Your Road Map to Success
How to Write a Winning Business Plan
ABOUT OUR SPONSOR MICROSOFT®...

At Microsoft, our mission is to help people and businesses throughout the world realize their full potential. That’s why Microsoft created the Startup Center—to enable entrepreneurs to realize their full potential. In the Microsoft Startup Center, you'll find the resources you need to get your business up and running. You'll find practical how-to advice alongside special offers designed for new businesses from our partners. We know you have a lot of work to get done, and we hope we make startup simple.

Get started now at www.microsoft.com/startupcenter.
# TABLE OF CONTENTS

Intro: Why Everyone Needs a Business Plan

# 1: **SUM IT UP**  
Why executive summaries are the most important part of your plan.................................8

# 2: **COMPANY OVERVIEW**  
Target your market.............................................. 14

# 3: **PRODUCTS AND SERVICES**  
What are you selling?.......................................... 18

# 4: **FIELD NOTES**  
Understanding and explaining your industry... 24

# 5: **MARKETING SMARTS**  
A marketing strategy primer.................................28

# 6: **COMPETITIVE ANALYSIS**  
Identifying competitors........................................34

# 7: **TEAMWORK**  
Who’s who on your team................................... 38

# 8: **OPERATIONS**  
The inner workings of your business.................... 44

# 9: **MONEY GAME**  
Explaining the financials.................................... 48

# 10: **EXTRA, EXTRA**  
Deciding what goes in your plan’s appendices.62

# 11: **BUSINESS PLAN RESOURCES**  
Extra tools to get you started..............................66

©2007 Entrepreneur Media Inc. All rights reserved.
THE TRUTH IS THAT MANY SUCCESSFUL BUSINESSES WERE STARTED WITHOUT BUSINESS PLANS. In fact, the phenomenally successful Martha Stewart told us at *Entrepreneur* that she never wrote a plan for any of her businesses. Now, while that may be fine for the likes of Martha, it's generally not a good idea. If you're going to start a business, the smartest approach is to write a business plan. Now don't worry—the process is not as onerous as you might think. After reading *Road Map to Success*, you'll know precisely what you need to do to write a winning business plan.

So what exactly is a business plan? It's simply a written description of your business's future—a document that tells what you plan to do and how you plan to do it. Business plans can help perform a number of tasks for those who write and read them. Perhaps the most important use of a business plan is for you, the entrepreneur, to document your vision and your strategies. Think of your business plan as a playbook of sorts, where you lay out your
plays for the upcoming year. But it is a living document, one that needs to be consulted—and updated—often.

All entrepreneurs should write a business plan, but if you are trying to raise investment capital, a written plan that conveys your vision to potential investors is a must. Business plans may also be used to attract key employees, prospect for new business and deal with suppliers and vendors.

Having said that, there are some generally accepted conventions about what a full-grown business plan should include and how it should be presented. Your plan should cover all the important matters that contribute to making a business a success. These generally include:

- Your basic business concept
- Your strategy and how you plan to implement it
- Your products and services and their competitive advantages
- The markets you’ll pursue
- The background of your management team and key employees
- Your financial situation, including your sales projections, expenses and financing needs

Your business plan needs to be written in plain English—the plainer the better. You’ll also need to include a lot of numbers for budgets and other financial reports. Tables, graphs, drawings and photographs are also not uncommon.

A business plan is a place to stick to facts instead of feelings, projections instead of hopes, and realistic expectations of profit instead of passion. Keep this in mind while writing your plan and you’ll have a better chance of injecting it with perhaps the most important component of all: credibility.

How Long Should It Be?

A typical business plan runs 15 to 20 pages, but some can be as long as 100 pages, depending on the complexity of the business. If you have a simple concept, try to express it in as few words as possible. On the other hand, if you are proposing a new kind of business or even a new industry, it may require quite a bit of explanation to get the message across.

The purpose of your plan also determines its length. If you want to use your plan to seek millions of dollars in seed capital to start a risky venture, you may have to do a lot of explaining and convincing. If you’re just going to use your plan for internal purposes to manage an ongoing business, a much more abbreviated version is fine.

When Should I Write It?

Now is as good a time as any. A business plan is a great way to explore the feasibility of a new business without actually having to start it. A good plan can help you see serious flaws in your concept. You may uncover tough competition while researching the market, or you
may find that your financial projections simply aren't realistic.

If you intend to seek financing, finish your business plan before approaching investors. Bankers, venture capitalists, angel investors and other financiers won't provide money without seeing a plan. Other investors, like friends and family, may not require a business plan, but they deserve one. Even if you're funding the business yourself, you owe it to yourself to plan how you'll expend the resources you're committing to the venture.

And remember, writing a business plan is not a one-time exercise: A business plan should be rewritten or revised regularly to get the maximum benefit from it.
Chapter 1:
SUM IT UP

Why executive summaries are the most important part of your plan

A N EXECUTIVE SUMMARY IS A ONE- OR TWO-PAGE LOOK AT THE KEY ELEMENTS OF YOUR WHOLE PLAN. Think of it as an expanded table of contents. In it you should include your mission and vision statements, a brief summary of your goals and key strategies, a quick look at your company and its organization, and highlights of your financial status and needs.
The Summary Is the Most Critical Part

Labor over your summary. Polish it. Refine it. Ask friends and colleagues to look at it, and listen to their input. If your plan doesn't get the response you want when you start circulating it, suspect a flaw in the summary. The executive summary performs a host of jobs. It should briefly hit the high points of your plan and point readers with questions to the full-length sections of your plan where they can get answers. The point is to ease the task of reading the plan by presenting an interesting and compelling account of your company. Your goal is to get an investor who's scanning your summary enthralled with your concept and excited about the opportunity to participate.

Attract Readers

Most of your business plan should be fairly dry. It’s inappropriate to use lots of exclamation points or incandescent ink. However, the rules are a little looser in the executive summary. Here you’re expected to put on something of a show to try and entice readers into the rest of your plan. You can even use a narrative style here to recount the history of your company as if it were a thrilling saga. In fact, telling a great story is one of the best ways to fulfill the central function of the summary: attracting readers.

If you do tell a story in the summary, give it a happy ending. While it’s your duty in your plan to fully disclose to investors any significant risk factors, you can save that for later in the plan. The summary is the place to put your best foot forward—to talk up the upside and downplay the downside. As always, accentuating the positive doesn’t mean exaggerating or lying. If there is a really important, unusual risk factor in your plan—for example, if one specific, big customer has to make a huge order or the whole thing's kaput—then you really should mention that in your summary. But run-of-the-mill risks like unexpected competition or customer reluctance can be ignored here.

Now’s the time to use the higher end of the market estimates and profitability scales you’ve come up with. Try to paint a convincing portrait of an opportunity so compelling that only a fool would not recognize it. However, as vital as it is to paint a favorable picture of your business, it is important to do it concisely. You will lose readers if you use too many meaningless words. Be descriptive, but be succinct.

Select Your Best Features

In the executive summary, you particularly want to summarize your strengths. That may seem obvious, but how do you know what your strengths are? And how do you select which ones to present?

Many of the answers to those two questions will depend on whom you’re presenting your plan to. For instance, if you’re talking to a banker, stress cash flow, management experience and balance-sheet strength. For a partner, the summary should emphasize organizational flexibility and prospects for future growth. A venture capitalist will want to read about very high
growth rates, plus some hint that you'll be ready to go public or sell in a few years.

Even if your best points aren't the kind of things normally included in executive summaries, try to include them here because people generally remember what they hear first. In the executive summary, the idea is to focus on your strengths and leave out the information that might distract readers from the positive, powerful image you want to portray. You can address any concerns later on in the plan. For instance, you might say that your plant nursery is “dedicated to cultivating the finest landscaping vegetation in the five-county region.” That sounds nice, so why go into a lot of detail right now about the fact that your plans require you to take on a deeply entrenched, well-regarded competitor? You can talk about that later, after the executive summary has lured readers in.

Sometimes presenting your best features is a matter of not mentioning your weak points until later in the plan. If, for instance, you have a great idea for a product but no idea where you'll have it manufactured, don't mention that in the executive summary—although of course you have to bring it up later in your plan.

Following are some of the areas you'll want to highlight in your executive summary.

**Company Description**

If your company is complex, you'll need a separate section with a “Company Description” heading to adequately describe your many product lines, locations, services, etc. However, in most cases, you can just briefly describe your company (a few sentences will do). Here are some samples:

- John's Handball Hut is the Simi Valley's leading purveyor of handball equipment and clothing.
- Boxes Boxes Boxes Inc. will provide the people of the San Jose metropolitan area with a comprehensive source for packing materials, containers and other supplies for the do-it-yourself move.
- Johnny AppleCD buys, sells and trades used compact disc musical recordings through our five locations on the north and south side of town.

**Legal Structure**

If your firm isn't complicated in the way it splits up its ownership, responsibility, authority and liability, you can describe your legal structure in a sentence or two buried in the summary. If your business is a partnership, you need to explain the basic terms of your partnership so readers can understand who's responsible for what.

You might choose to be a C corporation, an S corporation or an LLC. One of the benefits of a corporation is that it will survive your death. Lenders prefer that security to a proprietorship, whose assets and debts simply become part of your estate when you die.
History and Corporate Milestones

How did your business get where it is today? Where did you get the idea for it? Business plan readers want to hear about your business accomplishments, so don’t disappoint them. If you have enough of a history to have accomplishments, provide a short list of those or a timeline to help readers get a quick feel for the milestones you’ve achieved. These include things like the first day you opened for business, the month you hired your first employee, the quarter you passed 10 employees, the day you opened your second location, the date a patent or trademark was applied for and granted, etc.

This is a good opportunity to show the human side of your company. For instance, you may want to include a photo of your first annual meeting, or employees toasting one another to celebrate the production of your 1,000th unit. Even in a business plan, there’s nothing wrong with reminding potential investors that there are people behind the pages.

Financial milestones are naturally interesting to investors, so make sure you include these as well. Common financial milestones include the day you made your first sale, the month you first showed positive cash flow, and your first profitable quarter and year. Achievements relating to sales are especially popular.

Summarize Your Goals and Strategies

It usually takes most businesses several steps to get where they want to go. Secondary and tertiary goals may lie between you and your ultimate goal. It’s important to tell plan readers about these—breaking long-term goals into short-term and intermediate-term goals shows that you’ve thought things out.

Then you need to make it clear that you’ve already selected a strategy (or strategies) for implementing your plan and achieving your goals. Describe these strategies, but don’t be dogmatic. Flexibility, paradoxically, is also considered a virtue. But make sure plan readers know that you have a plan to attack the market.

Most businesses attack the market in one of three ways. Companies try to either (1) be the low-cost producer, (2) differentiate themselves somehow in the market, or (3) become a niche player.

Here’s a quick look at the three basic strategies:

1. The low-cost producer strategy works best in markets where customers are highly price-sensitive. Low-cost strategies are often difficult for startups or small businesses to follow because the economies of scale possessed by larger competitors automatically put them at a handicap.

2. Differentiate your product from everything else—become the biggest, best, bluest, oldest or newest—and you may be able to charge more, have more loyal customers and discourage competitors all at the same time. You can differentiate by adding features or by cleverly promoting your product so that it merely seems different somehow. Take care to differentiate
the important features that will sway customers, however, or your efforts to follow a strategy of differentiation may be in vain.

3. Niche marketing is the realm of small companies. Surviving and prospering in markets too small to attract competitors is one of the things entrepreneurs can do far better than big companies can. Focus your company by creating a product or service that closely fits the needs of a small group of customers. The beauty of selling to niches is that you can find plenty of customers to satisfy without ever attracting the attention of bigger rivals. On the other hand, if your market grows big enough, you may get clobbered.

Mission Statement

A mission statement is a tool used for covering up stains on wallpaper—oops! The fact is, many mission statements are written, framed, hung and forgotten. But they do have a real use: to state what you’re about and what makes you different from everybody else in your field. For more on mission statements, see chapter 2.

