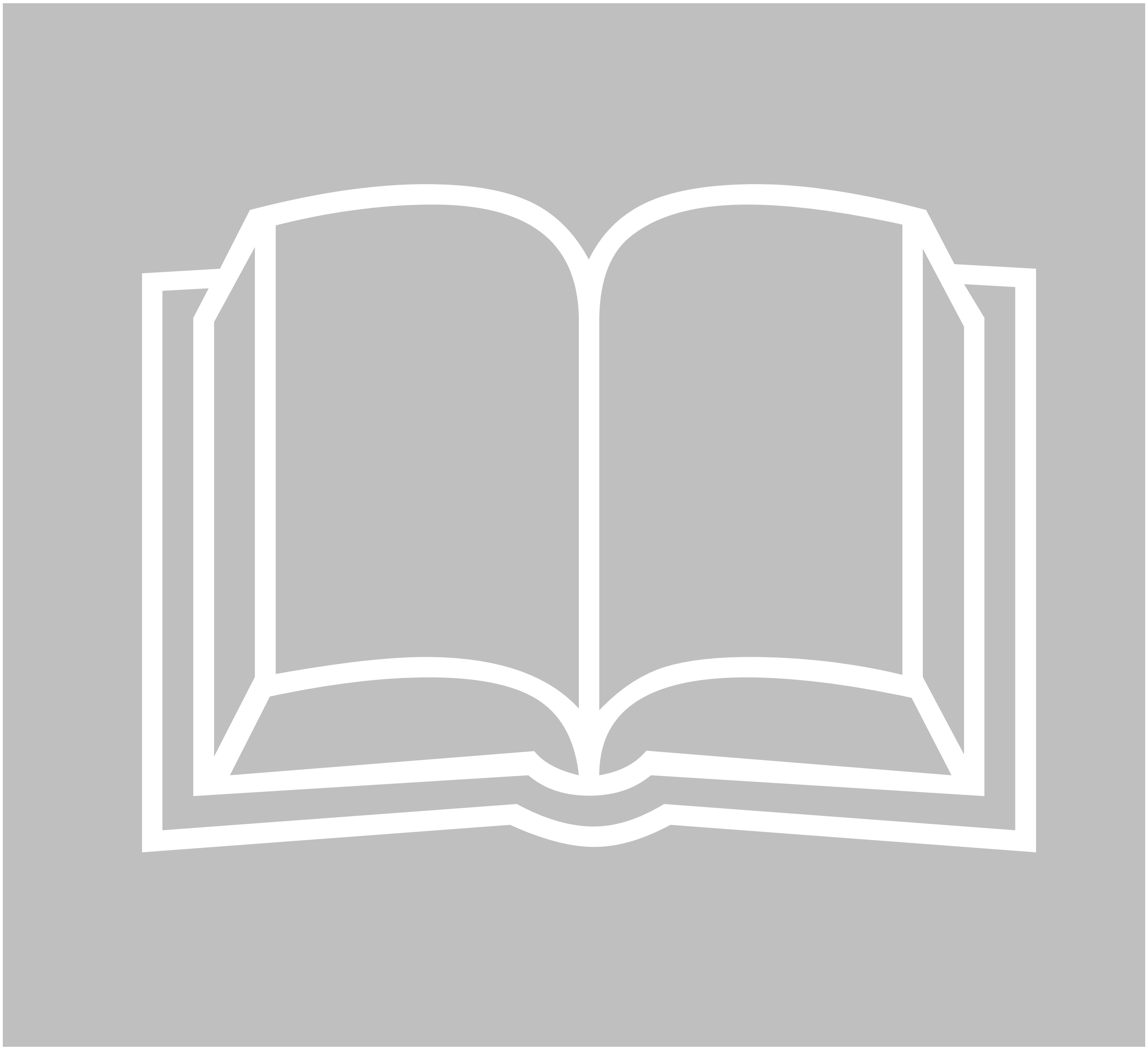
Guide To Starting A Business



Building Your Business Plan

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1.0. Executive Summary

Although this topic appears first in the plan, you normally write it last. Wait until you're almost done so you can include the main highlights. You should cover the most important facts, such as sales growth and profitability and strategic focus, and those facts may change during the planning process.

The contents of the summary depend on the goals of your plan. For example, if you are selling a business idea to investors, then you should include highlights that will invite and encourage potential investors to read on. That might be growth rates, competitive edge, an exciting new technology, etc. On the other hand, if your plan is for internal purposes only, not to be read by outsiders, then your summary would probably not try to sell your plan, but just summarize it. Remember as always to match your plan to your purpose. This is business, not writing class.

As a general rule, your first paragraph should include your business name, what it sells, where it is located, and the nature and purpose of the plan. You might also refer to the keys to success, or at least summarize them briefly.

Another paragraph should highlight important points. Projected sales and profits are normally included, as well as unit sales and profitability. Include the news you don't want anyone to miss. That might be an important strategic focus for the plan, or new product or service, or something else. In some businesses, it might be taking on new partners, new investment or new expansion, or even cutting the expenses and preparing the business for hard times.

Remember, this summary is the doorway to the rest of the plan. Get it right or your target readers will go no further. Keep it short.

1.1. Objectives

Use this topic to list your business plan objectives, which should be specific goals whose achievements can be measured. Keep the list to three or four, because long lists make it hard to focus.

Making your goals concrete is the best way, possibly the only way, to tell when you've achieved them. Your chance of implementation depends on your being able to track progress towards goals and measure results, and implementation is critical. So set measurable objectives such as sales or sales growth, profits or profitability, market share as published by an objective and accessible source, gross margin as percent of sales, for example.

Don't list vague goals that can't be tracked. Where general or intangible goals are critical to your business, find a way to make them specific. For example, if customer satisfaction is a priority, put your objectives in terms of percent of returns, specific numbers of complaints, or letters of praise, or some other measure related to satisfaction. If image or awareness is a priority, include a survey to measure the change in percentages in your plan. You can build a customer satisfaction survey into your plan, set the sample size and satisfaction scores you want to achieve, then carry out the survey to check on success.

As a service company you probably won't care about gross margin or unit sales, but you can still set objectives for total billings or commissions, for personnel on contracting cost, or, for customer satisfaction according to some specific measure.

1.2. Mission

Use your mission statement to establish your business' fundamental goals for the quality of your business offering, customer satisfaction, employee welfare, compensation to owners, and so forth. A good mission statement can be a critical element in defining your business and communicating to employees, vendors, customers, and owners, partners, or shareholders.

For example, customer service experts frequently point out the need for a mission statement that explicitly states the importance of customer service, so that employees understand how much the company values its customers. Quality assurance experts will also turn to a mission statement as a fundamental plank of quality control. A company needs to state its goals and priorities so the people charged with carrying them out can know and understand them.

The mission statement is also a good opportunity to specifically define what business you are in. This can be critical to understanding your keys to success. For example, many experts say railroads suffered badly in the 1930-1960 period because they thought they were in the business of trains when they were really in the business of transporting goods and people; as a result, competition from highway transportation was brutal. In a similar way, an accounting practice is probably in the business of peace of mind as much as it is tax reporting and financial statements. A medical office is concerned about preserving health as much as treating sickness. A graphic artist is in the business of communication and marketing, not drawing and painting.

As another option, experts in value-based marketing recommend a mission statement that includes what they call a "value proposition." The value proposition summarizes what benefits you offer, to whom, and at what relative price. Using this reasoning, a tire company might be selling the benefit of highway safety to safety-minded consumers (especially parents) at a price premium. A luxury car might actually be selling the benefit of prestige to status-conscious consumers at a price premium; or the benefit of reliability to value-conscious consumers at a price premium.

1.3. Keys to Success

The idea of keys to success is based on the need for focus. You can't focus efforts on a few priorities unless you limit the number of priorities. In practice, lists of more than three or four priorities are usually less effective. With more than three or four priorities you'll have less of a chance to implement.

Virtually every business has different keys to success. These are a few key factors that make the difference between success and failure. This depends on who you are and what services you offer. In a restaurant business, for example, location and parking might be keys to success for one strategy, and variety and atmosphere for another. For accountants and attorneys, the keys might include professional quality, reliability, and participation in community organizations. These days a graphic arts business might depend on knowing Internet-related programming languages and tools. In many professional services one of the keys is to never lose existing clients, because it is so much more expensive to find a new client than to keep an existing one.

List your business' keys to success.

2.0. Company Summary

Use this first paragraph to summarize the company-related information. In this introductory topic, be brief.

Although most business plans include a chapter describing the company, remember that form follows function. You can delete topics and whole chapters to suit your purpose. For example, if your business plan is for internal use only, and all readers already know the company, then you might delete this topic, which would also automatically delete all its subtopics. Describing the company may not even be necessary, and if it isn't, then don't spend the time.

Take a paragraph or two here to introduce your business by explaining where it is, how long it's been around, what services it sells, and to whom. If you have trouble, think of this as writing to people who will only read this summary, not the rest of the chapter, and who don't want to know more than what you can put in a single paragraph.

