit, real estate loans, expansion, etc.
- Communicating with employees, investors, and banks
- Implementing your exit strategy when the time comes
- Future potential mergers and acquisitions

” Most importantly, you need it for YOU!

- Your guide to measuring performance, managing, and growing your business

# DESCRIBES YOUR BUSINESS

- ” How you will operate and manage the business
  - Your vision: objectives and strategies
- ” How you will address the business environment
  - The marketplace
  - The competition
  - Your strengths and weaknesses
  - Strengths and weaknesses of the competition
- ” What resources you need
- ” What financial performance you expect

## DEFINES THE BUSINESS OPERATION

- ” Retailer/wholesaler
- ” Manufacturer
- ” Services provider
- ” Storefront / Internet

## DESCRIBES THE MARKET

- “ Who are your target customers?
- “ What do they want and expect?
- “ Where are they?
- “ How do you intend to reach them?
- “ Who and where is your competition and how do they operate?

# BOTTOM LINE: BUSINESS PLAN

- “ The business plan answers three basic questions:
  - **Where** do YOU want to go?
  - **How** are YOU going to get there?
  - **What** do YOU need to get from here to there?
- “ It should be only as long as is essential to convey the message
- “ It is a living, breathing instrument

## IT SOUNDS LIKE A LOT!

- “ It is a lot
  - Not a simple overnight job
- “ You will not have all the answers the first time you sit down to write
  - You won't even have all of the questions
- “ It will take a number of iterations
- “ And it will be worth every drop of effort you put into it

## BEFORE YOU BEGIN

- “ It typically takes several weeks to complete a good business plan
  - Most of that time is research and thinking through your ideas and assumptions
  - Don't be in a rush to pick up a pencil
  - Take notes as you research, specifically your sources so you can find them again
- “ Start wherever you feel most comfortable
  - Except the Executive Summary – save that for last
- “ SCORE mentors can and will help you

# TAILORING YOUR BUSINESS PLAN

- “ Business plans differ
  - Start up vs. established business
  - Manufacturing vs. retail sales vs. services, etc.
- “ You will have to tailor your business plan accordingly
- “ The next series of slides address differences

# GENERAL GUIDELINES FOR YOUR BANKERS

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

# GENERAL GUIDELINES FOR YOUR INVESTORS

- ” Investors have a different perspective.
  - They are looking for dramatic growth
  - They expect to share in the rewards
- ” Discuss:
  - Funds needed short-term
  - Funds needed in two to five years
  - How the company will use the funds, and what this will accomplish for growth.

# GENERAL GUIDELINES FOR YOUR INVESTORS

- Estimated return on investment
- Exit strategy for investors (buyback, sale, or IPO)
- Percent of ownership that you will give up to investors
- Milestones or conditions that you will accept
- Financial reporting to be provided
- Involvement of investors on the board and/or in management

# GENERAL GUIDELINES FOR MANUFACTURING BUSINESSES

- “ Planned production levels
- “ Anticipated levels of direct production costs and indirect (overhead) costs—how do these compare to industry averages (if available)?
- “ Prices per product line
- “ Gross profit margin, overall and for each product line

# GENERAL GUIDELINES FOR MANUFACTURING BUSINESSES

- “ Production/capacity limits of planned physical plant
- “ Production/capacity limits of equipment
- “ Purchasing and inventory management procedures
- “ New products under development or anticipated to come online after startup

# GENERAL GUIDELINES FOR SERVICE BUSINESSES

- “ Service businesses sell intangible products. They are usually more flexible than other types of businesses, but they also have higher labor costs and generally very little in fixed assets.
- “ What are the key competitive factors in this industry?
- “ Your prices
  - Methods used to set prices
- “ System of production management
- “ Quality control procedures. Standard or accepted industry quality standards.