Explain How You’ll Use the Financing

This is the big one. You need to quickly explain how you’ll use the proceeds of any financing you seek. Basically, tell the reader exactly why you need the money and how you plan to use it. It’s not necessary to get into too much detail here. You don’t have to justify every penny and wind up asking for a loan of $23,558.36 because that’s the exact price of everything you need. For example, it’s perfectly OK to have a catch-all category like “other business uses” alongside entries for “new pizza oven” and “three months’ rent.”

Round your asked-for number up from minimum needs, and put what’s left over into some kind of “miscellaneous” grab bag. You’ll almost certainly need it for something unexpected, and most plan readers know that.

Using Money to Make Money

The best use of somebody else’s money is to buy or build something that will make more money, for both you and your investor. No matter who your investor is, you’ll look better if, in the summary, you can describe a use for borrowed or invested funds that will directly help pay back the provider.

As the business owner, you have considerable discretion about what any given dollar is spent on. So make sure that when accounting for how you’ll use funds, you don’t apply borrowed money to, say, your salary or perks. Use operating income for those purposes. Investors like to feel as though they’ve purchased production tools, not country club memberships.

To that end, if you’re in manufacturing, allocate invested funds to purchasing important equipment—the bigger the better. If you’re in retail, use the cash for store fixtures or inven-
tory. If you have a service company, direct the infusion to a new marketing program that promises to boost sales.

Who Owns What

You need to spell out who owns what. If you have many equity investors and a pile of creditors, this can get pretty complicated. For the summary section of your plan, a basic description such as “Ownership of the company will be divided so that each of the four original partners owns 25 percent” will suffice. If you have to detail exactly what any equity investor will get, do it later. For now, you just want to give people an idea of how the ownership is divided.

Extract the Essence

The key to the executive summary is to pick out the best parts of every section of your plan. In other words, you want to extract the essence. Instead of describing everyone in your company, describe only your key managers. Don’t talk about all your products—just mention the major ones, or discuss only product lines instead of individual products. And when you talk about your company’s purpose and mission, stick to the highlights. You have plenty of pages coming up where you can get into the minutiae. Remember, the executive summary is the first thing people read, so make sure it’s concise but interesting.
START THE BUSINESS DESCRIPTION SECTION WITH A SHORT DESCRIPTION OF YOUR INDUSTRY, INCLUDING THE PRESENT OUTLOOK AND FUTURE POSSIBILITIES. You should also provide information on the various markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base your observations on reliable data and be sure to footnote sources of information where appropriate. This is especially important if you’re seeking funding; investors want to know that your data is reliable. They won’t risk money on assumptions or conjecture.
When describing your business, the first thing to concentrate on is its structure. That means the type of operation: wholesale, retail, food service, manufacturing, or service-oriented. State this right away in the description, as well as whether the business is new or already established.

In addition, reiterate your legal structure. Detail whether the business is a sole proprietorship, partnership, or corporation, list its principals, and state what each brings to the business.

Also mention whom you will sell to (your target market), how the product will be distributed, and your business’ support systems. This support may come in the form of advertising, promotions and customer service.

What’s Your Mission?

Here’s where you go into more depth about your mission statement and corporate vision. Good mission statements should get daily exposure to employees, customers and others. But they should be explained in your business plan to help investors and other interested parties understand what makes your company special. A mission statement should be a clearly written sentence or two that tells what you sell and to whom, and why they buy from you. It may also summarize your goals and objectives. Here are some examples:

- River City Roadsters buys, restores and resells classic American cars from the 1950s and 1960s to antique auto buffs throughout Central Missouri.
- Captain Curio is the Jersey Shore’s leading antique store, catering to high-quality interior decorators and collectors across the tri-state area.
- August Appleton, Esq., provides low-cost legal services to personal-injury, workers’ compensation and age-discrimination plaintiffs in Houston’s Fifth Ward.

A vision statement differs from a mission statement in the way that a man’s reach exceeds his grasp. That is to say, a mission statement should describe the goals and objectives you could reasonably expect to accomplish. A small bookstore whose mission statement included the goal of “putting Amazon.com out of business” would be looked upon as foolishly naive.

In a vision statement, however, those sorts of grandiose, galactic-scale images are perfectly appropriate. When you “vision”—to borrow the management consultant’s trick of turning nouns into verbs—you imagine the loftiest heights you could scale, not the next step or several steps up the ladder.

Some argue that vision statements don’t belong in a business plan, but many investors deeply respect visionaty entrepreneurs. So if you feel you have a compelling vision, there’s no reason not to share it.

What’s Your Business?

Once you’ve described the business, you need to describe the products or services you intend to market. The product description statement should be complete enough so the read-
er has a clear idea of your intentions. This might mean discussing the product's application and end uses. You may want to emphasize any unique features or variations from concepts that can be typically found in the industry.

In fact, the investor will be looking for any proprietary information that will set your concept apart from the crowd, which is known as the unique selling proposition, or USP (more on this in chapter 3). Almost every business has one, whether it's a patented product or a unique marketing/promotional strategy like Domino's Pizza's 30-minute-money-back guarantee.

Be specific in showing how you will give your business a competitive edge. For example, your business will be better because you will supply a full line of products, unlike competitor A, which only sells a few products. You're going to provide service after the sale; competitor B doesn't support anything it sells. Your merchandise will be of higher quality. You'll offer a money-back guarantee. You'll provide parts and labor for up to 90 days after the sale. Whatever you're offering, let readers know. (Go to chapter 6 for more on explaining your competitive edge.)

Now it's time to be a classic capitalist and ask yourself, “How can I turn a buck? And why do I think I can make a profit that way?” Once you can answer that question for yourself, you'll be able to convey it to others in this section. You don't have to write 25 pages on why your business will be profitable. Just explain the factors you think will make it successful (e.g., it's a well-organized business, it will have state-of-the-art equipment, its location is exceptional, the market is ready for it, it's a dynamite product at a fair price, etc.).

If you're using your business plan as a document for financial purposes, explain why the added equity or debt money is going to make your business more profitable. Show how you will expand your business or be able to create something by using that money. How will the money help your business grow? Explain why your business is going to be profitable. A potential lender wants to know how successful you're going to be in this particular business.

Factors that support your claims can be broad-brushed here; they will be detailed later. Talk about which suppliers or experts you've spoken to about your business and how they responded to your idea. Readers may even ask you to clarify your choice of location or your reasons for selling this particular product.

The business description can run from a few paragraphs to a few pages depending on the complexity of your plan. If your plan is not too complicated, keep your business description short, describe the industry in one paragraph, the product in another, and the business and its success factors in three or four paragraphs that end the statement. While you may need to have a lengthy business description in some cases, a short statement may convey the required information in a much more effective manner. It doesn't need to hold the reader's attention for an extended period since the investor is likely reading other plans as well. If the business description is long and drawn out, you will lose the reader's attention—and possibly any chance of receiving the funding necessary for your project.
EVERY BUSINESS HAS SOMETHING TO SELL, AND THE PRODUCT SECTION IS WHERE YOU TELL READERS WHAT IT IS YOU’RE SELLING. This is clearly a very important section of your plan (for simplicity’s sake, we’ll use the term product to refer to both products and services, unless otherwise indicated). No matter how knowledgeable a team you’ve assembled or how strong your financial underpinnings are, unless you have something to sell, or at least plans to develop it, you don’t really have a business. While many businesses are founded to develop new, never-before-seen products, you still need to describe the planned-for product in your plan.
What Is Your Product or Service?

It's easy to talk eloquently about a product you believe in. In fact, some highly marketing-oriented businesses are built as much on the ability to wax rhapsodic about a product as they are on the ability to buy or source compelling products to begin with. (Remember the J. Peterman catalog?)

It's very important that in your plan, you build a convincing case for the product or service upon which your business will be built. The product description section is where you do that. Here, you should describe your product in terms of several characteristics, including cost, features, distribution, target market, competition and production concerns. It's a good idea to use charts and tables as often as makes sense to quickly convey this information.

Here are some sample product descriptions:

- **Street Beat** is a new type of portable electronic rhythm machine used to create musical backgrounds for street dances, fairs, concerts, picnics, sporting events and other outdoor productions. The product is less costly than a live rhythm section and offers better sound quality than competing systems. Its combination of features will appeal to sports promoters, fair organizers and charitable and youth organizations.

- **Troubleshooting Times** is the only monthly magazine for the nation's 6,000 owners of electronics repair shops. It provides timely news of industry trends, service product reviews and consumer product service tips written in a language service shop owners can understand.

- **GOT (Get Organized Today)** provides services to consumers and businesses. The company connects people with experts who have extensive experience in organizing and decluttering homes and offices.

A business plan product description has to be less image-conscious than an advertising brochure but more appealing than a simple spec sheet. You don't want to give the appearance of trying to snow readers with a glitzy product sales pitch. On the other hand, you want to give them a sampling of how you are going to position and promote your product.

A business plan product description is not just concerned with consumer appeal. Issues of manufacturability are of paramount concern to plan readers, who may have seen any number of plans describing exciting products that, in the end, proved impossible to design and build economically. So, if your product has special features that will make it easy to build and distribute, say so.

Unique Selling Proposition, or USP

A product description is more than a mere listing of product features. You have to highlight your product's most compelling characteristics, such as low cost or uniquely high quality, that will make it stand out in the marketplace and attract buyers willing to pay your price. Even the simplest product has a number of unique selling propositions, or USPs. Many common USPs are seemingly contradictory. How can both mass popularity and exclusive distribution...
be strengths? The answers is that it depends on your market and what its buyers want.

**Common USPs**

**Features:** If your product is faster, bigger, smaller or comes in more colors, sizes and configurations than others on the market, you have a powerful selling strength. In fact, if you can’t offer some combination of features that sets you apart, you’ll have difficulty writing a convincing plan.

**Price:** Everybody wants to pay less for a product. If you can position yourself as the low-cost provider (and make money at those rock-bottom prices), you have a powerful selling advantage. Conversely, high-priced products may appeal to many markets for their sheer snob value. Several years ago, an Amsterdam designer came out with a perfume that came in a sealed bottle that could not be opened. This “virtual perfume” was priced the same as Chanel No. 5 and found ready buyers.

**Availability:** If you can get your product into a major retailer such as Target or Wal-Mart, you’ll create a powerful selling point by piggybacking on their redoubtable distribution powers.

**Service:** Excellent service is perhaps the most important trait you can add to a plain-vanilla product to make it compelling. Many people look not for the best value or even the best product, but simply the one they can buy with the least hassle.

**Financing:** Whether you “tote the note” and guarantee credit to anyone, offer innovative leasing, do buybacks or have other financing alternatives, you’ll find that giving people different, more convenient ways to pay can be a convincing strength for your product.

**Delivery:** Nobody wants to wait for anything anymore. If you can offer overnight shipping, on-site service or 24-hour availability, it can turn an otherwise unremarkable product or service into a very attractive one.

**Reputation:** Why do people pay $10,000 for a Rolex watch that keeps the same time as a $20 Timex? The Rolex reputation is the reason. At its most extreme, reputation can literally
keep you in business.

**Training:** Training is a component of service that is becoming increasingly important in an era of high-technology products and services. For many sophisticated software products and electronic devices, a seller who can't provide training to buyers has little chance of landing any orders.

**Knowledge:** Today, your expertise and how you impart it to customers is an important part of your total offering. Retailers of auto parts, home improvement supplies and all sorts of other goods have found that simply having knowledgeable salespeople who know how to replace the water pump in an '85 Chevy can lure customers and encourage them to buy.

**Experience:** “We've been there. We've done thousands of installations like yours, and there’s no doubt we can make this one work as well.” Nothing could be more soothing to a skeptical sales prospect than to learn that the seller has vast experience at what he’s doing. If you have ample experience, make it part of your selling proposition.

**Customers:** There’s a reason Michael Jordan got millions from Nike for endorsing Air basketball shoes—and it’s not because buyers thought they could really dunk like Mike. They bought because they wanted to be like Mike, even if it was just from the ankles down. If you have prestigious customers, mention it in your marketing materials—and in your business plan.

