

# Business Plan Workbook for Startup Businesses

The business plan consists of a narrative description of the business and a financial section usually detailing month-by-month operations for up to 5 years.

This template is divided into several sections. Work through the sections in any order that you like, except for the *Executive Summary/Cover Letter*, which should be done last and accompany your business plan as a summary and quick overview.

Skip any questions that do not apply to your type of business. Some individuals find it easiest to brainstorm through the workbook the first time and then go back to develop the sections a little better. When you are finished writing your first draft, you'll have a collection of small essays on the various topics of the business plan. Then you'll want to edit them into a smooth-flowing narrative. Feel free to email the business plan at any stage to your SBDC counselor and we will be happy to read through it and advise as you go along.

As you write the business plan keep the following in mind:

- The business plan should be written in the 2<sup>nd</sup> person. For example, instead of writing “Our business will...,” write, “The Coffee Shoppe (name of your business) will...”
- The business plan is not a marketing piece. It should be a straightforward narrative of what exactly your business will do. Try to avoid non-objective information that would be more suitable for a marketing piece.
- This business plan workbook is a generic model suitable for all types of businesses. You should modify it to suit your particular circumstances. Before you begin, review the section at the end titled Refining the Plan. It suggests emphasizing certain areas depending on your type of business (manufacturing, retail, service, etc.). It also has tips for fine-tuning your plan to make an effective presentation to investors or bankers.
- As you are gathering research and numbers while you write your plan, be sure to keep detailed notes on your sources of information and on the assumptions underlying your financial data. You will need to be prepared to back up any “guesses” or “assumptions” made.
- If you need assistance with your business plan, contact the Iowa Western Small Business Development Center.

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# Business Plan

The cover for your business plan should be professionally presented and represent the image of your business with your logo, tag line, etc. It should also list your name, address, and the best way to contact the primary people involved in the business.

## Your Business Name

### Owners

Address  
City, State Zip  
Telephone  
E-Mail

# Business Plan Outline

Business Plan Outline.....	4
The Business.....	5
Products and Services.....	7
Website.....	8
Marketing Plan.....	10
Operational Plan .....	18
Management and Team.....	21
Financial Plan.....	22
Executive Summary .....	29
Refining the Plan.....	31
Financial Worksheets.....	35

# The Business

**Hint:** This section should provide sufficient information so that the reader will understand exactly what the business does, what problems it solves, how it will make money and what customers it serves.

*Remember to write the entire business plan in the second person!*

## **What business are you in?**

- Type of business (service, retail, manufacturing)
- Name of business (and why, if applicable)
- What is your product and service? What exactly does your business do?
- What problem(s) are you solving?
- How is your business special or better than the competition?
- What is your business model? How will/does your business make money?
- What will be your legal form of ownership? (If you have questions regarding this, your SBDC counselor can guide you in deciding what your legal form of ownership should be.
  - Limited Liability (LLC)
  - Sole Proprietor
  - Partnership
  - Corporation

## **What is the present status of your business?**

- Are you a brand new Start Up?
- Are you an Existing Business?
  - Summarize the history of your business.
  - Explain the new project or reason for which you are seeking financing.
- Are you buying an Existing Business?
  - Make sure you also work with the “Buying an Existing Business” checklist available from your SBDC counselor and summarize the project in this section of the business plan.
  - Briefly discuss and summarize the reasons the business is for sale.
  - Summarize the terms, sale price, assets, inventory, etc.
  - Explain any changes you intend to make and why.
- Are you purchasing a Franchise?
  - Make sure you also work with the “Buying a Franchise” checklist available from your SBDC counselor and summarize the project in this section of the business plan.

- Include terms, royalties, amount of capital and equity expected, etc.
- Include historical summary of the Franchise, existing locations, successes, etc.

If the business isn't going very well (whether you own it or you are buying it), explain how you plan to turn it around and improve the situation.

**What markets do you serve or intend to serve?**

- List out 1 to 4 of the primary markets you intend to serve.
- If you can, summarize your total market and your expected share. You will detail this out in the Market Analysis section, but should summarize that here.