## GENERAL GUIDELINES FOR SERVICE BUSINESSES

- “ How will you measure labor productivity?
- “ Percent of work subcontracted to other firms.
  - Will you make a profit on subcontracting?
- “ Credit, payment, and collections policies and procedures
- “ Strategy for keeping client base

# GENERAL GUIDELINES FOR HIGH TECH BUSINESSES

- “ Economic outlook for the industry
- “ Will the company have information systems in place to manage rapidly changing prices, costs, and markets?
- “ Will you be on the cutting edge with your products and services?
- “ What is the status of research and development? And what is required to:
  - Bring product/service to market?
  - Keep the company competitive?

# GENERAL GUIDELINES FOR HIGH TECH BUSINESSES

- “ How does the company:
- “ Protect intellectual property?
  - Avoid technological obsolescence?
  - Supply necessary capital?
- “ How will your company Recruit and Retain key technical personnel?

## GENERAL GUIDELINES FOR HIGH TECH BUSINESSES

” High-tech companies sometimes have to operate for a long time without profits and sometimes even without sales.

- If this fits your situation, a banker may not want to lend to you.
- Venture capitalists may invest, but your story must be very good. You must do longer-term financial forecasts to show when profit take-off is expected to occur.
- Your assumptions must be well documented and well argued.

# GENERAL GUIDELINES FOR RETAIL BUSINESSES

” Company image

” Pricing:

- Explain markup policies.
- Prices should be profitable, competitive, and in accordance with company image.

# GENERAL GUIDELINES FOR RETAIL BUSINESSES

## ” Inventory:

- Selection and price should be consistent with company image.
- Inventory level: Find industry average numbers for annual inventory turnover rate. Multiply your initial inventory investment by the average turnover rate. The result should be at least equal to your projected first year's cost of goods sold. If it is not, you may not have enough budgeted for startup inventory.

## ” Customer service policies: These should be competitive and in accord with company image.

## GENERAL GUIDELINES FOR RETAIL BUSINESSES

- “ Location: Does it give the exposure that you need? Is it convenient for customers? Is it consistent with company image?
- “ Promotion: Methods used, cost. Does it project a consistent company image?
- “ Credit: Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?

- “ You will be judged by the quality and appearance of your business plan
  - Neat, clean
  - Spell check
  - Check your math
  - Review for consistency
- “ The thought: If you don’t care about your business, no one else will either

- ” No ready made business plans available
- ” There are lots of outlines and examples available
  - Some free, some not
  - Some good, some not
  - Check out [www.score.org](http://www.score.org) and <http://scorepeoria.org/business-tools.html> for free examples
- ” What ever examples you use will need your ideas and thoughts and your significant tailoring to be useful

**LET'S GET STARTED**  
LET'S GET STARTED

# THE BUSINESS PLAN

- “ The remainder of this workshop covers in detail:
  - An outline of a business plan
  - Explanation of what should be included
- “ We will focus on a business plan for a start-up company
  - You will focus on your company

# NEW BUSINESS STARTUP BUSINESS PLAN OUTLINE

1. Table of Contents
2. Executive Summary
3. General Company Description
4. Products and Services
5. Marketing Plan
6. Operational Plan
7. Management & Organization
8. Personal Financial Statement
9. Startup Expenses & Capitalization
10. Financial Plan
11. Appendices

## I. TABLE OF CONTENTS

- “ Your business plan is a formal, professional document
- “ Make it easy to follow, read, and understand
- “ A well written table of contents goes a long way in making your business plan look and read like a professional document

## II. EXECUTIVE SUMMARY

- “ Write this section **last**
- “ Make it two pages or fewer
- “ Include everything that you would cover in a five-minute interview
- “ Explain the fundamentals of the proposed business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?

# EXECUTIVE SUMMARY

- “ Make it enthusiastic, professional, complete, and concise.
- “ If applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment.
- “ Make sure the executive summary is consistent with the body of your business plan

## III. GENERAL COMPANY DESCRIPTION

- “ What business will you be in? What will you do?
- “ Mission Statement: Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:
- “ Company Goals and Objectives: Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a leader in customer service and that has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.
- “ Business Philosophy: What is important to you in business?

## GENERAL COMPANY DESCRIPTION

- “ To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).
- “ Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them?
- “ Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?
- “ Legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form?