**Other factors:** There may be many wild card factors that are either unique to a particular product or are not often used in a particular industry. These can make your product stand out. For instance, consider offering a guarantee. When consumers know they can return a faulty product for a refund or repair, they’re often more likely to buy it over otherwise superior products from competitors offering less powerful warranties.

---

**Who’s Going to Buy and Why?**

Even the best product must meet a need in the market—otherwise, it's just a curiosity, not a foundation for a business. So make sure your plan identifies your markets and potential customers and tells why they’re going to buy your product.

The first thing to do is identify the market you’re going after. Talk about your market in terms of its characteristics, its needs, and if possible, its numbers.

For example, a new Italian restaurant might say it’s targeting families on a budget that live within a 5-mile radius of its location. It might quote Census Bureau figures showing there are 12,385 such families in its service area. Or a bicycle seat manufacturer might identify its market as middle-aged, casual cyclists who find traditional bike seats uncomfortable. It may cite American College of Sports Medicine surveys, saying that sore buttocks due to uncomfortable seats is the chief complaint of recreational bicyclists.

It is important to quantify your market's size if possible. If you can point out that there are more than 6 million insulin-dependent diabetics in the United States, it will bolster your case for a new easy-to-use syringe your company has developed.
Chapter 3  PRODUCTS AND SERVICES

Liability Concerns

Liability lawsuits have changed the landscape of a number of industries, from toy manufacturers to children’s furniture retailers. If you’re going to offer a product with “lawsuit potential,” you need to address the question of legal issues in your plan. That may be as simple as including a statement to the effect that you foresee no significant liability issues arising from the sale of your product or service. If there is a liability issue, real or apparent, then acknowledge it and describe in your plan how you’ll deal with it. For instance, you may want to take note of the fact that, like all marketers of children’s bedroom furniture, you attach warning labels and disclaimers to all your products and carry a liability insurance policy.

Make sure you get an attorney’s advice on this one. A layman’s opinion on whether a product is more or less likely to generate lawsuits is not worth including in a plan.

While on the subject of liability, also deal with the question of whether you are already being sued for a product’s perceived failings, and if so, how you plan to deal with it. And while it’s often difficult to get an attorney to commit on paper to the resolution of a lawsuit, you can handle this with a sentence saying something like, “Our legal counsel advises us the plaintiff’s claims are without merit.”

Licenses and Certifications

Some paperwork is just paperwork, and some paperwork is essential. Every business must file tax returns, and most businesses must have certain licenses and certifications to do business. Your plan should take notice, however briefly, of the fact that you have received or applied for any necessary licenses and certificates. If you don’t bring it up, some readers will assume all is fine, while others may suspect the omission means you haven’t thought about it or are having trouble getting the paperwork in order.

Aside from the usual business licenses and tax forms, there are any number of certificates and notices you may need. Owners of buildings must have their elevators inspected regularly, and in some cities they must post the safety inspection record publicly. Plumbers must be licensed in many states. Even New York City hot dog vendors must be licensed by the city before they can unfurl their carts’ colorful umbrellas.

Product Description Roundup

You explore a lot of aspects of your business in the process of writing a plan. It’s easy to get confused about what’s of central importance. But the bottom line is this: A business isn’t about financing or a great location or the management team’s experience. It’s about having something to sell that people want to buy. Keep the importance of your product or service at the front of your mind, and it will help make a lot of decisions easier.
A RISING TIDE MAY NOT ALWAYS LIFT ALL BOATS, BUT IT TENDS TO. And there’s no doubt it’s a lot harder to float when the tide is ebbing. These are truisms, certainly, and they’re widely believed among the investment community. That means it’s important to include an industry analysis in your business plan.

Readers of your business plan may want to see an industry on a fast-growth track with few established competitors and great potential. Or they may be more interested in a big, if some-
what slower-growing, market, with competitors who have lost touch with the market and have left the door open for rivals.

Whatever the facts are, you'll need to support them with a snapshot analysis of the state of your industry and any trends taking place. This can't be off-the-cuff thinking—you'll need to buttress your opinions with market research that identifies competitors, their weaknesses and strengths, and barriers to entry. Finally, and perhaps most important, you'll have to convincingly describe what makes you better and destined to succeed.

The State of Your Industry

In the early 1980s (and again today), all an entrepreneur needed was the word energy in the title of his or her company to draw the attention of financial backers. At other times, fields such as biotech, computer software or e-commerce have been seen as gold mines just waiting for gleeful investors. One thing you should try to do in your plan is present a case for your industry being an excellent opportunity, if not the next big thing.

You should present this information in a separate section of your plan. When preparing the “State of the Industry” section, you'll need to lift your eyes from your own company and focus on the outside world. Instead of looking at your business as a self-contained system, you'll describe the whole industry you operate in, and point to your position in that universe.

This part of your plan may take a little more legwork than other sections since you'll be pulling together information from a number of outside sources. You may also be reporting on or even conducting your own original research into industry affairs.

Market Research

Successful entrepreneurs are famed for seemingly being able to feel a market’s pulse intuitively, project trends before anyone else detects them and identify needs that even customers are hardly yet aware of. After you are famous, perhaps you can claim a similar psychic connection to the market. But for now, you'll need to buttress your claims to market insight by presenting solid research in your plan.

The goal of market research is to understand the reasons consumers will buy your product. It studies such things as consumer behavior, including how cultural, societal and personal factors influence that behavior. For instance, market research aiming to understand consumers who buy skateboards might study the cultural importance of being fit, the societal acceptability of marketing directed toward children and the effect of personal influences such as age, occupation and lifestyle in directing a skateboard purchase.

Market research is further split into two varieties: primary and secondary. Primary research studies customers directly, while secondary research studies information that others have gathered about customers. Primary research might include telephone interviews with randomly selected members of the target group, while secondary research might come from subscriber lists of magazines catering to the group. For your plan, you can use either type.
The basic questions you’ll try to answer with your market research include:

- Who are your customers? Describe them in terms of age, occupation, income, lifestyle, educational attainment, etc.
- What do they buy now? Describe their buying habits relating to your product or service, including how much they buy, their favored suppliers, the most popular features and the predominant price points.
- Why do they buy? This is the tricky one, since you have to delve into consumers’ heads. Answers will depend on the product and its uses. Cookware buyers may purchase the products that offer the most effective nonstick surfaces, or those that give the most pans in a package for a given amount of money, or those that come in the most fashionable colors.

Although some of these questions may seem very difficult to answer, you’d be surprised at the detailed information available about markets, sales figures and consumer buying motivations. The industry of selling market research is a big one, and it’s booming today. You can find companies that will sell you everything from industry studies to credit reports on individual companies. Market research is not cheap, however. Significant amounts of expertise, manpower and technology are required to develop solid research. Large companies routinely spend tens of thousands of dollars researching things they decide they’re not interested in. Smaller firms can’t afford to do that.

But the best market research is what you do on your own. In-house market research might take the form of original interviews with consumers, customized crunching of numbers from published sources or perhaps competitive intelligence you’ve gathered on your rivals.

But the most likely source of in-house market research is information you already have. This information will come from analyzing sales records, gathering warranty cards containing addresses and other information about purchasers, studying product return rates and customer complaint cards, and the like. You can get in-house market research data from your own files, so it’s cheaper than buying data. It’s also likely to be a lot fresher than third-party market research, and since it comes from your own operations, it will almost certainly be more precisely targeted than a packaged study.

One limitation of in-house market information is that it may not include exactly what you’re looking for. For instance, if you’d like to consider offering consumers financing for their purchases, it’s hard to tell how they’d like it since you don’t already offer it. You can get around this limitation by conducting original research—interviewing customers who enter your store, for example, or counting cars that pass the intersection where you plan to open a new location—and combining it with existing data.

Trends

Timing is everything. The best time to address a trend is at its start—or at least before it is widely recognized. If you can prepare a business that satisfies a soon-to-be-popular need, you can generate growth that is practically off the scale. (This is, by the way, the combination that venture capitalists favor most.) The problem, of course, is spotting the trends first.
There are a couple of different techniques you can use to identify trends. A trend is basically a series of occurrences that indicate a pattern. Trend analysts therefore look at past events (usually trends themselves) and project them forward. Another good way to forecast trends is by test marketing. If you’re already in business, try selling a new product in one of your stores or online and see how it does before you roll it out.

Focus groups and surveys try to catch hold of trends by asking people what’s hot. You can ask open-ended questions (“What type of portable computer would you like to see?”) or show them product samples and see how they react. This can be tricky because you’re dealing with a small group of people and extrapolating to a larger group. If your group isn’t representative of your market, your results may be misleading.

Some other ways you can try to nail a trend in advance include talking to salespeople who are in touch with customers’ needs, quizzing executives whose job is to watch the big picture, and reading a wide variety of publications, websites and blogs to try and spot connections on your own.

In most of these trend-forecasting techniques, statistics play a big role. Providing some statistics in the trends section of your plan can make it more convincing.

Barriers to Entry

If you want to become a semiconductor manufacturer, you’ll need a billion-dollar factory or two. If you want to have a TV network, you’ll need programming and affiliate stations in at least the major markets. These problems are called barriers to entry, and they exist to some extent in all industries. The barriers may be monetary, technological, distribution-or market-related, or simply related to the ownership of prime real estate. An important part of analyzing your market is determining what the barriers to entry are and how high they stretch. If the barriers are high, as is the case with automobile manufacturing, then you can be assured that new competitors are likely to be slow springing up. If they’re low, as is the case with, say, screenwriting, where anybody with a computer can take a shot, then you know there will be an endless supply of competition lured by the low investment and chance at easy bucks.

Be alert for innovative competitors while writing the section of your plan where you analyze barriers to entry. It may save you from a disastrous error, and will certainly demonstrate to investors that you’ve thought your plan through and are not jumping to conclusions.

Overall Outlook

As you consider either growing or starting a business, it’s important to be aware of whether the tide is rising or ebbing. You may be confident that you can swim against the flow. Or you may be looking ahead to a time when the direction of the tide will change and be preparing your business to take advantage of that change. Either way, you’ll have to convince somebody reading your plan that you know how to read the tide charts, and you’ll have to use their power to help you reach your destination.
Chapter 5: MARKETING SMARTS
A marketing strategy primer

WHAT ARE YOU SELLING? How are you selling it? Why would anybody want to buy from you? These are the kinds of questions that run through the minds of people reading business plans. The marketing section of your plan is where you answer them.

Your marketing strategy is a very important part of your plan. Lack of sales is a primary reason businesses fail. The marketing section is the place where you explain how you are going to avoid that fate. Start by describing your strategy in terms of the traditional four P’s of marketing: product, price, place and promotion.
Defining Your Product

Product, the first of the four P’s, refers to the features and benefits of what you have to sell (we're still using that term as shorthand for products and services). You might want to update your product definition and include whatever ancillary services are bundled into your offering.

There are a number of issues you need to address in the product section. First, break out the core product from the actual product. What does this mean? The core product is the nominal product. Say you’re selling snow cones. A snow cone is your core product. But your actual product includes napkins, an air-conditioned seating area, parking spaces for customers and so forth. Similarly, a computer store nominally sells computers, but it also provides expert advice from salespeople, a service department for customers, opportunities to comparison shop, software and so on.

It’s important to understand that the core product isn’t the end of the story. Sometimes the things added to it are more valuable than the core product itself. In addition to fully defining your product, you may need to address other issues in your marketing plan. For instance, you may need to describe the process you're using for product development. Tell how you come up with ideas, screen them, test them, produce prototypes, etc.

You might also need to discuss the life cycle of the product you’re selling. This could be crucial in the case of both quickly consumed products such as corn chips and in long-lived items like household appliances. You can market steadily to corn-chip buyers in the hopes they’ll purchase from you frequently, but it makes less sense to bombard people with offers to sell refrigerators when they only need one every 10 or 20 years. Understanding the product’s life cycle has a powerful effect on your marketing plan.