**Do you have specific company short-term or long-term goals?**

**Do you have a certain business philosophy or business culture you would like to communicate?**

**Where will your business be located?**

- Summarize the location
- What benefits does the location have for your business? Why was it chosen?

**Describe your most important company strengths and core competencies.**

- What factors will make the company succeed?
- What do you think your major competitive strengths will be?
- What background experience, skills, and strengths do you personally bring to this new venture?

# Products and Services

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

**What factors will give you competitive advantages or disadvantages?** Examples include level of quality or unique or proprietary features. Make sure you are *specific* to how the product has better quality or how the services will be better. Anyone can say that they have better quality -- explain *exactly* what sets your products and services apart.

**What are the pricing, fee, or leasing structures of your products or services?** A graph listing each service or product, its price, and your cost may be helpful.

Product/Service	Price	Our Cost
Large Coffee	5.00	2.50
Danish	0.75	0.30

# Website

The presence of a website has gone beyond the marketing piece of a business plan and warrants its own section. It is essential for most businesses to have a website in some form.

## **Describe how your website will:**

- Act as a virtual storefront to sell your product or service. Your basic information is available 24-7.
- Make your company more “findable” to your local and/or national audience.
- Position you as a resource for information.
- Compliment your other marketing efforts.

## **Set your sites on these questions and portray them in your business plan.**

- What will your site URL be? Is it available?
- How will you develop your site?
  - Will you do it yourself or hire a web designer?
  - How much will it cost/how much do you have in your budget?
  - How will you maintain your site?
- What will be included on your site?
- Will you be selling your product or service?
- Will you have other functions on your site for your customers?

## **Describe in detail the purpose of your businesses website.**

- Is it to acquire new customers?
- Service existing customers?
- Showcase your business?
- Brand your business?
- Some combination of the above?
- How will your website achieve these things?

## **What kind of information and technology will you include on your website?**

- Will you offer e-commerce capabilities?
- Will you have a blog, forum or other type of communication capability?

## **Who will be designing and maintaining your website?**

- Will you be doing this yourself?
- Are you hiring a web development firm?



**What will the cost of your website be annually?**

- Design
- Upkeep
- Hosting charges

**How do you plan to keep your site current and “searchable” on website search engines like Google, Yahoo, etc.?**

**NOTE:** For help with your website planning, call the IWCC SBDC for assistance. The center has knowledgeable counselors available to guide you through the process. Another great resource is the “Create a Successful Website” guide at [www.startupnation.com](http://www.startupnation.com).

# Marketing Plan

## Market Analysis

### Market research - Why?

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

**NOTE: The IWCC SBDC has many resources and trained counselors to help you with both kinds of market research. Furthermore, the Iowa SBDC has a Market Research Professional on staff that can be utilized for free by SBDC clients. Contact your IWCC SBDC counselor for more information on this service.**

In the market research section, be as specific as possible. Give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important sales projection.

#### **The four areas that you should conduct research on are:**

- Industry
- Market
- Customer
- Competition

The "Small Business Resource Guide" available at your SBDC center has a comprehensive list of research resources, websites, demographic resources, etc. You can also find information through Internet searches (i.e.: Google), industry blogs, influencer blogs or websites, associations, and by talking to sales reps, dealers, and trade associations.

## Industry

The overall state or big picture view of the industry your business is in.

### General Facts

- What are some general demographic and psychographic facts about your industry?
- How many businesses exist in your industry on a national scale?
- What are general annual sales figures for average businesses in your industry?
- Other impressive facts about your industry's growth, future, etc.