## IV. PRODUCTS AND SERVICES

- “ Describe in depth your products or services (technical specifications, drawings, photos, sales brochures, and other bulky items belong in *Appendices*).
- “ What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique or proprietary features.
- “ What are the pricing, fee, or leasing structures of your products or services?

## ” **Market research - Why?**

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

” Your time will be well spent.

- ” Market research - How?
- ” There are two kinds of market research:  
primary and secondary.
  - Primary research is what you uncover yourself
  - Secondary research relies on already published information

# MARKETING PLAN

- “ Primary research means gathering your own data.
  - For example, you could do your own traffic count at a proposed location, use the yellow pages to identify competitors, and do surveys or focus-group interviews to learn about consumer preferences.
  - Professional market research can be very costly, but there are many books that show small business owners how to do effective research themselves.
- “ In your marketing plan, be as specific as possible; give statistics, numbers, and sources.
- “ The marketing plan will be the basis, later on, of the all-important sales projection.

# MARKETING PLAN - RESEARCH

- ” Secondary research means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles.
  - This type of information is available in public libraries, industry associations, chambers of commerce, from vendors who sell to your industry, and from government agencies.
- ” Start with your local library.
  - You will be amazed at what is there. There are more online sources than you could possibly use. Your chamber of commerce has good information on the local area. Trade associations and trade publications often have excellent industry-specific data.

# MARKETING PLAN ECONOMICS

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

# MARKETING PLAN ECONOMICS

- ” What barriers to entry do you face in entering this market with your new company? Some typical barriers are:
- High capital costs
  - High production costs
  - High marketing costs
  - Consumer acceptance and brand recognition
  - Training and skills
  - Unique technology and patents
  - Unions
  - Shipping costs
  - Tariff barriers and quotas

# MARKETING PLAN ECONOMICS

- “ And, of course, how will you overcome the barriers?
- “ How could the following affect your company?
  - Change in technology
  - Change in government regulations
  - Change in the economy
  - Change in your industry

# MARKETING PLAN PRODUCT

- ” List all of your major products or services.
- ” For each product or service:
  - Describe the most important features. What is special about it?
  - Describe the benefits. That is, what will the product do for the customer?
- ” Note the difference between features and benefits, and think about them. For example, a house that gives shelter and lasts a long time is made with certain materials and to a certain design; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so that you can sell the benefits.
- ” What after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

# MARKETING PLAN CUSTOMERS

- “ Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.
- “ The description will be completely different depending on whether you plan to sell to other businesses or directly to consumers. If you sell a consumer product, but sell it through a channel of distributors, wholesalers, and retailers, you must carefully analyze both the end consumer and the middleman businesses to which you sell.
- “ You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile:
  - Age
  - Gender
  - Location

# MARKETING PLAN CUSTOMERS

- Income level
  - Social class and occupation
  - Education
  - Other (specific to your industry)
  - Other (specific to your industry)
- ” For business customers, the demographic factors might be:
- Industry (or portion of an industry)
  - Location
  - Size of firm
  - Quality, technology, and price preferences
  - Other (specific to your industry)
  - Other (specific to your industry)

# MARKETING PLAN COMPETITION

- ” What products and companies will compete with you?
- ” List your major competitors. For each, list:
- ” (Names and addresses)
  - Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?
  - Will you have important indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)
  - How will your products or services compare with the competition?

# MARKETING PLAN COMPETITION

- “ Use the Competitive Analysis table below to compare your company with your two most important competitors. In the first column are key competitive factors. Since these vary from one industry to another, you may want to customize the list of factors.
- “ In the column labeled **Me**, state how you honestly think you will stack up in customers' minds. Then check whether you think this factor will be a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, trying to be causes many business failures because efforts become scattered and diluted. You want an honest assessment of your firm's strong and weak points.
- “ Now analyze each major competitor. In a few words, state how you think they compare.
- “ In the final column, estimate the importance of each competitive factor to the customer. 1 = critical; 5 = not very important.