Other aspects of the product section may include a branding strategy and a plan for follow-up products or line extensions.

The Price Club

One of the most important decisions you have to make when preparing a business plan is what price to charge for what you're selling. Pricing determines many things, from your profit margin per unit to your overall sales volume. It strongly influences decisions in other areas, such as the level of service you will provide and how much you will spend on marketing. Pricing has to be a process you conduct concurrently with other tasks, including estimating sales volume, determining market trends and calculating costs. There are two basic methods you can use for selecting a price.

One way is to figure out what it costs you altogether to produce or obtain your product or service, then add in a suitable profit margin. This markup method is easy, straightforward and, assuming you can sell sufficient units at the suggested price, guarantees a profitable operation. It's widely used by retailers in particular. To use it effectively, you’ll need to know your costs as well as standard markups applied by others in your industry.

The competitive pricing approach is more concerned with the competition and the cus-
omer than with your own internal processes. It looks at what your rivals in the marketplace charge, plus what customers are likely to be willing to pay, and sets prices accordingly. The second step of this process is tougher—it forces you to adjust your own costs to yield a profit. Competitive pricing is effective at maintaining market appeal and ensuring a long life for your company, assuming you can sell your goods at a profit.

Finding Your Place

Place refers to channels of distribution, or how you will get your product where people can buy it. Conventional distribution systems have three steps: producer, wholesaler and retailer. You may occupy or sell to members of any one of these steps. Some companies with vertically integrated distribution, such as Dell Computer, occupy all the steps themselves. Others, like franchisors, are parts of systems that orchestrate the activities among all channels. Still others, such as independent retailers, operate in one channel only.

Distribution often is treated as an afterthought by many manufacturers. However, your distribution scheme is of critical importance. Say you sell a mass-market consumer good such as a toy. Whether you plan effectively to get your product onto shelves in the major grocery, drug and discount store chains may make all the difference between success and failure.

Distribution Concerns

There are three main issues in deciding on a placement strategy: coverage, control and cost. Cost, it goes without saying, is an important part of any business decision, including distribution concerns. The other two issues, however, are unique to distribution, and they’re trickier.

Coverage refers to the need to cover a large or small market. If you’re selling laundry soap, you may feel the need to offer it to virtually every household in America. This will steer you toward a conventional distribution scheme that runs from your soap factory to a group of wholesalers serving particular regions or industries to retailers such as grocery stores and finally to consumers.

What if you are reaching out to only a small group, such as chief information officers of Fortune 500 companies? In this case, the conventional, rather lengthy distribution scheme is clearly inappropriate. You’re likely to do better by selling directly to the CIOs through a company sales staff, sales representatives, or perhaps an agreement with another company that already has sales access to the CIOs. In both these cases, coverage has a lot of influence on the design of your distribution system.

Control is important for many products. Armani suits aren’t sold at Target because Armani works hard to control its distribution, keeping the costly apparel in high-end stores where its lofty prices can be sustained. Armani’s need for control means that it deals only with distributors who sell to designer boutiques. Many manufacturers want similar control for reasons of pricing, after-sale service, image and so forth. If you need control over your distribution, it will powerfully influence placement decisions.
Location Considerations

For retailers, the big place question is about real estate. Location often determines success or failure for many retailers. That doesn’t necessarily mean the same location will work for all retailers. A low-rent but high-traffic space near a housing project may be a poor choice for a retailer stocking those Armani suits but will work fine for a fast-food restaurant or convenience store. Your location decision needs to be tied to your market, your product and your price.

Two of the most common tools for picking location are census data and traffic surveys. Retailers relying on walk-in traffic need a location with lots of people walking or driving by. You can usually get traffic data from local economic development agencies, or simply sit down with a clipboard and pencil and count people or cars yourself. Census data describing the number of households, their income levels and other information about nearby neighborhoods can be obtained from the same sources. An animal clinic, for example, will want to locate in an area with a lot of pet-owning households. This is the type of information you can get from census surveys.

Promotion Notion

Promotion, in this context, is virtually everything you do to get your company and your product in front of consumers. Promotional activities include choosing your company name, going to trade shows, buying ads, making telemarketing calls, sending direct mail, using billboards, arranging co-op marketing, offering free giveaways and more. Not all promotions are suitable for all products, of course, so your plan should select the ones that will work best for you, explain why they were chosen, and tell how you’re going to use them.

Promotion aims to inform, persuade and remind customers to buy your products. It uses a mix that includes four elements: advertising, personal selling, sales promotion and publicity or public relations.

Advertising

Advertising is what most people think of when they think of promotion. Most ads are distributed through newspapers, magazines, broadcast media, direct mail, outdoor media (billboards) and the internet. Other ways to get your message across come in the form of catalogs and specialty items such as pens, matchbooks, calendars and the like.

One of the first things to determine about your ad campaign is your specific goal. Are you advertising to raise your corporate profile, to improve a tarnished image, or simply to generate foot traffic? Whatever you’re after, it’s important to set specific goals in terms of things like increasing revenue, unit volume growth, or inquiries. Without specific objectives, it’s hard to tell what you can afford to do and whether the campaign is living up to expectations.
Chapter 5  **MARKETING SMARTS**

Other Kinds of Promotion

Personal selling is widely used in business-to-business models, when sales cycles are long, products are complex and the dollar amounts tend to be large. They are also used, however, by Avon beauty consultants, car dealers and barkers outside taverns on Bourbon Street in New Orleans. The key to effective personal selling is recruiting and training excellent salespeople.

Sales promotion is kind of a grab bag of promotional activities that don’t fit elsewhere. If you offer free hot dogs to the first 100 people who come to your store on Saturday morning, that’s a sales promotion. This category also includes in-store displays, trade shows, off-site demonstrations and just about anything else that could increase sales and isn’t included in the other categories.

Publicity is the darling of small businesses because it lets you get major exposure at minimal cost. If you volunteer to write a gardening column for your local newspaper, it can generate significant public awareness for your plant nursery and position you as a leading expert in the field, all for the price of a few hours a week spent jotting down some thoughts on a subject you know very well already. To buy comparable exposure might cost many thousands of dollars. Press releases announcing favorable news about your company—and similar releases downplaying bad news—are also tools of publicity.

Public relations is a somewhat broader term that refers to the image you present to the public at large, government entities, shareholders and employees. You may work at PR through such tools as company newsletters, legislative lobbying efforts, your annual report and the like. Whatever you do, don’t neglect PR and publicity—there is no cheaper or more powerful tool for promotion.

Follow-Up Plan

Customers may ask, “What have you done for me lately?” But investors and others reading your business plan want to know, “What are you going to do for me tomorrow?” Any serious business plan has to address the fact that every product has a life cycle, pricing pressures change over time, promotions need to stay fresh and new distribution opportunities are opening up all the time. So the portion of your plan where you describe how you’ll continue your success is a vital one.

We’re all aware of companies that turned out to be one-hit wonders—they introduced a product or service that zoomed to stardom but failed to follow it up with another winner. In the best cases, these companies survive but fade back into obscurity. In the worst, they go out of business.

You can reduce your chances of failure by obtaining patents, registering trademarks, copyrighting slogans, and otherwise forestalling competition. Diversifying into more than one product is another good way to reduce risk. It’s a good idea to divert part of any boost in revenue to studying market trends and developing new products.

Investors, especially those contemplating long-term involvement, are alert to the risk of
backing a one-trick entrepreneur. Showing the competitive barriers you've erected and systems for developing new products is an important part of calming their fears.

There's one caveat when it comes to learning new tricks, however. Very simple concepts are the easiest to communicate, and extremely focused companies usually show the fastest growth—although not always over the long term. So in the process of reducing risk, you don't want to appear as though you've lost sight of the answers to the key questions: What are you selling? How are you selling it? And why would anybody want to buy from you?
Chances are you are not alone, even if you’re only a one-person operation. You have competition to be concerned about, and your backers will worry about that too. Even if you are in the rare position of addressing a brand-new market where no competition exists, most experienced people reading your plan will have questions about companies they suspect are your competitors. For these reasons, you should devote a special section of your plan to identifying competitors and conduct a competitive analysis.
What Makes You Better?

This is one of the most important sections of your plan. You need to convince plan readers that you offer something obviously different and better than what is already available. Sometimes this is called your distinctive competence or competitive advantage, but it could also be your company’s reason for being.

A competitive analysis is a statement of your business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strengths and weaknesses of the competitors within your market, strategies that will provide you with a distinct advantage, the barriers that can be developed to prevent competition from entering your market, and any of your competitors’ weaknesses that can be exploited within the product development cycle. Your competitive advantage may lie in areas like cost, features, service, quality, or distribution. Or it could be something totally different. The success of a retail convenience store located on an interstate highway, for instance, might depend almost entirely on how close it is to an exit ramp.

To figure out your competitive advantage, start by asking yourself:

- Why do people buy from me instead of my competitors? Think about this question in terms of product characteristics. Ask your customers why they buy from you. Ask noncustomers why they don’t. Ask suppliers, colleagues and anybody you can find.
- What makes me different and, I hope, better? The answers, carefully analyzed, should spell out your distinctive competence.

Obviously you need to identify your current and potential competition. There are two ways to do this. The first is to look at the market from the customer’s viewpoint and group all your competitors by the degree to which they contend for the buyer’s dollar. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.

Once you have grouped your competitors, you can start analyzing their strategies and identifying vulnerable areas by examining their weaknesses and strengths. Essentially, the performance of a company within a market is directly related to the possession of key assets and skills. So if you analyze the strong performers in your industry, you should be able to figure out the secrets of their success. Then look at the companies that tried but failed to succeed in the market. Why did they fail? You should emerge with a good idea of just what key assets and skills are needed for success within your industry and market segment.

Be sure your definition of competition is broad enough. If you had to name two competitors in the athletic shoe market, you’d quickly come up with Nike and Reebok. But these aren’t the only competitors in the sneaker business. They’re just the two of the main ones, and depending on the business you’re in, the other ones may be more important. If you sell soccer shoes, for instance, Adidas is a big player. And smaller firms such as New Balance and Saucony also have niches in which they are comparatively powerful.

You can develop a list of competitors by talking to customers and suppliers, checking with
industry groups and reading trade journals. But it’s not enough to simply name your competitors. You need to know how they operate and how they compete. Do your competitors stress selective, low-volume, high-margin business, or do they emphasize sales growth at any cost, taking every job that comes along, whether or not it fits any coherent scheme or offers an attractive profit? Knowing this kind of information about your competitors can help you identify their weaknesses.

Once you’ve done your competitive analysis, you will also have to create a marketing strategy that will show your planned competitive advantage. Since competitive advantages are developed from key assets and skills, you should put together a competitive strength grid. This scale lists all your major competitors or strategic groups based on their applicable assets and skills and shows how your own company fits on the scale.

To put together a competitive strength grid, list all the key assets and skills down the left margin of a piece of paper. Along the top, write down two column headers: “Weakness” and “Strength.” In each asset or skill category, place all the competitors that have weaknesses in that particular category under the weakness column, and all those that have strengths in that specific category in the strength column. After you’ve finished, you’ll be able to determine just where you stand in relation to the other firms in your industry.

Competitive advantage is not quite as important if your company is part of the beginning stages of a new industry. When interest and sales in a new field are growing fast, you can survive and prosper even if you aren’t clearly better than the rest. If, however, you plan to take market share away from established competitors in a mature industry, then distinctive competence is all-important. Without a convincing case for being very different and much better than the rest, your business plan will have a hard time swaying anybody.
The management section of your plan is where you describe who will run the company. It may be no more than a simple paragraph noting that you’ll be the only executive and describing your background. Or it may be a major section in the plan, consisting of an organizational chart describing relationships between every department and each manager in the company, plus bios of key executives.
Why Management Matters

Time and again, financiers utter some variation of the following statement: “I don’t invest in ideas; I invest in people.” While there’s some question as to whether this is the whole story—investors certainly prefer good people with good ideas to bad people with good ideas—there’s no doubt that the people who run your company will receive considerable scrutiny from investors as well as customers, suppliers and anyone else with an interest in your plan. After all, people are usually a company’s most important asset. To not adequately address this issue in a plan is a serious failing. Luckily, it’s one of the easiest parts of your plan to prepare.