### What are some current trends in the industry you are in or entering?

- Growth trends
- Economic trends
- Trends in consumer preferences
- Trends in product development
- Trends with technology, social networks, etc.
- Growth potential and opportunity for a business of your size

### What barriers to entry do you face in entering this market with your new company? Some typical barriers are:

- High capital costs
- High production costs
- High marketing costs
- Large number of competitors
- Consumer acceptance and brand recognition
- Training and skills
- Unique technology and patents
- Unions
- Shipping costs
- Tariff barriers and quotas
- **How will you overcome the barriers?**
- **How could the following affect your company?**
  - Changes in technology
  - Changes in government regulations
  - Changes in the economy
  - Changes in your industry

## Market

The market is the specific area in which your business will be marketing. If it is a national business, you may want to narrow it down to markets you will focus on first.

### **What is your geographical market?**

- Where do your customers work, live, run their businesses, etc.?
- What is your geographic market area?
- From which states, towns, and neighborhoods do your customers come?

### **What is the total size of your market? (i.e.: if your target customer is women ages 25 to 45 who have children under 10, how many women in this demographic reside in your particular market area?)**

- Census and demographic websites can help find this information. Start with [www.census.gov](http://www.census.gov)

### **What percent share of the market will you have?**

- What share do your competitors have and how will you compete?

### **What is the current demand in the target market?**

### **What is the state of the industry in your market?**

- How many competitors?
- Sales averages
- Number of businesses opening and/or closing
- Local trends compared to national trends. Is your market ahead or behind?

## Customers

Who is the specific IDEAL customer within your market? You may have more than one, but at this time, focus your start-up efforts on the most important segment.

### **Identify your targeted customers.**

- What specific characteristics do they possess?
- What is their income level?
- Where do they live or have their businesses?

**Develop customer personas (this is not necessary, but may be easier to identify your specific customers).**

- EXAMPLE -- Customer Persona: She is a young woman with children under the age of 5. She lives in the suburbs, drives an SUV and works full time. She watches children's programming on TV and tapes her shows to watch after primetime. (You would describe aspects of your ideal person specific to her habits that lead her to your company.)

**Do you have a chain of markets?**

In other words, do you sell your product to a middleman who then sells it to the consumer? If you sell a consumer product, but sell it through a channel of distributors, wholesalers, and retailers, carefully analyze both the end consumer and the middleman businesses to which you sell.

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

- Age
- Gender
- Location
- Income level
- Social class and occupation
- Education
- Lifestyle characteristics (attends church regularly, owns pet, etc.)
- Other (specific to your industry)

**For business customers, the demographic factors might be:**

- Industry (or portion of an industry)
- Location
- Size of firm (sales volume, number of employees, regional locations)
- Customers
- Quality, technology, and price preferences
- Other (specific to your industry)

For both types of customers, you will want to discuss their basis for purchase decisions – price, quality, service, political pressures, or some combination of these factors.

## **Competition**

What products and companies will compete with you? (HINT: You DO have competitors! Even if there is nothing exactly like you in your market, your customer is fulfilling their need somewhere. It might be a different substitute product or a competitor who conducts business online.)

List your major competitors with their names, addresses, and proximity to your location (if applicable).

**Under each competitor, list its strengths and weaknesses in each of the following areas:**

- Product (features, performance & quality)
- Price (too high, too low, etc.)
- Service (quality and reliability of delivery and installation)
- Personnel (expertise and courtesy)
- Image (atmosphere and events)

Evaluate your own future business in each of these five areas. What are your strengths and weaknesses?

Write a short paragraph stating your **Competitive Advantage**. This statement tells the reader why your customer will choose you over your competitors. What makes you better? (HINT: “better customer service” or “higher quality products” does not tell the reader anything. Demonstrate how/why you will be better in these areas. )

## **Core Marketing Strategy**

Your core marketing strategy may be the main strategy for your whole company or it may be a strategy for a new market, product, etc. You may want to start with one strategy, but as new issues emerge and your focus changes, your marketing strategy will need to be tweaked.

For the purposes of a business plan, your core strategy should reflect the project outlined in your business plan (business startup, new project, growth, etc.)