2.1. Company Ownership

Describe the ownership and legal establishment of the company. This is mainly specifying whether your company is a corporation, partnership, sole proprietorship, or some other kind of legal entity, such as a limited liability partnership. You should also explain who owns the company, and, if there is more than one owner, in what proportion.

If your business is a corporation, specify whether it is a C corporation (the more standard type) or an S corporation (more suitable for small business without many different owners). Also, of course, specify whether it is privately owned or publicly traded.

The vast majority of service businesses are sole proprietor businesses, or partnerships. The protection of incorporating is important, but sometimes the extra legal costs and hassles of turning in corporate tax forms with double-entry bookkeeping are not worth it. Professional service businesses, such as accounting or legal or consulting firms, tend to be partnerships. If you're in doubt about how to establish a start-up company, ask a business attorney.

If you are a new business and you don't know what type of company to establish, then you should probably just call it a sole proprietor business and explain it as simply as you can. Eventually your lawyer and accountants will help you decide which legal form is best.

2.2. Start-up Summary

Summarize your start-up plan. Explain the list of start-up expenses, which are expenses you make before you start the business in the first month. Typical start-up expenses include legal expenses of establishment, expenses for developing logo and stationery, and for setting up an office. After the expenses, you list the assets you want to have in the company as it starts. For a service company that would be cash in the bank account, and possibly short-term assets such as equipment. Service companies rarely have starting inventory. Then you show how you intend to finance both the expenses and the initial assets, which usually means investment or borrowing.

2.3. Company Locations and Facilities

Briefly describe offices and locations of your company, the nature and function of each, square footage, lease arrangements, etc. As a service business, you probably don't have major manufacturing plants anywhere, but you might have Internet services, office facilities, and telephone systems that are relevant to providing service. It is conceivable that your Internet connection, as one hypothetical case, might be critical to your business.

Depending on the nature of your plan, its function and purpose, you may want to include more detail about facilities in your appendices. For example, if your business plan is intended to help sell your company to new owners, and you feel that part of the value is the facilities and locations, then you should include all the detail you can. On the other hand, if your business plan is for internal use in a small company with a single office, then this topic might be irrelevant.

3.0. Services

Describe the services you sell, so in the sub-topics you will list and describe your services, present detail about how they are provided, and by whom, and plans for future service offerings. This first topic can be a summary in three or four sentences.

One good technique is to skip this topic until you have finished all the others in this chapter. Then come back here to write the highlights.

The introductory text for a chapter is good style, and makes the plan easy to read. It is also convenient for summarizing the whole plan, so you can pick up the introductory topics of several chapters for a loan summary or investment summary memo.

3.1. Service Description

List and describe the service(s) your company offers. For each business offering, cover the main points including what the service is, how much it costs, what sorts of customers make purchases, and why. What customer need does each service fill?

It is always a good idea to think in terms of customer needs and customer benefits, as you define your service offerings, rather than thinking of your side of the equation--how you generate the service--first. For example, an accounting business might present its services in terms of individual customers needing a simple one-day review of personal tax forms, or businesses that want full tax planning and preparation with a constant eye for potential audit. The accounting services involved may have the same names, but they are very different services, because the customer need is so different. A restaurant might think of services as full meal vs. coffee and snack, or breakfast vs. lunch vs. dinner.

As you list and describe your services, you may run into one of the benefits of good business planning, which is generating new ideas. Describe your service offerings in terms of customer types and customer needs, and you'll often discover new needs and new kinds of customers to cover. This is the way ideas are generated.

3.2. Competitive Comparison

Discuss how your service offering compares in general to the others. For example, your travel agency might offer better airline ticketing than others, or perhaps it is located next to a major university and caters to student traffic. Your graphic design business might be mid-range in price but well known for proficiency in technical development, scanning, and Web Sites. Your management consulting business is a one-person home office business but enjoys excellent relationships with major personal computer manufacturers who call on you for work in Latin America, which is your specialty.

In other words, in this topic you should discuss how you are positioned in the market. Why do people buy your services instead of the other services offered in the same general categories? What benefits do you offer at what price, to whom, and how does your mix compare to others. Think about specific kinds of benefits, features, and market groups, comparing where you think you can show the difference.

3.3. Sales Literature

This topic includes an introduction and holding point for mentioning specific pieces of sales literature and collaterals that would be attached to the plan as part of the attachments or appendices. When a plan is presented to someone outside the company, sales literature is a practical way to both explain your services and present the look and feel of the company.

In this case, you would include copies of advertisements, brochures, direct mail pieces, catalogs, and technical specifications. These should be added to the appendices.

If it is relevant for your business, you should also use this topic to discuss your present situation regarding company literature and your future plans. Is your sales literature a good match to your services and the image your company wants to present? How is it designed and produced? Could you improve it significantly, or cut the cost, or add additional benefits?

3.4. Fulfillment

How do you provide the services you sell, and at what cost? Use this topic to explain in as much detail as you think practical, depending on the specifics of your plan.

For example, a professional service company such as an accounting practice, medical practice, law practice, management consulting, or graphic design is normally going to provide the service by employing professionals. In this case, the cost is mainly the salaries of the professionals. Some other common service businesses are quite different. The travel agency provides a service through a combination of knowledge, rights, and infrastructure including computer systems and databases. The Internet provider or telephone company provides a service by owning and maintaining a network of communications infrastructure. A restaurant is a service business whose costs are a combination of salaries (for kitchen and table waiting) and food costs.

It helps to understand the purpose here. If you were a manufacturing company this topic would be where you explained where you buy raw materials, at what cost, and how frequently.

3.5. Technology

Explain how technology affects the services you provide, the customer benefits, and particularly your competitive edge. Sometimes technology can be vital to a service company, such as the case of the Internet provider using wireless connections as a competitive edge, or the local company offering conference rooms for video conferencing. An accounting practice might gain competitive advantage from proprietary software or wide area network connections to its clients, and a medical laboratory might depend completely on certain expensive technologies for medical diagnostics. A travel agency might depend on its connection to an airline reservation system.

Technology might be a negative factor, something to be included in a plan, because a threat should be dealt with. For example, that same travel agency that depends on a computerized reservation system might also note growing competition from Internet reservations systems available to consumers who prefer to buy direct.

Not all businesses depend on technology. Technology might also be irrelevant for your business. You can delete this topic if it doesn't seem important.

3.6. Future Services

Use this topic to look ahead at the benefits you offer and the services you provide. You might have some specific plans that should be included here, such as plans to open new branches of your restaurant or travel agency, for example, or plans to expand your graphic service business to include Internet sites and computer graphics. Maybe your accounting practice wants to establish more business doing business planning, helping clients with their Business Plan, or your medical laboratory wants to offer additional diagnostics with new equipment.

Present an outlook for future services. Is there a long-term service strategy? How are new services established? Is there a relationship between market segments, market demand, market needs, and service development?

4.0. Market Analysis Summary

This first paragraph is a simple summary. Assume that this paragraph might be included in a loan application or investment summary, so you need it to summarize the rest of the chapter. What information would be most important, if you had only one brief topic to include about your market?

One good technique is to skip this topic until you have finished all the others in this chapter, then come back here to write the highlights.

Without going into great detail, you should generally describe the different groups of target customers included in your market analysis, and refer briefly to why you are selecting these as targets. You may also want to summarize market growth, citing highlights of some growth projections, if you have this information available.

The depth of detail in market analysis will depend a lot on the type of plan. You may not need to provide a complete market study in a plan developed for internal use, when all of your team knows the market well. Maybe you'll just cite the type of customers you attract, and the part of town you serve. The market analysis chapter in a business plan is the chapter that is most likely to require research for information from outside your business, while most others require thinking and analysis of factors within your business.

This is a good point to add a word of caution about the level of detail required. Please remember that planning is about making good decisions, applying focus and enforcing priorities. A good useful business plan doesn't necessarily include a market analysis suitable for a Ph.D. candidate in market research. Planning is not about testing your knowledge. If you are looking for investment, then you may have to use this section to display your wisdom and understanding of your industry, but don't overdo it. If you are planning in an internal plan and have no audience other than your own team, we recommend enough market research to make sure you're not missing key points.

The value of information is limited by its impact of decisions. If more market information is not going to help you do something better, then don't bother.

4.1. Market Segmentation

Use this topic to explain the potential customers analysis. Your analysis is based on a list of potential customer groups, each of which is a market segment. Explain how your segments are defined. The market segmentation concept is crucial to market assessment and market strategy. Divide the market into workable market segments--divided by age, income, product type, geography, buying patterns, customer needs, or other classification.

The most classic market segmentation divides people by demographics (age, income, gender, occupation, education, etc.) or geographics (city, state, county, ZIP code, etc.). Companies selling to businesses would expect to divide the business into groups based on type of business, size of business, and geographies. Personal computer companies frequently divide their market into buying segments including home, small office, large company, government, and education.