Who Are Your Managers?

Identifying your managers means giving more than just their names. Plan readers want to know their qualifications to run your business. You can provide this information by describing managers in terms of the following characteristics:

**Education:** Impressive educational credentials among company managers provide a strong reason for an investor or other plan reader to feel good about your company. Use your judgment in deciding what educational background to include and how to emphasize it. If you’re starting a fine restaurant and your chef graduated at the top of her class from the Culinary Institute of America, play that front and center. If you’re starting a courier service and your partner has an anthropology degree from a little-known school, mention it but don’t make a big deal out of it.

**Employment:** You can be proud to be an entrepreneur without being ashamed of having worked for somebody else. In fact, prior work experience in a related field is something many investors look for. If you’ve spent 10 years in management in the retail men’s apparel business before opening a tuxedo outlet, an investor can feel confident that you know what you’re doing. So describe any relevant jobs you’ve had in terms of job title, years of experience, names of employers, etc. But remember, this isn’t a resume. Feel free to skim over or omit any irrelevant experience, and you don’t have to provide exact dates of employment.

**Skills:** A title is one thing; what you learn while holding it is another. In addition to pointing out that you were a district sales manager for a stereo equipment wholesaler, you should describe your responsibilities and the skills you honed while fulfilling them. For instance, note that you were responsible for hiring salespeople, planning and budgeting, working with key accounts, reporting to senior management and so on. When you mention skills that you or your management team has, it reassures an investor that you can use them at your own company.

**Accomplishments:** Dust off your plaques and whip out your calculator for this one. If one of your team members has been awarded patents, achieved record sales gains, or once opened an unbelievable number of new stores in the space of a year, now’s the time to talk about it. Don’t brag; just speak factually and remember to quantify. Say that you have 12 patents, your
sales manager had five years of 30 percent annual sales gains and you personally oversaw the grand openings of 42 stores in 11 months. Investors are looking to back impressive winners, and quantifiable results speak strongly to businesspeople of all stripes. **Personal:** Who cares about personal stuff? Isn't this business? Sure, but investors want to know who they’re dealing with in terms of the personal side too. Personal information on each member of your management team may include age, city of residence, notable charitable or community activities, and last but far from least, personal motivation for joining the company. Investors like to see vigorous, committed, involved people in the companies they back. Describing the relevant personal details of your key managers will help investors feel they know what they’re getting into.

### What Does Everyone Do?

There’s more to a job than a title. At one organization, a director might be a key staffer, while someone with the same title at another company is practically nobody. And many industries have unique job titles, such as managing editor, creative director or junior accountant level II, that have no counterparts in other industries.

So when you give your management team’s background and describe their titles, don’t stop there. Tell the reader exactly what each member of the management team will be expected to do. This is especially important in a startup, when not every position is filled from the beginning. If your marketing is going to be handled by the CFO until you get a little farther down the road, let readers know this up front.

If you do have significant holes in your management team, you’ll want to describe your plans for filling them. You may say, for example, “Marketing duties are being handled on a temporary basis by the vice president for finance. Once sales have reached the $500,000 per month level, approximately six months after startup, a dedicated vice president of marketing will be retained to fulfill that function.”

### Making Hiring Projections

In many cases, you can’t operate the business all alone. But how many hands do you need? And when do you need them? How long do you need them for? Whom exactly do you need? Making staffing projections is a tricky yet essential part of business planning.

Your decisions can make the difference between a highly profitable operation and one that’s barely scraping by.

### Adding and Retaining Key Employees

Finding and retaining employees is high on the list of entrepreneurial challenges today. And it’s made harder by the fact that key employees—the people who are smart and hard-working and unafraid to take risks—are always in great demand. They can always write their
own tickets, so you need to work hard to retain them. Bill Gates once said that Microsoft would become an unimportant company if it lost its 20 best people. So you need to address how you plan to attract and retain key employees.

Are you starting a software company? You’ll need an ace programmer or two. A gourmet restaurant? Then your executive chef becomes your key employee. An art gallery? Maybe you can pick great art, but a sales manager who knows how to close a deal will be essential. No matter what business you are in, unless you are one of the truly rare individuals who really can do it all, you are likely to find that one or more central tasks are better farmed out to a key employee.

The things that make employees want to come work for you and stay vary. That’s why it’s crucial to understand the individual needs of your key employees so that you can give them exactly what they need. Money is not always the most important motivator. Sometimes the intangible benefits make the difference.

Here are some common concerns that drive employment decisions:

**Benefits:** Paid holidays and sick leave, health insurance, and retirement plans such as 401(k) plans are among the benefits most often listed by employees as desirable.

**Compensation:** Salary, bonuses, stock options, profit sharing and auto mileage allowances are among the most important compensation issues to employees.

**Miscellaneous:** Flexible work hours and paid memberships to business groups can be hot buttons as well.

Your business plan should consider the above issues and describe the inducements you will offer key employees to encourage them to stay. Especially in a small company, an investor is likely to be very leery of a plan that appears to be based on the capabilities of a handful of employees unless the business owner has clearly given a lot of thought to keeping these important workers onboard.

**Outside Professionals**

Some of the most important people who’ll do work for you won’t work for you. Your attorney, your accountant and your insurance broker are all crucial members of your team. A good professional in one of these slots can go a long way toward helping you succeed. The same may be true, to a lesser extent, for real estate brokers, management consultants, benefits consultants, computer consultants and trainers.

Your business plan should reassure readers that you have your bases covered in these important professional positions. Readers don’t necessarily want to see an attorney on staff. It’s fine if you merely state that you retain the services of an attorney in private practice on an as-needed basis.
Chapter 7 TEAMWORK

You don't even need to name the firm you're retaining, although a prestigious name may garner you some respect. For instance, if your firm is audited by a big-name accounting/management firm instead of a local accounting shop, then play that up. Few things are more comforting to an investor than knowing that their investment will be monitored regularly and carefully by experts.

Investors invest in companies for profit. They don't just give money to people they like or admire. But it's also true that if they don't like, admire or at least respect the people running your company, they're likely to look elsewhere. The management section of your plan is where you tell them about the human side of the equation. You can't control any reader's response to that, but you owe it to them and to yourself to provide the information.
SERVICE FIRMS NATURALLY HAVE DIFFERENT OPERATIONAL REQUIREMENTS THAN MANUFACTURERS. Companies that maintain or repair things, sell consulting, or provide health care or other services generally have higher labor content and lower investments in plants and equipment.

Another important difference is that service and retail firms tend to have much simpler operational plans than manufacturers. In the process of turning raw materials into finished goods, manufacturers may employ sophisticated techniques in a complex series of operations.
By comparison, it’s pretty simple for a retailer to buy something, ship it to his store and sell it to a customer who walks in.

That’s not to say that operations are any less important for retailers and service firms. But most people already understand the basics of processes such as buying and reselling merchandise, giving haircuts or preparing tax returns. So you don’t have to do as much explaining as, say, someone who’s manufacturing computer chips.

The Importance of People

For many service and retail firms, people are the main engines of production. The cost of providing a service is largely driven by the cost of the labor it entails. And retail employees’ skills and service attitudes drive their employers’ productivity and market acceptance to a great degree.

A service firm plan, then, has to devote considerable attention to staffing. You should include figures on the local labor market for low-skilled employees such as counter clerks. Regional educational attainment data will help readers understand why you think you can hire sufficient semi- and higher-skilled workers for a service or repair operation. You’ll want to include background information and, if possible, describe employment contracts for key employees such as designers, marketing experts, buyers and the like.

Big-Time Buying

The ability to obtain reliable, timely and reasonably priced supplies of easily saleable merchandise is perhaps the prime skill of any retailer. If you have what consumers want when few others do, you’re almost guaranteed to have strong sales. If you run out of a hot item, on the other hand, disappointed consumers may leave your store, never to return.

Operations plans for retailers, therefore, may devote considerable attention to sourcing desirable products. They may describe the background and accomplishments of key buyers. They may detail long-term supply agreements with manufacturers of in-demand branded merchandise. They may even discuss techniques for obtaining desirable products on the gray market from manufacturers who try to restrict the flow of goods to their stores.

Site Sensitivity

Manufacturers require certain basic conditions for their sites, but retailers and some service firms are extremely sensitive to a wide variety of location factors. In some cases, a difference of a few feet can make the difference between a location that is viable and one that is not.

Site selection plans for brick-and-mortar retailers should include traffic data, demographics of nearby populations, estimated sales per square foot, rental rates and other important economic information. Service firms such as restaurants will want many of the same things.
Service firms such as travel agencies, pest control services and bookkeeping businesses will want to provide information about local income levels, housing and business activity.

Store design must also be addressed. Retailing can be as much about entertaining shoppers as it is about displaying goods. So store design becomes very important, especially for high-fashion retailers. Floor plans are probably not enough here; retailers may want to include photos or illustrations of striking displays, in-store boutiques and the like.

You also need to describe your online strategy here. All businesses need to have some sort of web presence. Whether you use the net as a marketing vehicle to promote your service company or as an additional way to increase your distribution of goods and sell products, you need to let plan readers know what you’re doing currently (or plan on doing at startup) and how that will change as your company grows.

If you’re running or starting a web-based business, you’ll need to explain why this strategy works best for you. Explain the efficiencies of operating online. You’ll want to describe the equipment you’ll need and how those needs might grow.

Having an online presence, either as an addition to your business or as the business itself, enhances your ability to compete globally. This is vitally important and should be addressed in some detail in your plan. Explain how having a global presence exponentially increases your potential customer base and enables you to make more money. And if most of your business will be conducted online, point out that your costs will not significantly increase, which will only help the bottom line.

Information Technology

No matter what business you are in, it’s likely you are dependent on technology. If you use or anticipate using a promising new technology, include it in your description of operations. Investors are always looking for an operations edge, and if you have it, you should tell them about it in your business plan.
Financial data always comes at the back of the business plan, but that doesn’t mean it’s any less important than the material up front. Astute investors look carefully at the charts, tables, formulas and spreadsheets in the financial section because they know that this information is like the pulse, respiration rate and blood pressure in the human body—they show whether the patient is alive and what the odds are of survival.

Financial statements, like bad news, come in threes. The news in financial statements isn’t always bad, of course, but taken together the three components provide an accurate picture of a company’s current value, plus its ability to pay its bills today and earn a profit going forward. And this news is very important to business plan readers.

The three common statements are a cash flow statement, an income statement and a bal-
Income Statement

An income statement shows whether you are making any money. It adds up all your revenues from sales and other sources, subtracts all your costs, and comes up with the net income figure—also known as the bottom line. Income statements are called various names—profit and loss statement, or P&L, and earnings statement are two common alternatives. And they can get pretty complicated in their attempt to capture sources of income such as interest and expenses such as depreciation. But the basic idea is pretty simple: If you subtract costs from income, what you have left is profit.

To compile your income statement, you need to gather a bunch of numbers, most of which are easily obtainable. They include your gross revenue, which is made up of sales and any income from interest or sales of assets; your sales, general and administrative (SG&A) expenses; what you paid out in interest and dividends, if anything; and your corporate tax rate. If you have those, you’re ready to go.

Sales and Revenue

Revenue is all the income you receive from selling your products or services as well as from other sources such as interest income and sales of assets.

Gross Sales

Your sales figure is the income you receive from selling your product or service. Gross sales includes sales minus any returns. It doesn't include interest or income from sales of assets.

Interest and Dividends

Most businesses have a little reserve fund they keep in an interest-earning bank or money market account. Income from this fund, as well as from any other interest-earning or dividend-paying securities they own, shows up on the income statement just below the sales figure.

Other Income

Other income includes sales of unused or obsolete equipment or any income-generating activity that's not part of your main business.