- **What is the purpose of your Marketing Strategy?**
  - To gain leads?
  - Gain sales?
  - Gain brand awareness?
- **What is your Remarkable Difference or Competitive Advantage?**
- **What is your Positioning Goal – how will customers see you?**
- **What is your Marketing Message?**
- **What are your Core Branding Elements?**
  - Colors

- Logo
- Marketing materials
- **What is your Price Rationale?**
  - Is it based on industry?
  - Is it based margins, prices of inventory, etc.?
- **What will your Marketing Materials consist of? (If you have samples or prototypes, attach those in the Appendix and reference them here). Below are samples of what you may include. At the very least, you should have a colored brochure and/or price lists and a website before you start business.**
  - Brochures
  - Website
  - Case studies
  - White papers
  - Staff bios
  - Company story
  - Testimonials
  - Videos

## Marketing Tactics

Choosing a diverse media mix to get your message to your customers is very important in today's ever-changing, technology-driven world.

Marketing is less about "Push" and more about "Pull". Consumers have the ability to find and search for what they need. Making sure you are there to **PULL** them into what they are looking for is important. Being Pushy and telling the consumer what they need is **out**. Being there with what the consumer is looking for is **in**.

There are many different "media options" available to help you achieve your goals and get your message to the right audience. Below are some different types of media available. Additional information is available at your local SBDC.

**For your marketing plan, go through the different types of media and:**

- outline which you will use
- discuss how you will use them
- determine who they will reach
- allot a budget for each

### Traditional

- Television
- Newspapers

- Magazines
- Yellow Pages
- Direct Mail
- Telemarketing

### **Online and Electronic Media**

- Website (this is your hub and is highly recommended). You have already outlined your website plans above, so here you can recap them.
- Search Marketing – Ranking high on search engines
- Online Directories (Google Places, Yahoo Local etc.). These are free and are the beginning to establishing your website presence.
- Social Networks
  - Facebook, Twitter, LinkedIn, Pinterest, etc.
  - List out each separately and your plans to use them
- Blogs and Content Marketing
- Videos and/or Podcasts
- Pay Per Click (PPC) Ads (for Google, Facebook, etc.)
- Banner Ads/Website Advertising (advertising on specific sites)
- Email Marketing
- Mobile Marketing (text messages, etc.)

### **On-site and In-store Marketing**

Media that will draw customers into your brick-and-mortar business and take advantage of your services. You can lure them in, but the trick is to get them to buy.

- Window Displays
- Point-of-purchase Displays (samples, etc.)
- Demonstration Stations
- Greeters
- Outside Draws (inflatable displays, etc.)
- Mascots
- Raffles

### **Public Arena (Outdoor) Marketing**

- Billboards
  - Bus Ads
  - Banners
  - Sign Twirlers (outside of your business)
  - Door Hangers/Flyers
  - Event Sponsorships
  - Movie Pre-show Ads



**Face to Face**

- The “Elevator Pitch”
- Networking
- Business Cards
- Door-to-door

**Trade Specific**

- Trade Shows
- Trade Publications
- Workshops, Seminars and Webinars
- Newsletters

**Monthly Marketing Calendar**

In addition to explaining your specific tactics, you may want to include a monthly calendar that highlights your specific messages, targets, etc. For example, a retail store will have specific campaigns for Christmas, Back to School, etc.

# Operational Plan

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

## Production or Service Delivery

How and where are your products or services produced and provided? In other words, explain the process your products/services take from you to the customer.

**Explain your methods of:**

- Production techniques and costs
- Product development
- Service delivery

## Location

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

### Physical requirements

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

### Access

- Is it important that your location be convenient to transportation or to suppliers?
- Do you need easy walk-in access?
- What are your requirements for parking and proximity to freeways, airports, railroads, and shipping centers?

### Layout

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

### Hours of Operation

- What will be your business hours? (TIP: Make sure your hours accommodate your customers, but don't burn yourself out. It is better to start with fewer hours and add more as needed.)