Some of the more recent trends include using behavioral patterns and so-called psychographics, which produce the famous classification of "yuppies" as young urban professionals, and of course the "baby boomers" with certain buying patterns. We've seen plans that focus on "high-end home office, technology-driven small business, and technology-phobic small business." Teenagers sort themselves into groups with names like "nerds, dopers, jocks, and greasers." Each of these labels actually stands for certain sets of behavior patterns, and has some value in segmentation.

However you decide to segment your market, use this topic to explain the segmentation, define the different classifications, and develop as much information as you feel you need about the customers within each market segment group. Normally you would list for each segment the demographics, buying patterns, information patterns, and other important factors.

4.2. Target Market Segment Strategy

In this topic you should introduce the strategy behind your market segmentation and your choice of target markets. Explain why your business is focusing on these specific target market groups. What makes these groups more interesting than the other groups that you've ruled out? Why are the characteristics you specify important?

This is more important for some businesses than others. A restaurant, for example, might focus on one set of upper-income customers instead of another, for strategic reasons. An accounting firm might focus on certain business types whose needs match the firm's expertise. Some fast food restaurants focus on families with children under driving age. A graphic design firm might specialize in small or medium businesses that need Internet Web sites. Strategy is focus, it is creative, and it doesn't follow pre-written formulas.

4.2.1. Market Needs

This topic is a good reminder that all marketing should be based on underlying needs. For each market segment included in your strategy, explain the market needs that lead to this group's wanting to buy your service. If you are managing several important segments, you might use this topic as a summary topic, and then add sub-topics for examining the needs of each segment.

In any case, explain the target market needs that relate to the service you provide. Did the need exist before the service was offered? Are there other services that offer different ways to satisfy this same need? Do you have market research related to this market need? It is always a good idea to try to define your service offering in terms of target market needs, so you focus not on what you have to sell, but rather on the buyer needs you satisfy.

4.2.2. Market Trends

To describe market trends, think strategically. What factors seem to be changing the market, or changing the business? What developing trends can make a difference? Market trends could be changes in demographics, changes in customer needs, new sense of style or fashion, or something else. It depends on what business you are in.

For example, a construction business might note the trend toward remodeling older homes instead of buying new homes, or a trend toward more rooms in larger houses, despite smaller families, because of home offices, dens, and exercise rooms. A restaurant business might note a trend toward Asian foods or spicier foods, or toward fresher, healthier foods, or development of a new restaurant district in a different part of town. An accounting practice might note demographic trends, as baby boomers age, leading toward more need for estate planning and retirement planning.

Look to market trends as a way to get ahead of the market, to know where it is going before it gets there.

4.2.3. Market Growth

Use this topic to explain and discuss market growth. Ideally you cite experts, a market expert, market research firm, trade association, or credible journalist, projecting market growth. This is particularly important when your plan is related to finding investors, or supporting a loan application, because market growth enhances the implied value of your business.

Cite growth rates in terms that fit the available information, whether growth in the number of potential customers, projected dollar sales, meals served, Web site projects, tax reporting hours, yards to landscape, or whatever you have.

Whenever you can, relate the growth rates cited in expert forecasts to the growth in potential customers that you included in the market analysis table.

4.3. Service Business Analysis

This topic summarizes the sub-topics that follow, explaining the type of business. The sub-topics look at the size and concentration of businesses in this group, the way services are bought and sold, and specific competitors.

This topic refers to the type of business, as if you could refer to the accounting business, or graphic design, or some other service as an industry.

Depending on what you need for your specific plan, you could leave a brief summary in this topic and let the main information come in the following ones, or you could decide that all you need is a paragraph or two here, then delete the sub-topics. Remember that form follows function, so if describing your industry doesn't change any of your business decisions, and you are not using the plan to describe your business to an outsider, then you may not need to include this description at all.

4.3.1. Business Participants

The idea behind this topic is to explain the nature of the industry. There is a huge difference, for example, between an industry like long-distance trunk services, in which there are only a few huge companies in any one country, and one like dry cleaning, in which there are tens of thousands of smaller participants. This topic is supposed to present a summary of this factor.

This can make a big difference to a business and a business plan. The restaurant industry, for example, is what we call "pulverized," which, like the dry cleaning industry, is made up of many small participants. The fast food business, on the other hand, is composed of a few national brands participating in thousands of branded outlets, many of them franchised. Economists talk of consolidation in an industry as a time when many small participants tend to disappear and a few large players emerge. In accounting, for example, there are only a few large international firms whose names are well known, and tens of thousands of smaller firms.

This is not the place to list specific competitors. Describe the general structure of the industry. Set the scene for the specific competitors that come in the following topic.

4.3.2. Distributing a Service

This topic may not apply to most service companies, because distribution is normally about physical distribution of specific physical products. If you are a restaurant, graphic artist, professional services practice, architect, or some other service that doesn't involve distribution, just delete this topic.

For a few services, distribution may still be relevant. A phone service or cable provider, or an Internet provider, might describe distribution related to physical infrastructure. Some publishers may prefer to treat their business as a service, rather than a manufacturing company, and, in that case, distribution may also be relevant.

If it is relevant for your service business, then explain how distribution works for your company.

4.3.3. Competition and Buying Patterns

This topic is still in the general area of describing the industry, or type of business. Explain the general nature of competition in this business, and how the customers seem to choose one provider over another. In the restaurant business, for example, competition might depend on reputation and trends in one part of the market, and on location and parking in another. In many professional service practices the nature of competition depends on word of mouth, because advertising is not completely accepted. Is there price competition between accountants, doctors, and lawyers? How do people choose travel agencies or florists for weddings? Why does someone hire one landscape architect over another? Why choose Starbucks, a national brand, over the local coffee house? All of this is the nature of competition.

What factors make the most difference for your business? What might make customers choose one of your type of business over another? Price, or billing rates? Reputation? Image and visibility? Are brand names important? Or is it simply word of mouth, in which the secret is long-term satisfied customers?

4.3.4. Main Competitors

You've referred to competition already, in previous topics, in terms of general factors and the nature of competition. Use this topic to list your specific competitors, and the strengths and weaknesses of each.

By the way, this is a good place to point out that you can easily add topics into your outline, such as one topic for each competitor, which will enhance the structure and formatting when the plan prints out. Of course you can also just list the three or four competitors in this topic, and use paragraphs to describe the strengths and weaknesses of each, or you can make sub-topics.

Either way, you should list the main competitors, and the strengths and the weaknesses of each. Consider their service, pricing, reputation, management, financial position, brand awareness, business development, technology, or other factors that you feel are important. In what segments of the market do they operate? What seems to be their strategy? How much do they impact your service business, and what threats and opportunities do they represent?

5.0. Strategy and Implementation Summary

In this first paragraph, summarize the sales and marketing strategy. Details will come on the following topics, so keep this first summary short, covering just the main points. Remember, this summary may be used as the only paragraph on this topic to be included in a loan application summary or an investment summary memo, so you don't want to miss the main points.

As with the first topics in other chapters, you should probably wait until you've written the rest of the chapter before finishing up this summary topic. In this chapter, especially, you'll find that some of the following topics will help you create a summary of strategy.

Think of strategy as focus. Of the whole range of possible market segments, and whole range of services and possible sales and marketing activities, which are your main priorities? Avoid making long lists of priorities. More than three or four points makes them more like a to-do list than a strategic focus.

5.1. Strategy Pyramids

First, a word of caution: this topic is intended to help you think about strategy, not to make a business plan more difficult. If this framework for analysis doesn't work for you, don't worry about it. This is your business plan, make it your own and delete what doesn't fit.

Imagine a pyramid made of three levels of square boxes. The top of the pyramid is a single box, which contains a strategy. Strategy is focus, and a strategy is an area of focus of resources. In the middle you have three or so boxes that stand for tactics. On the bottom you have, say, five or six boxes that stand for programs. It would look something like the following.

Strategy

Tactic * Tactic *Tactic
Program * Program * Program * Program

Definitions don't have to be exact. Strategy is a main focus, which might be focusing on a specific target market, product opportunity, positioning statement, or some other important or fundamental element. You described your main strategy in the previous topic. Tactics are there to implement strategies. For example, if a computer store's strategy is to build longer-term relationships with business customers, then tactics might include increasing networking offerings, training, and support. Programs are specific business activities, each of which has concrete dates and responsibilities, and probably a budget. In the computer store example, programs for the strategy might include upgrade mailings, seminars, installation services, network training, and others, each of which is built on specifics.

You don't necessarily do a complete business strategy in a single pyramid. Each fundamental pole of business strategy might be a different pyramid.

One important benefit of the pyramid method is integration and alignment. If your strategy is to focus on one thing or another, you should be able to trace that strategy into tactics and, most important, your actual spending priorities and activity priorities. Flip back and forth between your pyramid strategy and your milestones table, and ask yourself if the specifics of your milestones plan match the emphasis you put on strategy.