Costs

Costs come in all varieties. You’ll record variable costs, such as the cost of goods sold, as
well as fixed costs—rent, insurance, maintenance and so forth. You'll also record costs that are a little trickier, like depreciation.

**Cost of Goods Sold**

Cost of goods sold, or COGS, includes expenses associated directly with generating the product or service you're selling. If you buy computer components and assemble them, your COGS will include the price of the chips, disk drives and other parts, as well as the wages of the assembly workers. You'll also include supervisor salaries and utilities for your factory. If you're a solo professional service provider, on the other hand, your COGS may amount to little more than your salary.

**Sales, General and Administrative Costs**

You'll have some expenses that aren't closely tied to sales volume, including staff salaries, rent, insurance and the like. These are split out from the sales-sensitive COGS figure and included on a separate line.

**Depreciation**

Depreciation is one of the most baffling pieces of accounting. It's a paper loss, a way of subtracting over time the cost of a piece of equipment or a building that lasts many years even though it may get paid for immediately. Depreciation isn't an expense that entails spending money. Yet it's a real expense in an accounting sense, and most income statements will have an entry for depreciation coming off the top of pretax earnings.

If you have capital items that you are depreciating, such as an office in your home or a large piece of machinery, your accountant will be able to set up a schedule for depreciation. Each year, you'll take a portion of the purchase price of that item off your earnings statement. It should be noted that while depreciation hurts profits, it can reduce future taxes.

**Interest**

Paying the interest on loans is another expense that gets a line all to itself. It comes out of earnings just before taxes are subtracted. Note that this line doesn't include payments against principal. Because these payments result in a reduction of liabilities—which we'll talk about later in connection with your balance sheet—they're not regarded as expenses on the income statement.

**Taxes**

The best thing about taxes is that they're figured last, and they're based on the profits that are left after every other thing has been taken out. Tax rates vary widely according to where your company is located, how and whether state and local taxes are figured, and your special tax situation. The smartest way to figure taxes is to have your accountant do a projection of your tax rate based on past years' filings and this year's projected results. Then multiply that
percentage times your earnings before tax. That gives you your net income—the much-talked-about bottom line—after you take out taxes.

**Balance Sheet**

If the income sheet shows what you're earning, the balance sheet shows what you're worth. A balance sheet can help an investor see that a company owns valuable assets that don't show up on the income statement, or that it may be profitable but is heavily in debt. It adds up everything your business owns, subtracts everything the business owes and shows the difference as the net worth of the business.

Actually, accountants put it differently, and of course use different names. The things you own are called assets. The things you owe on are called liabilities. And net worth is referred to as equity.

The three elements are governed by a simple equation:

\[ \text{Liabilities} + \text{Equity} = \text{Total Assets} \]

It can also be useful to look at it another way:

\[ \text{Assets} - \text{Liabilities} = \text{Net Worth} \]

Both formulas mean the same thing.

A balance sheet shows your condition on a given date (usually the end of your fiscal year). Sometimes balance sheets are compared. That is, next to the figures for the end of the most recent year, you place the entries for the end of the prior period. This gives you a snapshot of how and in what ways your financial position has changed.

A balance sheet also places a value on the owner's equity in the business. When you subtract liabilities from assets, what's left is the value of the equity owned by you and any partners. Tracking changes in this number will tell you whether you're getting richer or poorer.

**Assets**

An asset is basically anything of value that you own. It gets a little more complicated in practice, but that's the working definition. Assets come in two main varieties: current assets and fixed assets. Current assets are assets that are easily liquidated or turned into cash. They include cash, accounts receivables, inventory, marketable securities and the like.

Fixed assets include assets that are harder to turn into cash. Examples are land, buildings, improvements, equipment, furniture and vehicles. The fixed asset part of the balance sheet sometimes includes a negative value—that is, a number you subtract from the other fixed asset values. This number is depreciation, and it's an accountant's way of slowly deducting the cost of a long-lived asset such as a building or piece of machinery from your fixed asset value.

Intangibles are another asset category. They include such things as patents, long-term contracts and that ephemeral thing called goodwill. Goodwill consists of things like the value of
your reputation, which is not really susceptible to valuation. The best way to think of goodwill is like this: If you sell your company, the IRS says the part of the sales price that exceeds the value of the assets is goodwill. As a result of its slipperiness, some planners never include an entry for goodwill, although its value may in fact be substantial.

Patents, trademarks, copyrights, exclusive distributorships, protected franchise agreements and the like do have somewhat more accessible value. They may never be turned into cash, but you can estimate their worth, or at least figure out what you paid for them and use that figure.

Liabilities

Liabilities are the debts your business owes. They come in two classes: short term and long term. Short-term or current liabilities are any debt that will be paid off within 12 months. This includes accounts payable you owe suppliers, short-term bank loans (shown as notes payable) and accrued liabilities you have built up for such things as wages, taxes and interest. Any debt that you won’t pay off in a year is long-term. Mortgages and bank loans with more than a one-year term are placed in this class.

Cash Flow Statement

Where did the money go? The cash flow statement provides the answer. It monitors the flow of cash over a period of time such as a year, a quarter or a month and shows you how much cash you have on hand at the moment. The cash flow statement, also called the statement of changes in financial position, probes and analyzes changes that have occurred on the balance sheet. There are two parts to a cash flow statement: One follows the flow of cash into and out of the company, while the other shows how the funds were spent. The two parts are called, respectively, sources of funds and uses of funds. At the bottom is, naturally, the bottom line—called net changes in cash position. It shows if and by how much you improved your cash on hand during the period.

Sources of Funds

Sources of funds usually have two main sections. The first shows cash from sales or other operations. In the cash flow statement, this figure represents all the money you collected from accounts during this period. It may include all the sales you booked during the period, plus some collections on sales that actually closed earlier.

The other category of sources of funds includes interest income, if any, plus the proceeds from any loans, line of credit drawdowns or capital received from investors during the period. Again, these figures represent money actually received during the period. If you arranged for a $100,000 line of credit but only used $10,000 during this period, then your sources of funds would show $10,000.
Uses of Funds

The sources of funds section often has only one or two entries, although some cash flow statements break out sources of funds by businesses and product lines. But even simple statements show several uses of funds. A cash flow statement will normally show uses such as cost of goods sold; SG&A expense; and any equipment purchases, interest payments, payments on principal amounts of loans, and dividends or draws taken by the owners.

Net Change in Cash

Few things feel better for a startup owner than to have plenty of cash in the bank. And few things better tell what’s going on with cash on hand than the net change in cash line on your cash flow statement. Net change in cash is the difference between total funds in and total funds out. If you bring in $1 million and send out $900,000, your net change in cash is $100,000. Ideally, you want this number to be positive and, if possible, showing an upward trend.

Other Financial Information

If you’re seeking investors for your company, you’ll probably need to provide quite a bit more financial information than what the income statement, balance sheet and cash flow statements offer. For instance, a personal finance statement may be needed if you’re guaranteeing loans yourself.

Personal Financial Statement

Investors and lenders like to see business plans with substantial investments by the entrepreneur, or an entrepreneur who is personally guaranteeing any loans and has the personal financial strength to back those guarantees. Your personal financial statement shows plan readers how you stack up financially as an individual.

The personal financial statement comes in two parts. One is similar to a company balance sheet and lists your liabilities and assets. A net worth figure at the bottom, like the net worth figure on a company balance sheet, equals total assets minus total liabilities.

A second statement covers your personal income. It is similar to a company profit and loss statement, listing all your personal expenses such as rent or mortgage payments, utilities, food, clothing and entertainment. It also shows your sources of income, including earnings from a job, income from another business you own, child support or alimony, interest and dividends, and the like.

The figure at the bottom is your net income; it equals total income minus total expenses. If you’ve ever had to fill out a personal financial statement to borrow money for a car loan or home mortgage, you’ve had experience with a personal financial statement.

Financial Ratios

Everything in business is relative. The numbers for your profits, sales and net worth need to be compared with other components of your business for them to make sense. For instance,
a $1 million net profit sounds great. But what if it took sales of $1 billion to achieve those profits? That would be a modest performance indeed.

To understand the relative significance of your financial numbers, analysts use financial ratios. These ratios compare various elements of your financial reports to see if the relationships between the numbers make sense based on prior experience in your industry. Some of the common ratios and other calculations analysts perform include your company’s break-even point, current ratio, debt-to-equity ratio, return on investment and return on equity. You may not need to calculate all these; depending on your industry you may find it useful to calculate various others, such as inventory turnover—a useful figure for many manufacturers and retailers. But ratios are highly useful tools for managing, and most are quick and easy to figure. Becoming familiar with them and presenting the relevant ones in your plan will help you manage your company better and convince investors you are on the right track. It’s not important to include every ratio in your plan, though. They should be used within your narrative to describe key points about your financial statements.

**Break-Even Point**

One of the most important calculations you can make is figuring out your break-even point. This is the point at which revenues equal costs. Knowing your break-even is important because when your sales exceed this point, they’ll begin to produce profits. When your sales are under this point, you’re still losing money. This information is handy for all kinds of things, from deciding how to price your product or service to determining whether a new marketing campaign is worth the investment.

The process of figuring your break-even is called break-even analysis. Once you get comfortable with working break-even figures in a simple fashion, you can get more complicated. For example, you may want to figure break-even points for individual products and services. Perform break-even analyses regularly, especially as circumstances change. Hiring more people, changing your product mix or becoming more efficient all change your break-even point.

**Current Ratio**

The current ratio is an important measure of your company’s short-term liquidity. It’s probably the first ratio anyone looking at your business will compute, because it shows whether you’ll be able to make it through the next 12 months.

Figuring out your current ratio is simple: Divide current assets by current liabilities. Current assets consist of cash, receivables, inventory and other assets likely to be sold for cash in a year. Current liabilities consist of bills that will have to be paid in the next 12 months, including short-term notes, trade accounts payable and the portion of your long-term debt that’s due in a year or less. For example, say you have $50,000 in current assets and $20,000 in current liabilities. Your current ratio would be:

\[
\frac{50,000}{20,000} = 2.5
\]
The current ratio is exactly that—a ratio. The above example shows a current ratio of 2.5:1. That’s an acceptable current ratio for many businesses. Anything less than 2:1 is likely to raise questions.

**Quick Ratio**

This ratio has the best name—it’s also called the acid-test ratio. The quick ratio is a more conservative version of the current ratio. It is determined the same way but leaves out inventory and any other current assets that may be a little harder to turn into cash. You’ll normally get a lower number with this one than with the current ratio—1:1 is acceptable in many industries.

**Sales/Receivables Ratio**

This ratio shows how long it takes you to get the money you are owed. It’s also called the average collection period or the receivables cycle, among other names. Like most of these ratios, there are various ways of calculating your sales/receivables ratio, but the simplest is to divide your average accounts receivable by your annual sales figure and multiply it by 360, which is considered to be the number of days in the year for many business purposes:

\[
\frac{\text{Receivables}}{\text{Sales}} \times 360
\]

If your one-person computer consulting business had an average of $10,000 in outstanding receivables and was doing about $120,000 a year in sales, here’s how you’d calculate your receivables cycle:

\[
\frac{10,000}{120,000} = \frac{1}{12}
\]

\[
\frac{1}{12} \times 360 = 30
\]

This tells you how long, on average, you’ll have to wait to get a check after sending out an invoice. Receivables will vary by customer, of course. You should also check the receivables cycle number against the terms under which you sell. If you sell on 30-day terms and your average collection period is 40 days, there may be a problem that you need to attend to, such as customer dissatisfaction, poor industry conditions or simply lax collection efforts on your part.

In this example, the company turns over inventory four times a year. You can divide that number into 360 to find out how many days it takes you to turn over inventory. In this case, it would be every 90 days.