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# MARKETING PLAN COMPETITIVE ANALYSIS TABLE

| Factor                | Me | Strength | Weakness | Competitor<br>A | Competitor<br>B | Importance to<br>Customer |
|-----------------------|----|----------|----------|-----------------|-----------------|---------------------------|
| Products              |    |          |          |                 |                 |                           |
| Price                 |    |          |          |                 |                 |                           |
| Quality               |    |          |          |                 |                 |                           |
| Selection             |    |          |          |                 |                 |                           |
| Service               |    |          |          |                 |                 |                           |
| Reliability           |    |          |          |                 |                 |                           |
| Stability             |    |          |          |                 |                 |                           |
| Expertise             |    |          |          |                 |                 |                           |
| Company<br>Reputation |    |          |          |                 |                 |                           |

# MARKETING PLAN COMPETITIVE ANALYSIS TABLE

| Factor             | Me | Strength | Weaknes<br>s | Competitor<br>A | Competitor<br>B | Importance<br>to Customer |
|--------------------|----|----------|--------------|-----------------|-----------------|---------------------------|
| Location           |    |          |              |                 |                 |                           |
| Appearance         |    |          |              |                 |                 |                           |
| Sales<br>Method    |    |          |              |                 |                 |                           |
| Credit<br>Policies |    |          |              |                 |                 |                           |
| Advertising        |    |          |              |                 |                 |                           |
| Image              |    |          |              |                 |                 |                           |

# MARKETING PLAN ADVANTAGES AND DISADVANTAGES

- ” Write a short paragraph stating your competitive advantages and disadvantages.
- ” Discuss:
  - SWOT analysis
    - The Key Elements – Strengths, Weakness, Opportunities & Threats.
  - Competitive advantage
    - How do I capitalize on it?
  - Continuous improvement
    - measure, analyze, control

***They Are Out There To Get You!***

# MARKETING PLAN

## SELLING AND PROMOTION

### ” Basic concepts

- Who will sell your product?
- How will you promote your product?
- Will you use mass communication?

### ” Niche

- Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world.
- In one short paragraph, define your niche, your unique corner of the market.

### ” Strategy

- Now outline a marketing strategy that is consistent with your niche. It should contain the following key elements:

# MARKETING PLAN

## SELLING AND PROMOTION

### ” Promotion

- How will you get the word out to customers?
- Advertising: What media, why, and how often? Why this mix and not some other?
- Have you identified low-cost methods to get the most out of your promotional budget?
- Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?
- What image do you want to project? How do you want customers to see you?

# MARKETING PLAN

## SELLING AND PROMOTION

- In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures, signage, and interior design.
- Should you have a system to identify repeat customers and then systematically contact them?

### ” Promotional Budget

- How much will you spend on the items listed above?
- Before startup? (These numbers will go into your startup budget.)
- Ongoing? (These numbers will go into your operating plan budget.)

# MARKETING PLAN PRICING

- “ Explain your method or methods of setting prices. For most small businesses, having the lowest price is not a good policy. It robs you of needed profit margin; customers may not care as much about price as you think; and large competitors can under price you anyway. Usually you will do better to have average prices and compete on quality and service.
- “ Does your pricing strategy fit with what was revealed in your competitive analysis?
- “ Compare your prices with those of the competition. Are they higher, lower, the same? Why?
- “ How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?
- “ What will be your customer service and credit policies?

# MARKETING PLAN LOCATION

- “ Analyze your location criteria as they will affect your customers.
  - Is your location important to your customers? If yes, how?
  - If customers come to your place of business:
    - Is it convenient? Parking? Interior spaces? Not out of the way?
    - Is it consistent with your image?
    - Is it what customers want and expect?
    - Where is the competition located? Is it better for you to be near them (like car dealers or fast food restaurants) or distant (like convenience food stores)?
- “ Probably you do not have a precise location picked out yet.
  - This is the time to think about what you want and need in a location.
  - Many startups run successfully from home for a while.

# MARKETING PLAN DISTRIBUTION CHANNELS

- ” How will you sell your products or services?
  - Retail
  - Direct (mail order, Web, catalog)
  - Wholesale
  - Your own sales force
  - Agents
  - Independent representatives
  - Bid on contracts
  - Yourself
- ” Or any combination?
- ” Think about now and where you want to evolve to.