5.2. Value Proposition

Value-based marketing is another conceptual framework, like the pyramid in the previous topic. Like the pyramid, it doesn't have to be in your business plan at all, but we add it here because some people find that the framework helps them develop strategy. Obviously, this has to be a quick treatment. There are textbooks written about value- based marketing, and the business literature on this topic is rich and varied.

This framework begins with defining your business offering as a value proposition. The value proposition is benefit offered less price charged, in relative terms. The definition encourages you to think in broad conceptual terms, with emphasis on the real benefit offered, rather than the specific tangible. For example, a national fast food chain probably offers the value of convenience and reliability, probably at a slight price premium (at least when compared to the weaker chains). A prestigious local restaurant, on the other hand, is offering a completely different set of benefits (luxury, elegance, prestige, for example) at a marked price premium. A graphic designer is probably selling benefits related to communication and advertising, not just drawings.

Once you have a value proposition defined, then look at your business--and your business plan--in terms of how well you 1.) communicate the business proposition and 2.) how well you fulfill your promise. For example, if a computer store's business proposition has to do with reliable service for small business, peace of mind, and long-term relationships, then it probably shouldn't be taking out full-page newspaper advertisements promising the lowest prices in town on brand-name hardware. It probably should communicate that proposition with sales literature that emphasizes how the computer store will become a strategic ally of its clients. It might also think twice about how it handles overdue bills from customers, who might really be holding out for more service or better support. Like the pyramid, the framework helps you integrate your planned programs into a logical whole plan.

5.3. Competitive Edge

So what is your competitive edge? How is your company different from all others. In what way does it stand out? Is there a sustainable value there, something that you can maintain and develop over time. For example, a graphic design firm might have its head start in Internet Web design or its CGI programming staff as a competitive edge, that puts it ahead of most competitors. An accounting practice might have its very-well-known senior partner, whose books are used as texts. A restaurant might have its excellent location, its well-known master chef. The competitive edge might be different for any given company, even between one company and another in the same industry.

You don't have to have the competitive edge to run a successful business--hard work, integrity, and customer satisfaction can substitute for it, to name just a few examples--but an edge will certainly give you a head start if you need to bring in new investment. Maybe it's just your client base, as in the case of an L.L.Bean, or it's image and awareness, such as with Trader Vics. Maybe it is the quality control and consistency of McDonald's.

The most immediately understandable competitive edges are those based on proprietary technology. A patent, an algorithm, even deeply entrenched know-how can be solid competitive edges. In services, however, the edge can be as simple as having the phone number 1 (800) SOFTWARE, which is an actual case. A successful company was built around that phone number.

5.4. Marketing Strategy

This topic introduces marketing strategy. Sales strategy comes later. Your marketing strategy normally involves target market focus, emphasis on certain services or media, or ways to position your company and your service uniquely.

Your marketing strategy depends a great deal on which market segments you've chosen as target market groups. You covered this in the previous chapter, the market analysis, but it is also critical to market strategy. Also, if you've been through the previous topics including the pyramid, the value proposition, and competitive edge, then you probably have marketing strategy on the way. Obviously, you want to make sure to preserve the same basic focus and themes.

The sub-topics of this topic include the positioning statement, pricing, promotion, and whatever else you want to add. Target market focus is frequently added, despite the explanation from the earlier chapter. You might also want to look at media strategy, business development, or other factors. Strategy is creative, and hard to predict. Some of the sub-topics that follow this one will give you more ideas.

5.4.1. Positioning Statement

Use this topic for your marketing positioning statements. The positioning statements should include a strategic focus on the most important target market, that market's most important market need, how your product meets that need, what is the main competition, and how your product is better than the competition.

Consider this simple template:

For [target market description] who [target market need], [this product] [how it meets the need]. Unlike [key competition], it [most mportant distinguishing feature].

For example, the positioning statement could be: "For the businessperson who is starting a new company, launching new products or seeking funding or partners, software can produce professional business plans quickly and easily.

5.4.2. Pricing Strategy

Use this topic to provide detail on product pricing, and to relate pricing to strategy. Your value proposition, for example, will normally include implications about relative pricing. Therefore, you should check whether your detailed product-by-product pricing matches the implied pricing in the value proposition. Pricing is also supposed to be intimately related to the positioning statement in the previous topic, since pricing is probably the most important factor in product positioning.

Price lists and additional background material are usually available, at least for ongoing companies. You should include these as part of the appendices.

Pricing isn't always strategic, and isn't even always in your control, at least not in the immediate short term. If you manufacture products or materials purchased by a high-volume purchaser, you may not have the power to raise prices. In some industries the prices are so determined by market leaders that the other competitors almost have to follow. Sometimes your channels of distribution will dictate your pricing. In any case, if it is at all relevant to your plan, then this is the topic to explain and provide detail on pricing.

5.4.3. Promotion Strategy

Think of promotion in a broader sense than simply sales promotion. Think of how you spread the word about your business to your future customers. Think of it in the broader context, including the whole range of advertising, public relations, events, direct mail, seminars, and sales literature.

Think strategically. What, in general, is your strategy about communicating with people? Do you look for expensive ads in mass media, or targeted marketing in specialized publications, or even more targeted, with direct mail? Do you have a way to leverage the news media, or reviewers? Do you advertise more effectively through public relations events, trade shows, newspaper, or radio? What about telemarketing, the World Wide Web, or even multilevel marketing?

Are you satisfied with how this is working for you now, or is it a problem area that needs to be addressed? Are you meeting your needs and in line with your opportunities?

How does your promotion strategy fit with the rest of your strategy? Check for alignment between what you say here and what you say in your strategy pyramid, and your value proposition. As you described market trends and target market segments, did you see ways to improve your promotion strategy?

5.4.4. Distribution Strategy

As the instructions for a previous topic mentioned, distribution is not always relevant for a service business. Most service businesses should probably delete this topic, just as they did the analysis of distribution patterns in the previous chapter.

However, distribution is relevant to some service businesses. We mentioned the examples of a phone service or cable provider, or an Internet provider, might describe distribution related to physical infrastructure. Some publishers may prefer to treat their business as a service, rather than a manufacturing company, and, in that case, distribution may also be relevant.

If it is relevant for your service business, then explain your distribution strategy. Remember, strategy is focus, so think about emphasizing your strengths and protecting your weaknesses.

So, are you focusing on a specific area of distribution, or means of distribution? Is there some special advantage that you want to emphasize? Anything unique in your distribution plans, that your competitors can't imitate?

5.4.5. Marketing Programs

Details and specifics are critical to implementation. Use this topic to list the specific information related to marketing programs in your milestones table, with their specific persons responsible, deadlines, and budgets.

Each marketing program in your milestones table should appear in this topic, along with relevant details. You may go over them again in the text related to that table, but for this topic you want to cement your sales strategy with programs that make it real. How is this strategy to be implemented? Do you have concrete and specific plans? How will implementation be measured?

5.5. Sales Strategy

Describe sales strategy, as it differs from marketing strategy. Sales should close the deals that marketing opens. Sales strategies deal with how and when to close sales prospects, how to compensate sales people, how to optimize order processing and database management, how to maneuver price, delivery, and conditions. This topic is the broad summary, to be followed by a detailed sales forecast and a discussion of specific sales programs.

To help differentiate between marketing strategy and sales strategy, think of marketing as the broader effort of generating sales leads on a large scale, and sales as the efforts to bring those sales leads into the system as individual sales transactions. Marketing might affect image and awareness and propensity to buy, while sales involves closing the deal and getting the order.

As with your marketing strategy, your sales strategy depends a great deal on which market segments you've chosen as target market groups. Obviously, you don't sell major deals to large companies the same way you sell cereal boxes off grocery store shelves. Think about how you sell in your business. What is your strategy for optimizing your way of selling?

5.5.1. Sales Forecast

Explain your sales forecast. Emphasize important points and explain assumptions. What growth rates are you expecting for the more important lines, and what growth rates in units, and in dollars? Why are you projecting your sales at this level, why not less or more? What are the main driving forces behind the sales forecast? How does it relate to your market analysis, your main target segments, your sales strategy and marketing strategy? Is your sales forecast believable? Why?

What risks are involved. What events might turn the sales forecast downward? What kind of things are you assuming will happen to make sure the sales happen?

5.5.2. Sales Programs

Details and specifics are critical to implementation. Use this topic to list the specific information related to sales programs in your milestones table, with their specific persons responsible, deadlines, and budgets.

Each sales-related program in your milestones table should appear in this topic, along with relevant details. You may go over them again in the text related to that table, but for this topic you want to cement your sales strategy with programs that make it real. How is this strategy to be implemented? Do you have concrete and specific plans? How will implementation be measured?

5.6. Strategic Alliances

Use this topic to explain your strategic alliances, such as co-marketing, co-development, commission and cooperative arrangements. Is your fate tied to that of any other company? Can you link your promotion or distribution strategies to another company, or companies? Does this affect your marketing strategy, competitive edge, or positioning?