**Debt-to-Equity Ratio**

This ratio is one that investors will scrutinize carefully. It shows how heavily in debt you are compared with your total assets. It’s figured by dividing total debt (both long- and short-
term liabilities) by total assets.

\[
\frac{\text{Total Debt}}{\text{Total Assets}} = \text{Debt-to-Equity Ratio}
\]

Here's a sample calculation:

\[
\frac{\$50,000}{\$100,000} = 1:2
\]

You want this number to be low to impress investors, especially lenders. A debt-to-equity ratio of 1:2 would be comforting for most lenders. One way to raise your debt-to-equity ratio is by investing more of your own cash in the venture.

**Profit on Sales**

This is your ground-level profitability indicator. Take your net profit before taxes figure and divide it by sales.

\[
\frac{\text{Profit}}{\text{Sales}} = \text{Profit on Sales}
\]

For example, if your restaurant earned $100,000 last year on sales of $750,000, this is how your POS calculation would look:

\[
\frac{\$100,000}{\$750,000} = 0.133
\]

Is 0.133 good? That depends. Like most of these ratios, a good number in one industry may be lousy in another. You'd need to compare it with POS figures for other restaurants to see how you did.

**Return on Equity**

Return on equity, often abbreviated as ROE, shows you how much you're getting out of the company as its owner. You figure it by dividing net profit figure from your income statement by the owner's equity figure from your balance sheet (if you're the only owner, use the net worth figure).

\[
\frac{\text{Net Profit}}{\text{Net Worth}} = \text{Return on Equity}
\]

To decide whether your ROE is acceptable, compare it with what you could earn elsewhere, such as in a bank certificate of deposit, stock market mutual fund or the like, as well as with the ROEs of other companies in your industry.

**Return on Investment**

Your investors are interested in the return on investment, or ROI, that your company gen-
erates. This number, figured by dividing net profit by total assets, shows how much profit the company is returning based on the total investment in it.

\[
\frac{\text{Net Profit}}{\text{Total Assets}} = \text{Return on Investment}
\]

**Forecasts**

Where you've been is of interest in business, but it's a lot more intriguing to contemplate where you're going. Figuring this out is what financial forecasting is all about. You can forecast financial statements such as balance sheets, income statements and cash flow statements to project where you'll be at some point in the future.

Forecasts are necessities for startups, which have no history to report on. Existing businesses find them useful, too, for planning purposes. Forecasts help firms foresee trouble, such as a cash flow shortfall, that is likely to occur several months down the road, as well as give them benchmarks against which they can compare actual performance.

**Projected Income Statement**

Business planning starts with sales projections. No sales, no business. It's that simple. Even if you're in a long-range development project that won't produce a marketable product for years, you have to be able to look ahead and figure out how much you'll be able to sell before you can do any planning that makes sense. Now that the pressure's on, making a sales projection and the associated income projection may look a little tricky.

So let's do it step by step. First, pick a period to project for. You should start with a projection for the first year. Then make projections for each of the next two years as well. Next, come up with some baseline figures. If you're an existing business, what were last year's sales? And prior years' sales? What's the trend? You may be able to simply project out the 10 percent annual sales growth you've averaged the past three years for the next three.

If you're a startup and don't have any prior figures, look at some other things. The most important question to ask is, What do similar companies experience? If you know that car dealers across the nation average 12 percent annual sales gains, that's a good starting point for figuring your dealership's projections.

Forecasting expenses is your next step, and it's much easier. You can often take your prior year's cost of goods sold, adjust it either up or down based on trends in costs, and go with that. The same goes for rent, wages and other expenses. Even startups can often find good numbers on which to forecast expenses, since they can just go to the suppliers they plan to deal with and ask for current price quotes plus anticipated price increases. You'll hope, of course, to uncover good news with regard to expenses. You may find that unit costs go down thanks to economies of scale, for instance. And fixed costs, as the name suggests, are not likely to change significantly.
Balance sheets can also be projected into the future, and the projections can serve as targets to aim for or benchmarks to compare against actual results. Balance sheets are affected by sales, too. If your accounts receivable or inventory goes up, your balance sheet reflects this. And of course, increases in cash show up on the balance sheet. So it’s important to look ahead to see how your balance sheet will appear given your sales forecast.

When you prepare a projected balance sheet, it is helpful to take a look at past years’ balance sheets and figure out the relationship of certain assets and liabilities that vary according to sales. These include cash, receivables, inventory, accounts payables and tax liabilities.

If you have any operating history, you can calculate the average percentages of sales for each of these figures for the past few years and use those for your balance sheet projection. You could also just use last year’s figures, if you don’t think they’ll change that much. Or you can adjust the percentage to fit some special knowledge you have about the coming year—you’re changing your credit terms, for instance, so you expect receivables to shrink, or you’re taking out a loan for an expensive new piece of equipment. Firms without operating history can look at one of the books describing industry norms referred to earlier to get guidance about what’s typical for their type of company.

### Cash Flow Forecast

Businesses are very sensitive to cash. Even if your operation is profitable and you have plenty of capital assets, you can easily go broke if you run out of cash and can’t pay your taxes, wages, rent, utilities and other essentials. Similarly, a strong flow of cash covers up a multitude of other sins, including a short-term lack of profitability. A cash flow forecast or cash budget is your attempt to spot future cash shortfalls in time to take action.
### ABC Clothing Inc.

#### Assets:

<table>
<thead>
<tr>
<th>Category</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$10,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>82,000</td>
<td>144,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>185,000</td>
<td>230,000</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>282,000</td>
<td>399,000</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Buildings</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Equipment</td>
<td>150,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>-30,000</td>
<td>-30,000</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>120,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Assets</td>
<td>10,000</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$412,000</strong></td>
<td><strong>$500,000</strong></td>
</tr>
</tbody>
</table>

#### Liabilities & Equity:

<table>
<thead>
<tr>
<th>Category</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes Payable—Short Term</td>
<td>60,000</td>
<td>42,400</td>
</tr>
<tr>
<td>Current Maturities of Long-Term Debt</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>82,000</td>
<td>86,000</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>7,900</td>
<td>13,500</td>
</tr>
<tr>
<td>Taxes Payable</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Stockholder Loans</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>179,900</td>
<td>171,900</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>120,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td><strong>$299,900</strong></td>
<td><strong>$261,900</strong></td>
</tr>
<tr>
<td>Owner's Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Paid-in-capital</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>37,100</td>
<td>163,100</td>
</tr>
<tr>
<td>Total Owner's Equity</td>
<td>112,100</td>
<td>238,100</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td><strong>$412,000</strong></td>
<td><strong>$500,000</strong></td>
</tr>
</tbody>
</table>
A cash budget is different from a cash flow statement in that it's generally broken down into periods of less than a year. This is particularly true during startup, when the company is especially sensitive to cash shortages and management is still fine-tuning its controls. Startups, highly seasonal businesses and other companies whose sales may fluctuate widely should do monthly cash flow projections for a year ahead, or even two. Any business would do well to project quarterly cash flow for three years ahead.

The added detail makes monthly cash flow forecasts somewhat more complicated than figuring annual cash flow, since revenues and expenses should be recorded when they will be paid out. Sales and cost of goods sold should be allotted to the months in which they can be
expected to actually occur. Other variable expenses can be allocated as percentages of sales for the month. Expenses paid other than monthly, such as insurance and estimated taxes, are recorded when they occur.

As with the balance sheet projection, one way to project cash flow is to figure out what percentage of sales historically occurs in each month. Then you can use your overall sales forecast for the year to generate monthly estimates. If you don’t have prior history, you’ll need to produce estimates of such things as profit margins, expenses and financing activities, using your best guesses of how things will turn out. The cash flow forecast also takes into account sources of cash other than sales, such as proceeds from loans and investments by owners.
A business plan is a story, the narrative of your enterprise, and you want to maintain a certain amount of flow as you lead readers from concept to management, through marketing and on to financials. Some material that you’d probably like to fit into your plan somewhere just don’t fit well into any of those sections. For instance, you may want to include resumes of some of your management team, product samples, product photos, advertising samples, press clippings, facility photos or site plans.

For these and other items that don’t seem to belong anywhere, many plans include appendices and attachments. This is material that may be optional and that many plan readers may never refer to. However, for those readers who want to delve deeper into the workings of the company, appendices provide additional answers.
Key Employee Resumes

The management section of your business plan will contain a listing and brief descriptions of the senior managers and other key employees on your team. However, many investors and lenders are going to want to know more about you and your important associates than you give them in that section. To show the strength of your team, you can include full resumes in an appendix.

Product Samples

If your products are portable enough, you may be able to include samples in your appendix. Some examples of products that are suitable for inclusion in a plan are fabric swatches, stationery samples, printing samples, or screen shots.

It's important not to overdo it with product samples. Investors tend to regard many entrepreneurs as being somewhat more product-focused than operations- or marketing-minded. By all means, provide samples if it's feasible and helpful. But don't expect appealing samples to overcome deficiencies in the concept, management, marketing, operations or financing schemes presented in your plan.

Product Photos

Appendices are good places to include photographs of products whose appearances are important or whose features are difficult to explain in words. It's normal and acceptable to include line drawings of products in the main sections of your plan. But again, most investors are more interested in such items as your balance sheet, management experience and cash flow projections than they are in glossy product photos.

Advertising Samples

It may be smart to include examples of the advertising you intend to use to market your products or services. For many companies, innovative and persuasive advertising approaches are essential to their success. Without actual examples of the ads, it may be difficult for readers to grasp the appeal and power of your marketing ideas.

Copies of newspaper and magazine ads, photos of billboards, still photos from TV spots, online ads and transcripts of radio spots are all acceptable. However, keep in mind that this information is optional. If you have an unimpressive advertising campaign, it won’t help you to expose investors to that fact.

Press Clippings

Reviews and articles in influential publications and broadcast shows drive many product sales. If your new baby carrier got rave reviews in a major parenting magazine, by all means include it here. You may also want to include complimentary ratings, certifications or other endorsements by entities such as travel guides, associations, and watchdog groups. If your bed and breakfast received an impressive number of stars from a popular travel guide, you should mention that prominently in your plan, preferably in the marketing section. But you
could include a copy of the actual certificate bearing the seal in the appendix.

**Site Plans**
You may want to include basic factory layouts and store floor plans in the operations section of your plan. If your site plan is complex and you feel some readers would benefit from seeing some of the additional details, provide them here rather than cluttering up the main part of the plan with them. If you have a number of store locations with varying layouts, for instance, you could give an idea of how several of them look.

**Credit Reports**
Credit reports could be included in the financial statements section of your plan. However, since primarily bankers will be interested in credit reports, you may want to place them in a separate appendix as well.

**Leases**
You don’t have to discuss every last clause of even an important lease in the main section of your plan. However, there’s a chance that diligent readers will have questions about any especially significant leases that can only be answered by reading the actual documents. For these discriminating plan readers, you can include here the actual leases, or at least the most important parts of them.

**Customer Contracts**
Few things are better to include in a plan than a long-term contract to supply an established customer. If you’re lucky enough to have such a powerfully appealing deal in your pocket, you’ll surely want to refer to it early on in your plan. In the appendix, you can include key sections of the contract.

There’s no hard-and-fast rule about the overall length of a business plan. Most new-venture plans should be less than 20 pages. And although plans for complicated enterprises can legitimately run much longer, it’s probably a good idea to exercise restraint when it comes to packing things into an appendix. Recall the idea of diminishing returns, and make sure that anything you put in your plan contributes significantly to presenting a clear, compelling picture of your business.
Chapter 11: BUSINESS PLAN RESOURCES

Microsoft® Resources

Microsoft Startup Center
Website: www.microsoft.com/startupcenter

You have a lot to look forward to—starting a business is an exciting time. In the Microsoft Startup Center, you’ll find the resources you need to get your business up and running.

Microsoft Small Business Center
Website: www.microsoft.com/smallbusiness

Learn more about how Microsoft software and services can help your small business, and get valuable tips for running your business.

Microsoft Small Business +
Website: www.microsoft.com/sbplus

Microsoft Small Business + is a free, personalized online resource to help small businesses get more out of their Microsoft software investment. Register and get personalized small business and technology tips delivered to your e-mail inbox.