# MARKETING PLAN SALES FORECAST

- “ Now that you have described your products, services, customers, markets, and marketing plans in detail, it’s time to attach some numbers to your plan.
  - Use a sales forecast spreadsheet to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.
- “ You may want to do two forecasts:
  - 1) “best guess”, which is what you really expect, and
  - 2) “worst case” low estimate that you are confident you can reach no matter what happens.
- “ Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

## VI. OPERATIONAL PLAN

“ The Operational Plan details the daily operation of your business, it’s location, equipment, people, processes, and surrounding environment.

” Break this section into the following categories:

1. Production
2. Location
3. Legal Environment
4. Personnel
5. Inventory
6. Suppliers
7. Credit Policies
8. Managing Accounts Receivable
9. Managing Accounts Payable

# OPERATIONAL PLAN PRODUCTION

- ” How and where are your products or services produced?
- ” Explain your methods of:
  - Production techniques and costs
  - Quality control
  - Customer service
  - Inventory control
  - Product development

## OPERATIONAL PLAN LOCATION

- “ What qualities do you need in a location?  
Describe the type of location you’ll have.
- “ Physical requirements:
  - Amount of space
  - Type of building
  - Zoning
  - Power and other utilities

# OPERATIONAL PLAN LOCATION

- “ Access:
- “ Is it important that your location be convenient to transportation or to suppliers?
- “ Do you need easy walk-in access?
- “ What are your requirements for parking and proximity to freeway, airports, railroads, and shipping centers?
- “ Include a drawing or layout of your proposed facility if it is important, as it might be for a manufacturer.
- “ Construction? Most new companies should not sink capital into construction, but if you are planning to build, costs and specifications will be a big part of your plan.
- “ Cost: Estimate your occupation expenses, including rent, but also including maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.
- “ What will be your business hours?

# OPERATIONAL PLAN LEGAL ENVIRONMENT

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

# OPERATIONAL PLAN PERSONNEL

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

# OPERATIONAL PLAN INVENTORY

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

# OPERATIONAL PLAN SUPPLIERS

- “ Identify key suppliers:
  - Names and addresses
  - Type and amount of inventory furnished
  - Credit and delivery policies
  - History and reliability
- “ Should you have more than one supplier for critical items (as a backup)?
- “ Do you expect shortages or short-term delivery problems?
- “ Are supply costs steady or fluctuating?
  - If fluctuating, how would you deal with changing costs?

# OPERATIONAL PLAN CREDIT POLICIES

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

## OPERATIONAL PLAN MANAGING YOUR AR

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

|                                | Total | Current | 30 Days | 60 Days | 90 Days | Over 90 Days |
|--------------------------------|-------|---------|---------|---------|---------|--------------|
| Accounts Receivable (AR) Aging |       |         |         |         |         |              |

## OPERATIONAL PLAN MANAGING YOUR AR

- “ You will need a policy for dealing with slow-paying customers:
  - When do you make a phone call?
  - When do you send a letter?
  - When do you get your attorney to threaten?
  - When do you use a collection agency??
- “ What are the effects of late payments on any operating lines of credit?

## OPERATIONAL PLAN MANAGING YOUR AP

” You should also age your accounts payable, what you owe to your suppliers.

➤ This helps you plan whom to pay and when. Paying too early depletes your cash, but paying late can cost you valuable discounts and can damage your credit.

- If you know you will be late making a payment, call the creditor before the due date.

” Do your proposed vendors offer prompt payment discounts?

# OPERATIONAL PLAN MANAGING YOUR AP

“ A payables aging looks like the following table.

|                             | Total | Current | 30 Days | 60 Days | 90 Days | Over 90 Days |
|-----------------------------|-------|---------|---------|---------|---------|--------------|
| Accounts Payable (AP) Aging |       |         |         |         |         |              |

## VII. MANAGEMENT AND ORGANIZATION

- “ Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What special or distinctive competencies? Is there a plan for continuation of the business if this person is lost or incapacitated?
- “ If you’ll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.
- “ Include position descriptions for key employees. If you are seeking loans or investors, include resumes of owners and key employees.
  - Do you need “Key Person” insurance?