5.7. Milestones

The milestones, which will print in a table following this topic, are critical. This is where a business plan becomes a real plan, with specific and measurable activities, instead of just a document. Include as many specific programs as possible. For each program, give it a name, a person responsible, a milestone date, and a budget. In the table itself you see columns reserved for evaluating the actual results and the difference between plan and actual results, for each program. You have a place to track spending and milestone dates, and you can also sort the table by person responsible, milestone date, budget, and by department.

Make your plan real. Give it as many milestones as you can think of to make it more concrete. Then make sure that all your people know that you will be following the plan, and tracking results. Details are good.

Your software will print the plan portion of the table as part of the printed plan. The actual results, and plan-vs.-actual comparisons, don't print automatically. We assume you'll follow up with them, use them to manage the plan, and print them as required from the table directly.

6.0. Management Summary

Use this first paragraph as a summary. As with the other first topics in chapters, it may be used to stand for the rest of the chapter, as part of a summary document. If you only have one or two paragraphs to include about your personnel and management team, this is it.

If you are in doubt, you should make sure you cover the basic information first. That would include how many employees the company has, how many managers, and how many of the managers are founders. Is your team complete, or are there gaps still to be filled? Is your organizational structure sound, with job descriptions and logical responsibilities for all the key members?

Particularly with start-up companies, you may not have the complete team as you write the plan. In that case, be sure to point out the hole and weaknesses, and how you intend to fill them.

6.1. Organizational Structure

The organizational structure of a company is what you frequently see as an organizational chart, also known as an "org chart." You can use text to describe the organizational structure in words, without a chart.

6.2. Management Team

List the most important members of the management team. Include summaries of their backgrounds and experience, using them like brief resumes. Describe their functions with the company.

6.3. Management Team Gaps

Specify where the team is weak because of gaps in coverage of key management functions. How will these weaknesses be corrected? How will the more important gaps be filled?

Remember that this topic can be deleted if it doesn't apply. As always, it depends on the specific function of this plan. Particularly when start-up companies are looking for outside financing, it is not unusual to deal with gaps in the management structure by recognizing that the gaps exist, and present plans to address them.

For example, a high-technology company gearing up to manufacture products might need a first-rate manufacturing manager, or a service manager. Their plan may still be credible, even if they haven't found the right person, because it recognizes the need.

6.4. Personnel Plan

Prepare a personnel plan, projecting employees, salaries, and departments. Use the topic here to explain the plan, assumptions, personnel needs, costs, and benefits.

7.0. Financial Plan

This is another summary topic, a chapter head, which is followed by detailed topics covering your general assumptions, break-even analysis, profit and loss, cash flow, balance sheet, and ratios.

One option for this topic is to merely summarize those that follow. In that case, consider this a single topic that might stand for the whole chapter in a summary document, like an investment summary of a loan summarizes the more detailed topics to follow. You might want to write the following topics first, then do this summary. How fast is the business expected to grow, and how do you intend to finance that growth? Or are you growing slowly and producing profits?

Another option is to summarize your financial plan in a more general way. This option fits when your financial plan is a significant piece of your expansion or your new business start-up, either because it involves new investment, or new loans, or a change in the way you do business with accounts receivable, or payables, or inventory. For example, if you are planning to grow your manufacturing business and finance growth by factoring receivables, that might be an element of a new financial plan. A new long-term loan or major change in your short-term borrowing might also be part of a plan, even if these items don't show up clearly in charts and tables that follow.

7.1. Important Assumptions

Use this section to discuss important assumptions. Explain how key assumptions have affected your financial projections. For example, you might be assuming something about general economic conditions. Or you might be assuming that your competition isn't going to release a new product during the next 12 months, or that it is. Assumptions of this type should be specified in this topic.

7.2. Key Financial Indicators

This topic depends on benchmarks, which compares five key indicators in regards to how much they change over time. The indicators include sales, gross margin, operating expenses, inventory turnover, and collection days. We chose these five indicators because they all have real impact on the health of a business. We focus not on gross amounts as much as changes. It shows changes on a year-to-year basis, rather than gross amounts. For example, growing sales from $1 million to $2 million shows up exactly the same in the chart as growing sales from $20,000 to $40,000. That would also show up the same as increasing gross margin from 20% to 40%, or increasing collection days from 30 to 60, or increasing inventory turnover from four to eight. The indicator values are set to compare changes with the base year showing up as 1.00 and all other years showing up as multiples from the base.

The indicator value is a good way to compare different concepts on the same chart. Sales and operating expenses are measured in gross amounts, gross margin is in percentage terms, collection days are in days (how many days do you wait to get the money), and inventory turnover is in turns per year (cost of goods sold divided by average inventory). With sales, gross margin, and inventory turnover, the higher the better. With operating expenses and collection days, the lower the better.

Use the text to explain the changes that appear on the chart. Why do some factors change more than others? Does the level of change make sense? How are you going to improve the factors your plan says will improve?

The benchmark chart is a good test for realism. If you say inventory turnover and collection days are going to improve, do you have business programs to make it happen? Are there specifics in your milestones table? Is it realistic to show sales increasing much more than operating expenses? Use this topic to explain the background.

7.3. Break-even Analysis

Break-even is more useful for start-up companies than ongoing or already existing companies, because it assumes a snapshot of the business position at one imaginary point in time, and also because it deals with fixed costs in a way that may not be all that useful. The break-even is more valuable for start-ups and initial assessments because it offers some real insight into what might become the realities of a potential business. It is also hard to deal with because it requires making estimates of unit prices and unit variable costs for the entire business, rather than for each product or product line. It is frequently hard to come up with a single estimate.

However, even for ongoing companies, we do a break-even analysis because people who read business plans expect one. Despite its limitations, this is a standard analysis that financial readers and business plan experts will expect to see.

How have you decided to treat fixed costs? Are you using the strict financial definition that comes from textbooks, or the more practical definition we recommend, the normal running costs? How have you decided to set averages for price per unit and variable cost per unit?

You might also cover the implications of the break-even. For a start-up company, you should compare the break-even point with your sales prospects? How confident are you that you can make the minimum sales quantities you need to break even? For an on-going company, the break-even analysis should show that you are running comfortably above the break even point.

7.4. Projected Profit and Loss

Note the important points of your profit and loss projections, such as percentage increase in sales and profits, your gross margins, and key budget items. Your annual projections of profit and loss will normally print right after this topic, so what you are writing here is an explanation of those numbers. How realistic are your sales and expense projections? How good do your numbers look?

If you can, add some interest to the table. For example, you might note that you are spending less on sales and marketing expenses than the industry average (just a hypothetical example), and maybe that is because you are getting such great reviews in the consumer magazines, or for some other reason. At the very least, point out your main numbers and growth rates.

7.5. Projected Cash Flow

Use the text portion to explain the key elements of the pro forma cash flow, which presents projected changes in cash balances. This shows the month-by-month cash flow for the next year, which is critical information.

As you write, focus on the monthly cash flow chart. In most business plans, the cash flow is negative for some months, so the cash flow bar shows some negative values. The cash balance bar in the chart, however, must not go below zero ever, because that would be equivalent to a negative balance in the checking accounts, which means bounced checks and bad problems. Normally you will have to borrow money off of a credit line to support your weak months, and pay it off during your strong months. You might also be looking for new investment to improve your cash flow, or taking out a long-term loan, or selling assets. Explain your plan here, in as much detail as you can, because your cash flow is critical.

Remember, you don't spend profits, you spend cash. Furthermore, you can be a profitable business and have no cash. Many businesses that die are profitable when they die, they just can't get their money from inventory or receivables in order to pay their bills.

7.6. Projected Balance Sheet

The most important item on your balance sheet is your cash, in the first row. You just dealt with cash in the previous section, the cash flow, and you also explained the assumptions related to cash. The full balance sheet includes all assets, liabilities, and capital.

Try to add interest to the table by pointing out highlights. If your numbers look good, then your net worth is going to improve and you should point that out in this topic. The net worth is the bottom line of the balance sheet, assets less liabilities. If you are bringing in new investments, then you might want to point out the increase in equity capital. If your liabilities go down, or working capital increases, then point that out.

Sometimes you need to note a concern, a point of high risk, or a weakness in the balance sheet. Maybe the balance sheet shows that you need more capital, or that you are chronically weak on working capital or high in inventory and receivables. Business plans are not necessarily all good news. You might have to plan to improve the weaknesses in your balance sheet.

7.7. Business Ratios

Ratios include profitability ratios, liquidity ratios, debt ratios, performance ratios, and some others.

The importance of various ratios depends on the exact nature of your business. So does what is considered good, bad, and acceptable values. For example, as a manufacturing company you are probably expected to have more assets than other companies, and therefore your return on assets might be lower than many others. A return on investment (ROI) of 10% might be excellent in one industry and weak in another. Grocery stores return only 1% or 2% on sales, but hardware manufacturers return 10% or 20% on sales. It all depends.