Microsoft Office Small Business 2007
Get started with Microsoft Office Small Business 2007 now.
Website: www.microsoft.com/smallbusiness/products/office/2007/#Buy

Business Plan Template

Sample Business Plans
Website: http://www.entrepreneur.com/startingabusiness/businessplans/article157738.html
Government Organizations

Service Corps of Retired Executives (SCORE)
Website: www.score.org

The Service Corps of Retired Executives, more commonly known as SCORE, is a non-profit group of mostly retired businesspeople who volunteer to provide counseling to small businesses at no charge. A program of the SBA, SCORE started in 1964 and has helped millions of entrepreneurs and aspiring entrepreneurs.

Small Business Development Centers (SBDCs)
Website: www.asbdc-us.org

SBDCs offer a wide variety of information and guidance to individuals and small businesses. If you need help developing your business plan, SBDC counselors offer assistance with market research, cash-flow projections and more. In most cases, SBDC assistance is free.

National Business Incubation Association
Website: http://www.nbia.org/

The NBIA is the national organization for business incubators. Incubators nurture young firms to help them survive and grow by providing leased office facilities on flexible terms, shared business services, management assistance, help in obtaining financing, and technical support. The NBIA's services include a directory of local incubators and their services.

Chamber of Commerce
Website: http://www.uschamber.org/
Address: 1615 H Street, NW
Washington, DC 20062-2000
Telephone: (202) 659-6000

The many chambers of commerce throughout the United States are devoted to providing businesses with networking opportunities, lobbying, training and more. Among the services the U.S. Chamber of Commerce offers is a web-based business solutions program that gives online help for specific small-business needs, including planning, marketing, creating press releases, collecting debts, recruiting employees and creating retirement plans.

State Commerce Departments

Alabama
Website: http://www.ado.state.al.us/
Chapter 11 **BUSINESS PLAN RESOURCES**

Address: Alabama Development Office  
401 Adams Avenue  
Montgomery, AL 36104  
Telephone: (800) 248-0033 / (334) 242-0400

**Alaska**  
Website: http://www.commerce.state.ak.us/  
Contact page: http://www.commerce.state.ak.us/contact.htm

**Arizona**  
Website: http://www.azcommerce.com/

**Arkansas**  
Website: http://www.considerarkansas.com/AR/yourbusiness/  
Contacts: http://www.entergyarkansas.com/economic_development/tmar_staff.aspx#contact

**California**  
Website: http://www.calchamber.com/  
Address: California Chamber of Commerce  
1215 K Street, Suite 1400  
Sacramento, CA 95814  
Telephone: (916) 444-6670

**Colorado**  
Website: http://www.colorado.gov/colorado-doing-business/

**Connecticut**  
Website: http://www.cerc.com/  
Address: 805 Brook Street, Building 4  
Rocky Hill, CT 06067-3405  
Telephone: (860) 571-7136

**Delaware**  
Website: http://www.delaware.gov

**Florida**  
Website: http://www.myflorida.com

**Georgia**  
Website: http://www.georgia.gov
Hawaii
Website: http://www.hawaii.gov/dbedt
Address: No. 1 Capitol District Building
250 S. Hotel Street
Honolulu, HI 96813
Telephone: (808) 586-2423

Idaho
Website: http://commerce.idaho.gov/
Address: Idaho Department of Commerce
700 West State Street
P.O. Box 83720
Boise, ID 83720-0093
Telephone: (208) 334-2470

Illinois
Website: http://www.commerce.state.il.us/dceo/
Address: 620 E. Adams
Springfield, IL 62701
Telephone: (217) 782-7500

Indiana
Website: http://www.indianacommerce.com/
Address: One North Capitol, Suite 700
Indianapolis, IN 46204
Telephone: (317) 232-8800

Iowa
Website: http://www.state.ia.us/government/com/

Kansas
Website: http://kdoch.state.ks.us/public/
Address: Kansas Department of Commerce
1000 S.W. Jackson Street, Suite 100
Topeka, KS 66612-1354
Telephone: (785) 296-3481
Chapter 11 BUSINESS PLAN RESOURCES

Kentucky
Website: http://commerce.ky.gov/
Address: Kentucky Commerce Cabinet
Office of the Secretary
24th Floor, Capital Plaza Tower
500 Mero Street
Frankfort, KY 40601
Telephone: (502) 564-4270

Louisiana
Website: http://www.lded.state.la.us/
Telephone: (225) 342-3000

Maine
Website: http://www.econdevmaine.com/
Telephone: (207) 624-9800

Maryland
Website: http://www.mdbusiness.state.md.us/
Address: Maryland Department of Business and Economic Development
217 East Redwood Street
Baltimore, MD 21202
Telephone: (410) 767-6300

Massachusetts
Website: http://www.state.ma.us/mobd
Mailing Address: One Ashburton Place, Suite 2101
Boston, MA 02108
Telephone: (617) 788-3610

Michigan
Website: http://medc.michigan.org/
Address: Michigan Economic Development Corporation
300 N. Washington Square
Lansing, MI 48913
Telephone: (517) 373-9808
Minnesota
Website: http://www.state.mn.us/portal/mn/jsp/home.do?agency=Commerce
Address: Minnesota Department of Commerce
Glenn Wilson, Commissioner
85 7th Place East, Suite 500
St. Paul, MN 55101
Telephone: (651) 296-4026

Mississippi
Website: http://www.mdac.state.ms.us/
Address: Mississippi Department of Agriculture & Commerce
P.O. Box 1609
Jackson, MS 39215
121 N. Jefferson Street
Jackson, MS 39201
Telephone: (601) 359-1100

Missouri
Website: http://www.mo.gov

Montana
Website: http://commerce.mt.gov/
Address: Department of Commerce
301 S. Park Ave.
Helena, MT 59601
Telephone: (406) 841-2700

Nebraska
Website: http://www.neded.org/
Address: Nebraska Department of Economic Development
301 Centennial Mall South
P.O. Box 94666
Lincoln, NE 68509-4666
Telephone: (800) 426-6505

Nevada
Website: http://dbi.state.nv.us/
Address: Business & Industry Director’s Office
555 E. Washington Ave., Suite 4900
Las Vegas, NV 89101
Telephone: (702) 486-2750
Chapter 11  BUSINESS PLAN RESOURCES

New Hampshire
Website: http://www.dred.state.nh.us/
Address: State of New Hampshire Department of Resources and Economic Development
172 Pembroke Road
P.O. Box 1856
Concord, NH 03302-1856
Telephone: (603) 271-2411

New Jersey
Website: http://www.state.nj.us

New Mexico
Website: http://www.newmexico.gov

New York
Website: http://www.empire.state.ny.us/

North Carolina
Website: http://www.sbtdc.org/
Address: Small Business and Technology Development Center
5 West Hargett Street, Suite 600
Raleigh, NC 27601-1348
Telephone: (919) 715-7272

North Dakota
Website: http://www.ndcommerce.com/
Address: Century Center
1600 East Century Avenue, Suite 2
P.O. Box 2057
Bismarck, ND 58503
Telephone: (701) 328-5300

Ohio
Website: http://www.com.state.oh.us/ODOC/
Address: 77 South High Street, 23rd Floor
Columbus, OH 43215-6123
Telephone: (614) 466-3636
Oklahoma
Website: http://okcommerce.gov/
Contact page:

Oregon
Website: http://econ.oregon.gov/
Address: 775 Summer St. NE, Suite 200
Salem, OR 97301-1280
Telephone: (503) 986-0123

Pennsylvania
Website: http://www.paopen4business.state.pa.us/

Rhode Island
Website: http://www.riedc.com/
Address: 315 Iron Horse Way, Suite 101
Providence, RI 02908
Telephone: (401) 278-9100

South Carolina
Website: http://www.callsouthcarolina.com/

South Dakota
Website: http://www.state.sd.us/

Tennessee
Website: http://www.state.tn.us/ecd
Address: 312 Eighth Avenue North, 11th Floor
Nashville, TN 37243
Telephone: (615) 741-1888

Texas
Website: http://www.governor.state.tx.us/ecd

Utah
Website: http://www.commerce.state.ut.us/
Address: Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111
Contact page: http://www.commerce.state.ut.us/contact.html
Chapter 11 BUSINESS PLAN RESOURCES

Vermont
Website: http://www.vermont.gov

Virginia
Website: http://www.dba.state.va.us/
Address: 707 E. Main Street, Suite 300
Richmond, VA 23219
Telephone: (804) 371-8200

Washington
Website: http://access.wa.gov

West Virginia
Website: http://www.wv.gov

Wisconsin
Website: http://www.commerce.state.wi.us/
Contact page: http://www.commerce.state.wi.us/COM/Com-ContactInfo.html

Wyoming
Website: http://www.wyomingbusiness.org/
Address: 214 West 15th St.
Cheyenne, WY 82002-0240
Telephone: (800) 262-3425 / (307) 777-2800

Software and Books

Business Plan Pro from Palo Alto Software
Website: http://www.paloalto.com/ps/bp/

Business Plan Writer Deluxe from Nova Development
Website: http://www.novadevelopment.com/Products/us/bxw/default.aspx

Business Plans for Dummies
by Paul Tiffany, Ph.D., and Steven D. Peterson, Ph.D.
Website:

Business Plans Kit for Dummies (with CD-ROM)
by Steven D. Peterson, Ph.D., and Peter E. Jaret
Website: http://www.amazon.com/exec/obidos/tg/detail/-/0764555658/entrepreneurcom
Creating a Successful Business Plan  
_from Entrepreneur Press_  
Website: http://www.smallbizbooks.com/cgi-bin/SmallBizBooks/00059.html

The Ernst & Young Business Plan Guide  
_by Eric S. Siegel, Brian R. Ford and Jay M. Bornstein_  
Website: http://www.amazon.com/exec/obidos/tg/detail/-/0471578266/entrepreneurcom

Rule’s Book of Business Plans  
_by Roger C. Rule_  
Website: http://www.entrepreneurpress.com/cgi-bin/books/00034.html

Start Your Own Business  
_by Rieva Lesonsky_  
Website: http://www.entrepreneurpress.com/cgi-bin/books/00039.html

The Successful Business Plan: Secrets and Strategies  
_by Rhonda Abrams_  
Website: http://www.amazon.com/exec/obidos/tg/detail/-/0966965563/entrepreneurcom

Writing a Convincing Business Plan  
_by Arthur R. DeThomas, Ph.D., and Lin Grensing-Pophal_  
Website: http://www.amazon.com/exec/obidos/tg/detail/-/0764113992/entrepreneurcom

Other Websites

USA.gov  
Website: http://www.usa.gov  
Federal links to economic, labor and employment statistics; trade; and workplace safety information and resources

U.S. Business Advisor  
Website: http://www.business.gov

Business.gov, the official business link to the U.S. government, is managed by the SBA in a partnership with 21 other federal agencies. This partnership, known as Business Gateway, is a Presidential E-Government Initiative that provides a single access point to government services and information to help the nation’s businesses with their operations.
Internet Statistics and Demographics
   Website: http://www.loc.gov/

   The Library of Congress is the nation’s oldest federal cultural institution and serves as the research arm of Congress. It is also the largest library in the world, with millions of books, recordings, photographs, maps and manuscripts in its collections.

Market Research Resource Center
   Website: http://www.marketsmonitor.com

   Collection of market and business research reports, industry analysis, company profiles, country and industry strategic planning/investment reports, competitive analysis and more

MarketResearch.com
   Website: http://www.marketresearch.com

   A directory of market research available for purchase

Bizminer
   Website: http://www.bizminer.com

   BizMiner’s industry research and data development provides information about more than 16,000 lines of business in national and local markets. BizMiner’s research tracks and analyzes the experiences of over 18 million U.S. business facilities, condensing the data into profile reports available for purchase.

Legalzoom
   Website: http://www.legalzoom.com

   LegalZoom helps you create reliable legal documents. Answer a few questions online, and your documents will usually be prepared within 48 hours.