# MANAGEMENT AND ORGANIZATION

- ” Professional and Advisory Support
- ” List the following:
  - Board of directors
  - Management advisory board
  - Attorney
  - Accountant
  - Insurance agent
  - Banker
  - Consultant or consultants
  - Mentors and key advisors

## VIII. PERSONAL FINANCIAL STATEMENT

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

## IX. STARTUP EXPENSES AND CAPITALIZATION

- ” You will have many startup expenses before you even begin operating your business. It’s important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them.
- ” Even with the best of research, however, opening a new business has a way of costing more than you anticipate. There are two ways to make allowances for surprise expenses.
  - The first is to add a little “padding” to each item in the budget.
    - The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan.
  - The second approach is to add a separate line item, called contingencies, to account for the unforeseeable.

## STARTUP EXPENSES AND CAPITALIZATION

- “ Talk to others who have started similar businesses to get a good idea of how much to allow for contingencies.
  - If you cannot get good information, we recommend a rule of thumb that contingencies should equal at least 20 percent of the total of all other start-up expenses.
- “ Explain your research and how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans.
- “ Explain in detail how much will be contributed by each investor and what percent ownership each will have.

## X. FINANCIAL PLAN

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

# FINANCIAL PLAN

## 12 MONTH P&L PROJECTION

- “ Many business owners think of the 12-month profit and loss (P&L) projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.
- “ Your sales projections will come from a sales forecast in which you forecast sales, cost of goods sold, expenses, and profit month-by-month for one year.
- “ Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.
- “ Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it’s time to revise your plan.

## FINANCIAL PLAN MULTI-YEAR P&L PLAN

- “ The 12-month projection is the heart of your financial plan. The Four-Year Profit projection is for those who may need or want to carry their forecasts beyond the first year.
- “ Keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.
- “ Please see <http://scorepeoria.org/business-tools.html> for templates for your financial and cash flow projections

# FINANCIAL PLAN

## PROJECTED CASH FLOW

- “ If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.
- “ The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn’t be taken by surprise.
- “ There is no great trick to preparing it: The cash-flow projection is just a forward look at your checking account.

# FINANCIAL PLAN

## PROJECTED CASH FLOW

- “ For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).
- “ You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases.
- “ You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.
- “ Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

# FINANCIAL PLAN

## PROJECTED CASH FLOW

- “ Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?
- “ Are some expenses payable in advance? When?
- “ Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal inventory buildup, that should be budgeted?
- “ Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.
- “ Note that depreciation does not appear in the cash flow at all because you never write a check for it.

# FINANCIAL PLAN OPENING DAY BALANCE SHEET

- “ A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management.
- “ A balance sheet show what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.
- “ Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.
- “ You may want or need to do a projected balance sheet for a longer term projection.

## FINANCIAL PLAN BREAK EVEN ANALYSIS

- “ A break-even analysis predicts the sales volume, at a given price, required to recover total costs. In other words, it's the sales level that is the dividing line between operating at a loss and operating at a profit.
- “ Expressed as a formula, break-even is:
  - Break-Even Sales = Fixed Costs + Variable Costs
    - fixed costs are expressed in dollars
    - variable costs are expressed as a percent of total sales.
  - Include all assumptions upon which your break-even calculation is based.

## XI. APPENDICES

- ” Include details and studies used in your business plan
- ” Examples Include:
  - Brochures and advertising materials
  - Industry studies
  - Blueprints and plans
  - Maps and photos of location

# APPENDICES

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

# SUMMARY

- “ Your business plan will help you through the life of your business
  - Start up
  - Growth
  - Exit
- “ It is a great way to communicate with your employees
- “ It is worth the effort
- “ If you would like a copy of this brief, please let Martha know and we will email a copy to you.
- “ SCORE volunteers are here to help you. Please see Martha on your way out to arrange for mentoring.