With business ratios, changes are often more important than absolute values. A debt-to-assets ratio of .5 might mean nothing by itself, but if it goes from .5 to .75 to 1, then the change is worth noting. If you can, explain why some ratios change. If you can't really explain the changes--maybe you run a business but you aren't a business analyst, you don't know about this stuff, and don't want to--at least the ratios are going to be there in your plan, calculated correctly, so the analysts who want to work with them can find them and use them as they wish.

Building Your Business Plan

(Financial Tables)

General Assumptions

	Short-term Interest Rate %	Long-term Interest Rate %	Payment Days Estimator	Collection Days Estimator	Inventory Turnover Estimator	Tax Rate %	Expenses in Cash %	Sales on Credit %	Personnel Burden %
JAN	________	________	________	________	________	________	________	________	________
FEB	________	________	________	________	________	________	________	________	________
MAR	________	________	________	________	________	________	________	________	________
APR	________	________	________	________	________	________	________	________	________
MAY	________	________	________	________	________	________	________	________	________
JUN	________	________	________	________	________	________	________	________	________
JUL	________	________	________	________	________	________	________	________	________
AUG	________	________	________	________	________	________	________	________	________
SEP	________	________	________	________	________	________	________	________	________
OCT	________	________	________	________	________	________	________	________	________
NOV	________	________	________	________	________	________	________	________	________
DEC	________	________	________	________	________	________	________	________	________

General Assumptions

Short-term Interest Rates % - This is an assumed interest rate that will be used to calculate short-term (loans 5 years or less) interest expenses.

Long-term Interest Rates % - This is an assumed interest rate that will be used to calculate short-term (loans greater than 5 years) interest expenses.

> The division between long-term and short-term liabilities might be three, five, or 10 years. You can make that decision yourself or ask an accountant.

Payment Days Estimator - Use this variable to estimate the average number of days you take to pay your bills. Standard payment-day values are from 30 to 45 days.

Collection Days Estimate - Use this variable to estimate the average number of days between selling a good or service on credit and receiving the money. Normal collection day assumptions range between 30 and 90 days.

Inventory Turnover Estimate - You determine your turnover by how many months worth of your Cost of Sales or Cost of Goods sold that you have in inventory. You then divide 12 by that number of months. For example, two months of inventory is equal to 6 inventory turns per year. Standard acceptable numbers depend on your specific industry. For example, an average computer store has 4-8 turns in a year.

Tax Rate % - This is an assumed percentage applied against pre-tax income to determine the "Taxes Incurred" row in the Profit and Loss table.

Expenses in Cash% - This important assumption helps to determine Accounts Payable. Estimate, in percent, how many of your non-payroll expenses are paid immediately. The formula automatically ignores salaries, which are presumably always paid immediately, and applies this assumed percentage in this row to all other costs and expenses to determine new accounts payable. Expenses that aren't paid immediately become Accounts Payable.

Sales on credit % - [Doesn't show for cash-only companies] Sales on credit % is an important assumption that helps to determine the Accounts Receivable balance. Estimate, in percent, how much of your sales are on credit.

Personnel Burden % - Personnel burden is the sum of employer taxes and benefits paid over and above salaries. Use this row to estimate this number as a percent of your total salary in the Personnel table.

Break-even Analysis

Monthly Units Breakeven	_________
Monthly Sales Breakeven	_________

Assumptions:

Average Per-Unit Revenue	_________
Average Per-Unit Variable Cost	_________
Estimated Monthly Fixed Cost	_________

Break-even Analysis

<u>Monthly Units Break-even</u> - This is a financial formula that determines how many units must be sold to break even. The "Estimated Fixed Cost" is divided by the Average Per-Unit Margin (Average Per-Unit Revenue minus Average Per-Unit Variable Cost). The exact formula is:

=Fixed cost / (Price per unit – Variable cost per unit)

<u>Monthly Sales Break-even</u> - This is a financial formula that determines how much in sales must be generated in order to break even. It also uses the Estimated Fixed Cost, Average Per-Unit Revenue and Average Per-Unit Variable Cost. The exact formula is:

=Fixed cost /1 - (Variable cost per unit / Price per unit)

<u>Average Per-Unit Revenue</u> - Type in a simple assumption of the average dollars received for each unit sold. This will be used to calculate the break-even points.

<u>Average Per-Unit Variable Cost</u> - Type in a simple assumption of the average cost incurred for each unit sold. This will be used to calculate the break-even points.

<u>Estimated Fixed Cost</u> - Normally you should estimate fixed cost as expenses that would continue for a while even if you shut down the business. We prefer to calculate the break-even points using your normal running expenses, also called "burn rate," instead of theoretical fixed expenses. This offers a better look at what you have to sell to remain in business.

Market Analysis

Potential Customers	Growth	Yr_____	Yr_____	Yr_____	Yr_____	Yr_____
Total						

Market Analysis

Potential Customers - Estimate the potential customers for each category row listed.

Growth rate - Use the growth rate area to estimate the growth per year in the number of potential customers in each market segment you identify.

Year Columns - Type in your estimated potential customers for the first year column.

Total - The Total row shows you the total potential customers in your target markets. The CAGR (Compounded Annual Growth Rate) is an average of the total market growth for combined market segments.

Sales Forecast

	Sales	Other	Total Sales	Direct Cost of Sales	Other	Subtotal Cost of Sales
JAN	_______	_______	_______	_______	_______	_______
FEB	_______	_______	_______	_______	_______	_______
MAR	_______	_______	_______	_______	_______	_______
APR	_______	_______	_______	_______	_______	_______
MAY	_______	_______	_______	_______	_______	_______
JUN	_______	_______	_______	_______	_______	_______
JUL	_______	_______	_______	_______	_______	_______
AUG	_______	_______	_______	_______	_______	_______
SEP	_______	_______	_______	_______	_______	_______
OCT	_______	_______	_______	_______	_______	_______
NOV	_______	_______	_______	_______	_______	_______
DEC	_______	_______	_______	_______	_______	_______
Yr____	_______	_______	_______	_______	_______	_______
Yr____	_______	_______	_______	_______	_______	_______
Yr____	_______	_______	_______	_______	_______	_______

Sales Forecast

Value:

<u>Sales</u> - Estimate sales dollars for each month of the first year. The second and third year columns are simple data input; type annual estimates for the second, third and fourth years. Repeat the above process for each line of sales.

<u>Total Sales</u> - The totals for each month and year are transferred automatically to the Profit and Loss table.

<u>Direct Costs</u> - In this section you estimate cost of sales in dollars (value) for each line of sales in the forecast. The second, third and fourth year columns are simple data input. Repeat the process for each line of sales.

<u>Sub-Total Cost of Sales</u> - It is called "sub-total" because additional Cost of Sales rows are added in the Profit and Loss table. It's called this to reduce confusion in the sales estimates.

Unit:

<u>Unit Sales</u> - Estimate unit sales for each month of the first year. The second and third year columns are simple data input; type annual estimates for the second, third and fourth years. Repeat the above process for each line of sales.

<u>Total Unit Sales</u> - This row calculates the sum of the unit sales estimates above it.

<u>Unit Prices</u> - Record per-unit sales prices for each of the unit sales lines.

<u>Sales</u> - These rows automatically compute projected sales per product line by multiplying the unit sales projection times the unit prices. The row label repeats whatever is in the sections above it.

<u>Total Sales</u> - This row computes the sum of the per-line sales above it.

<u>Direct Unit Costs</u> - Use these rows to record expected per-unit costs. The first year column averages the monthly columns automatically. The second, third and fourth year columns are simple data input.

<u>Direct Cost of Sales</u> - These rows calculate the cost of sales for each sales line by multiplying per-unit costs for that line by the unit sales assumption for that line.

<u>Sub-Total Direct Cost of Sales</u> - This row contains the calculated sum of the per-sales line costs in the rows above it. The real total cost of sales is actually in the Profit and Loss table, which adds production personnel (if relevant) and "other" to this category.

Personnel Plan

	Employee	Employee	Employee	Employee	Other	Total Payroll	Total Head Count	Total Burden	Total Payroll Expenditures
JAN	_______	_______	_______	_______	_______	_______	_______	_______	_______
FEB	_______	_______	_______	_______	_______	_______	_______	_______	_______
MAR	_______	_______	_______	_______	_______	_______	_______	_______	_______
APR	_______	_______	_______	_______	_______	_______	_______	_______	_______
MAY	_______	_______	_______	_______	_______	_______	_______	_______	_______
JUN	_______	_______	_______	_______	_______	_______	_______	_______	_______
JUL	_______	_______	_______	_______	_______	_______	_______	_______	_______
AUG	_______	_______	_______	_______	_______	_______	_______	_______	_______
SEP	_______	_______	_______	_______	_______	_______	_______	_______	_______
OCT	_______	_______	_______	_______	_______	_______	_______	_______	_______
NOV	_______	_______	_______	_______	_______	_______	_______	_______	_______
DEC	_______	_______	_______	_______	_______	_______	_______	_______	_______
Yr____	_______	_______	_______	_______	_______	_______	_______	_______	_______
Yr____	_______	_______	_______	_______	_______	_______	_______	_______	_______
Yr____	_______	_______	_______	_______	_______	_______	_______	_______	_______

Personnel Plan

Total Payroll - This row adds the total payroll for your personnel.

Total Headcount - This row contains the total number of people listed above.

Payroll Burden - This row calculates the total payroll burden using the total salary above and the assumed personnel burden % row of the General Assumptions table.

Total Payroll Expenditures - This row calculates the total payroll expenditures as the sum of Total Payroll and Payroll Burden in the rows directly above.

Profit and Loss (Income Statement)

	JAN	FEB	MAR	APR	MAY	JUN	JUL
Sales							
Direct Cost of Sales							
Other							
Total Cost of Sales							
Gross Margin							
Gross Margin %							
Operating Expenses:							
Advertising/Promotion							
Travel							
Miscellaneous							
Payroll Expense							
Payroll Burden							
Depreciation							
Leased Equipment							
Utilities							
Insurance							
Rent							
Contract/Consultants							
Total Operating Expenses							
Profit before Interest and Taxes							
Interest Expense Short-term							
Interest Expense Long-term							
Taxes Incurred							
Net Profit							
Net Profit/Sales							

Profit and Loss (Income Statement)

	AUG	SEP	OCT	NOV	DEC	YR	YR
Sales							
Direct Cost of Sales							
Other							
Total Cost of Sales							
Gross Margin							
Gross Margin %							
Operating Expenses:							
Advertising/Promotion							
Travel							
Miscellaneous							
Payroll Expense							
Payroll Burden							
Depreciation							
Leased Equipment							
Utilities							
Insurance							
Rent							
Contract/Consultants							
Total Operating Expenses							
Profit before Interest and Taxes							
Interest Expense Short-term							
Interest Expense Long-term							
Taxes Incurred							
Net Profit							
Net Profit/Sales							

Profit and Loss

Sales - Sales are linked to this row from the Sales row of the Sales Forecast table.

Direct Cost of Sales - This row picks up from the Direct Cost of Sales row in the Sales Forecast table.

Other - A simple assumption. The first year is calculated from the months.

Total Cost of Sales - The sum of cost of sales rows above it. This is the cost of sales value used to calculated estimated inventory.

Gross Margin - This row calculates the gross margin as sales less total cost of sales.

Gross Margin % - This row computes gross margin divided by sales, displayed as a percentage. Acceptable levels depend on the nature of your business.

Operating Expenses: - Subtitle row.

Advertising /Promotion - This is just an example. The operating expenses section includes a number of example rows of expenses.

Depreciation - A simple assumption. The first year is calculated from the months. Depreciation shown here reappears in the Cash Flow table, and is used as well to calculate accumulated depreciation in the Balance Sheet.

Payroll Expense - This row pulls in the total salaries for each month from the Personnel table. If the Personnel plan were divided by category, this total would be distributed to each category.

Payroll Burden - This is linked in from the calculations made in the Personnel table based on the payroll, and the Payroll Burden % from the General Assumptions table. Payroll burden includes payroll taxes and benefits. For example, if payroll is $1,000, 10% rate, the burden is an extra $100.

Total Operating Expenses - This is the sum of the operating expenses.

Profit Before Interest and Taxes - This row might also be called Earnings Before Interest and Taxes (EBIT). The formula subtracts operating expenses from the gross margin.

Interest Expense ST - This row contains interest expenses. It uses the Short-Term Interest Rate from the General Assumptions and multiplies by the Short-Term Notes balance in the Balance Sheet. For the months of the first year, it also divides that amount by 12.

Interest Expense LT - This row multiplies the Long-Term Interest Rate from the General Assumptions table by the Long-Term Liabilities balance in the Balance Sheet. Interest is an expense, to be subtracted from operating income to determine net income.

Taxes Incurred - This row multiplies the Tax Rate Percent in the General Assumptions table by the pre-tax income (operating income less interest expense) to determine taxes incurred. These will be subtracted to calculate net income.

Net Profit - The operating income less taxes and interest.

Net Profit/Sales - This row calculates the net profit divided by sales, as a percentage. This is the same as return on sales.

Start-up Costs

Start-up Plan

Start-up Expenses:

Legal __________

Stationery etc. __________

Brochures __________

Consultants __________

Insurance __________

Rent __________

Research and development __________

Expensed equipment __________

Other __________

Total Start-up Expense __________

Start-up Assets Needed:

Cash Requirements __________

Start-up inventory __________

Other Short-term Assets __________

Total Short-term Assets __________

Long-term Assets __________

Total Assets __________

Total Start-up Requirements: __________

Left to finance: __________

<u>Start-up Funding Plan</u>

Investment: __________

Investor 1 __________

Investor 2 __________

Other __________

Total investment __________

____

Short-term Liabilities: __________

Unpaid Expenses __________

Short-term Loans __________

Interest-free Short-term Loans __________

Subtotal Short-term Liabilities

Long-term Liabilities

Total Liabilities __________

____

Loss at Start-up __________

Total Capital __________

Total Capital and Liabilities

Checkline __________

____

____

____

Start-up Cost

Start-up Expenses - A row header, defining the section to follow.

Estimated Expenses - The expense categories shown are just examples. Estimate your start-up expenses, which are incurred before you get to the starting point of your plan.

Total Start-up Expense - This row sums the start-up expense estimates above it.

Start-up Assets Needed - A header row, estimate the assets you are supposed to have before you start your plan.

Cash Requirements - Estimate how much money you need in the bank when you start.

Start-up Inventory - Estimate how much inventory you need at start-up.

Other Short-Term Assets - Estimate your requirements for other short-term assets, such as office furniture or equipment.

Total Short-Term Assets - This is the sum of the short-term assets listed above it.

Long-Term Assets - A header row.

Capital Assets - Estimate your requirements for capital assets, such as buildings, land, or manufacturing equipment. This value is transferred to your starting balance.

Total Assets - This cell adds up the assets in the rows above. This value is transferred to your starting balance.

Total Start-up Requirements - This is the sum of your initial assets and initial expenses. This is the amount that must be financed.

Left to Finance - This is a simple calculation of the sum of expenses and assets you need, minus the money financed (either investment or borrowed). The formula is:

Total Start-up Requirements - (Total Investment + Total Borrowing)

Start-up Funding Plan - A header row.

Investment - A header row.

Investment - Type in the amount of investment expected from each investor.

Total Investment - This cell sums the investment estimates above. This value is transferred to your starting balance.

Short-Term Liabilities - A header row.

Unpaid Expenses - This value becomes your opening Accounts Payable, and may include expenses charged to a credit card, or owed on credit terms.

Short-Term Loans - These are the same as short-term loans. They are usually debts with terms of five years or less. This becomes your opening value for Short-term Notes.

Interest-Free Short-term Loans - Use this cell for subsidized loans, loans from family or friends, etc. This value becomes your opening balance of "Other Short-Term Liabilities."

Subtotal Short-Term Borrowing - Sums the estimates above.

Long-Term Liabilities - Type your estimate for long-term borrowing at start-up. This will appear as a starting balance in your Balance Sheet.

Total Liabilities - The sum of the Sub-Total Short-Term Borrowing + Long-Term Liabilities.

Loss at Start-up - The loss at start-up as whatever amount is required to bring the liabilities and capital into exact balance with assets. Assets must be equal to liabilities and capital, according to standard accounting principles.

Total Capital - Results of subtracting liabilities from assets (Total Investment + Loss at Start-Up).

Total Capital and Liabilities - This is the sum of liabilities and total equity (Total Capital + Total Liabilities).

Checkline - Total Assets minus Total Capital and Liabilities.

Cash Flow

	JAN	FEB	MAR	APR	MAY	JUN
Net Profit						
Plus:						
Depreciation						
Change in Accounts Payable						
Current Borrowing (repayment)						
Increase (decrease) Other Liabilities						
Long-term Borrowing (repayment)						
Capital Input						
Subtotal						
Less:						
Change in Accounts Receivable						
Change in Inventory						
Change in Other Short-term Assets						
Capital Expenditure						
Dividends						
Subtotal						
Net Cash Flow						
Cash Balance						

	JUL	AUG	SEP	OCT	NOV	DEC
Net Profit						
Plus:						
Depreciation						
Change in Accounts Payable						
Current Borrowing (repayment)						
Increase (decrease) Other Liabilities						
Long-term Borrowing (repayment)						
Capital Input						
Subtotal						
Less:						
Change in Accounts Receivable						
Change in Inventory						
Change in Other Short-term Assets						
Capital Expenditure						
Dividends						
Subtotal						
Net Cash Flow						
Cash Balance						

Cash Flow

Net Profit - To calculate Cash Flow, we have to start with profit. The Net Profit is taken from the bottom line of the Profit and Loss table.

Plus: - A subtitle row.

Depreciation - Depreciation was subtracted from the Profit and Loss income statement as an expense, but was not a cash expense so we add it back to the Cash Flow.

Change in Accounts Payable - Accounts Payable are bills waiting to be paid. An increase in Accounts Payable produces cash, because it is expenses that you subtracted from income but haven't paid. A decrease in Accounts Payable absorbs cash.

Current Borrowing (repayment) - This is a simple assumption. Simulate borrowing money as short-term loans by typing a positive number here. This will increase your cash on hand.

Increase (decrease) Other liabilities - A simple assumption. Simulate loans, such as from founders, accrued taxes (taxes owed but not paid yet), etc., by typing a positive number here.

Long-Term Borrowing (repayment) - A simple assumption. Simulate borrowing money as Long-Term loans by typing a positive number here. This will increase your cash on hand.

Capital Input - A simple assumption. New capital will increase your cash, and will also increase the total amount of Paid-in Capital in the equity section of the Balance Sheet.

Subtotal - Adds the rows above that normally (when they are positive numbers) produce cash.

Less: - The next block of rows includes concepts that, when they are positive number's, absorb cash.

Change in Accounts Receivable - [For companies with Sales on Credit instead of Cash-Only.] This very important number is calculated from your assumed Accounts Receivable (money owed to you) balance in the Balance Sheet. An increase in Accounts Receivable is a decrease in cash. Money that is owed to you absorbs cash because it was included in sales, and therefore had an impact on income, but was not received yet as real money.

Change in Inventory - [Doesn't show for Service companies.] This number is calculated from your Inventory balance in the Balance Sheet. An increase in inventory costs money, and a decrease in inventory produces money. The Inventory balance is calculated from your Total Cost of Goods sold (in the Profit and Loss table) and Inventory Turnover (in the General Assumptions table).

Change in Other Short-Term Assets - A simple assumption. Include securities, tax credits accrued, certain kinds of equipment, etc. An increase in these assets costs cash.

Capital Expenditure - A simple assumption. Spending on Capital Assets (also called plant and equipment, or Fixed Assets) costs money but it also increases the balance of Capital Assets in the Balance Sheet.

Dividends - A simple assumption. Money paid out as dividends does not affect profits in the Profit and Loss table, but does absorb cash. It also decreases the sum of Retained Earnings in the Balance Sheet.

Subtotal - This row sums those items that normally, when positive, absorb cash.

Net Cash Flow - This is the projected change in cash position, an increase or decrease in cash balance. It calculates Cash Flow by subtracting the subtotal of items that normally absorb cash from the subtotal of items that normally produce cash.

Cash balance - The Cash Balance is money on hand and in checking accounts. It is very important to keep the Cash Balance positive at all times. This row shows as a convenience, so you can keep it as a positive amount while you make changes in your Cash Flow.

Balance Sheet

Assest

	Starting balances	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUN**
Short-term Assets:							
Cash							
Accounts Receivable							
Inventory							
Other Short-term Assets							
Total Short-term Assets							
Long-Term Assets:							
Capital Assets							
Accumulated Depreciation							
Total Long-term Assets							
Total Assets							

Liabilites and Capital

Accounts Payable							
Short-term Notes							
Other Short-term Liabilities							
Subtotal Short-term Liabilities							
Long-term Liabilities							
Total Liabilties							
Paid in Capital							
Retained Earnings							
Earnings							
Total Capital							
Total Liabilities and Capital							
Net Worth							

Balance Sheet

Assest

	JUL	AUG	SEP	OCT	NOV	DEC
Short-term Assets:						
Cash						
Accounts Receivable						
Inventory						
Other Short-term Assets						
Total Short-term Assets						
Long-Term Assets:						
Capital Assets						
Accumulated Depreciation						
Total Long-term Assets						
Total Assets						

Liabilites and Capital

Accounts Payable						
Short-term Notes						
Other Short-term Liabilities						
Subtotal Short-term Liabilities						
Long-term Liabilities						
Total Liabilties						
Paid in Capital						
Retained Earnings						
Earnings						
Total Capital						
Total Liabilities and Capital						
Net Worth						

Balance Sheet

Assets - A header row.

Short-Term Assets - A header row.

Cash - The starting balance of Cash comes from either the Start-up table (for start-up companies) or the Past Performance table (for on-going companies). The rest of the balances in this row are calculated by adding (or subtracting) the month's Net Cash Flow (in the Cash Flow table) from the previous month's Cash Balance.

Accounts Receivable - [Only for companies with Sales on Credit, not Cash-Only companies.] Accounts Receivable are debts owed to your company, usually from Sales on Credit.
The Accounts Receivable starting balance comes from the Past Performance table (for ongoing companies), or from the Start-up table (for new companies).

> The formula used for the first three months is: =(Collection days * Sales on credit * 12)/365. From the fourth month on, the uses the previous month's Accounts Receivables balance and the Collection Days assumption, taking an appropriate percentage -- determined by the Collection Days assumption -- of each previous month's Accounts Receivable balance. The starting balance of Accounts Receivable does not affect the estimate. If the estimate doesn't work for your company, you can override it with the Input Balances option in the Plan Options screen, and type in your own formula.

Inventory - [Except for service companies, which have no inventory.] Your starting inventory comes from either the Past Performance table or the Start-up table. The other columns in the year are calculated from your assumptions about Inventory Turnover and Cost of Sales (taken from the General Assumptions table).

Other Short-Term Assets - The starting value comes from either the Past Performance table or the Start-up table. The rest of the row is calculated as this period's balance is equal to last period's balance in the previous column, plus the Change in Short-Term Assets from the Cash Flow table.

Total Short-Term Assets - This row sums Short-Term Assets (Cash, Accounts Receivable, Inventory, Other Short-Term Assets) listed above.

Long-Term Assets - A sub-title row.

Capital Assets - This row might easily be renamed Long-Term Assets, or Fixed Assets, or plant and equipment. The starting balance comes from either the Past Performance table or the Start-up table. The balance for each succeeding month is the same as the previous month plus the assumed increase or decrease in the Capital Expenditure in the Cash Flow table.

Accumulated Depreciation - The starting balance comes from either the Past Performance table or the Start-up table. The rest is calculated using Accumulated Depreciation from the Balance Sheet. Each month's accumulated balance is the same as last month's balance plus this month's depreciation.

Total Long-Term Assets - This row subtracts Accumulated Depreciation from Capital Assets.

Total Assets - This row adds Short-Term Notes and Total Long-Term Assets.

Liabilities and Capital - A sub-title row.

Accounts Payable - This is the sum of bills to be paid as part of the normal course of business. The starting balance comes from either the Past Performance table or the Start-up table. The rest of the row is calculated from your assumptions about Payment Days (from the General Assumptions table) and new entries into Accounts Payable.

Short-Term Notes - This reflects the starting balance from the Past Performance table or the Start-up table, as well as additional borrowing (or payments) listed in the Cash Flow table as Current Borrowing (repayment).

Other Short-Term Liabilities - These are other debts that don't cause interest expenses, such as accrued taxes. The starting balance comes from either the Past Performance table or Start-up table, and the rest of the balances are calculated using the Increase/Decrease Other Liabilities row in the Cash Flow table.

Subtotal Short-Term Liabilities - This row adds the Accounts Payable, Short-Term Notes, and Other Short-Term Liabilities listed above.

Long-Term Liabilities - This row is the same as Long-Term Loans. Its starting balance comes from either the Past Performance table or Start-up table, and the month-by-month balance is calculated using the Long-Term Borrowing (repayment) entries in the Cash Flow table.

Total Liabilities - This is the sum of Short-Term Liabilities and Long-Term Liabilities.

Paid-in Capital - The starting capital comes from either the Past Performance table or the Start-up table. Increases in capital come from the Capital Input row in the Cash Flow table. Decreases in capital affect the Retained Earnings, not the Paid-in Capital row.

Retained Earnings - Starting retained earnings are calculated as a plug to make sure that capital and liabilities are exactly equal to total assets (This comes from either the Past Performance table or the Start-up table). It is calculated by taking the Total Assets and subtracting Liabilities, Paid-in Capital, and Earnings. In the rest of the plan, Retained Earnings are equal to past Retained Earnings plus new earnings, less Dividends (entered in the Cash Flow table).

Earnings - The starting balance of Earnings comes from either the Past Performance table or the Start-up table. t is equal to the Net Income of the previous accounting period. In the rest of the row, Earnings are equal to the Net Profit at the bottom of the Profit and Loss table.

Total Capital - This row calculates the sum of Paid-in Capital, Retained Earnings, and Earnings. Total Capital is also equal to Net Worth, which is calculated as Total Assets minus Total Liabilities.

Total Liabilities and Capital - The sum of Total Liabilities and Total Capital. This should always be equal to Total Assets.

Net Worth - This is the same as Total Capital and the same as Assets minus Liabilities. It serves as a check line.