## Legal Environment

Describe how you are complying with or addressing the following, if applicable:

- Licensing and bonding requirements
- Permits
- Health, workplace, or environmental regulations
- Special regulations covering your industry or profession

- Zoning or building code requirements
- Insurance coverage
- Trademarks, copyrights, or patents (pending, existing, or purchased)

## Personnel

- Number of employees
- Type of labor (skilled, unskilled, and professional)
- Where and how will you find the right employees?
- Pay structure
- Training methods and requirements
- What does each position do? Include yourself/owners
- Do you have schedules and written procedures prepared?
- For certain functions, will you use contract workers in addition to employees?

## Inventory

- What kind of inventory will you keep – raw materials, supplies, finished goods?
- Average value in stock (i.e.: what is your inventory investment)
- Rate of turnover and how this compares to the industry averages (Turnover is the number of days that it takes you to go through your inventory. Ask your SBDC counselor to help you find the industry standard for days in inventory. )
- Seasonal buildups
- Lead time for ordering

## Suppliers

### 1. Identify key suppliers.

1. Names and addresses
  2. Type and amount of inventory furnished
  3. Credit and delivery policies
  4. History and reliability
  5. List out each separately and your plans to use them
- **Should you have more than one supplier for critical items (as a backup)?**
  - **Do you expect shortages or short-term delivery problems?**
  - **Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing costs?**

## Credit Policies

- Do you plan to sell on credit?

- Do you really need to sell on credit? Is it customary in your industry and expected by your clientele? (HINT: Billing customers can be a major factor in low cash flow and business failure.)
- If you do plan to bill certain customers, what policies will you have about who gets credit and how much?
- How will you check the creditworthiness of new applicants?
- What terms will you offer your customers? That is, how much credit will you offer and when is payment due?
- Will you offer prompt payment discounts? (HINT: Do this only if it is usual and customary in your industry.)
- Do you know what it will cost you to extend credit? Have you built the costs into your prices?

# Management and Team

## Management Team

**Who will manage the business on a day-to-day basis?** What experience does that person bring to the business? What special or distinctive competencies does (s)he possess? Is there a contingency plan if this person is lost or incapacitated?

**Create an organizational chart showing the team hierarchy and who is responsible for key functions.**

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

## Professional and Advisory Support

**List the following:**

- Board of directors
- Management advisory board
- Attorney
- Accountant
- Insurance agent
- Banker
- Consultant or consultants (Like the SBDC)
- Mentors and key advisors

# Financial Plan

## The financial packet consists of:

- Start-up Costs and Critical Assumptions
- Sources and Uses (What money is needed [start-up costs] and how it will be funded)
- Product and Service Pricing and Critical Assumptions
- Operating Expenses and Critical Assumptions
- Income Projections and Explanations of 3 to 5 years of the following:

## 3 to 5 Years of:

- 12-month profit-and-loss projection, listed monthly, quarterly and annually
- 12 month cash-flow projection
- Projected balance sheets
- Break-even calculation.

## Personal Information:

- 3 to 5 years of personal tax returns
- Personal Financial Statement
- 3 to 5 years of business tax returns and profit-and-loss statements (If existing business)
- 3 to 5 years of business tax returns and profit-and-loss statements (If buying an existing business)

Together, this packet constitutes a reasonable estimate of your company's financial future. More importantly, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

Below provides detailed explanations of each piece of the packet. Worksheets are included and are also available online at [www.iowabiztalk.com](http://www.iowabiztalk.com).

**NOTE:** The SBDC can help you prepare your Financial Plan. If you would like to make an appointment, come as prepared as you can by filling out following worksheets: Start-Up Costs, Sources and Uses, Products and Services Pricing, and Operating Expenses. These worksheets are available at the end of this section. Complete them to the best of your ability, and an SBDC counselor will complete your financial package with you.

## Critical Assumptions

Critical Assumptions are simply explanations of all your assumptions or “guesses”. The basis of your business plan financial packet is based on the first four pieces: Start-up Costs, Product/Service Pricing, Operating Costs, and Income Projections. These numbers are basically guesses or numbers that you came up with through some sort of process. The critical assumption should EXPLAIN where these numbers came from. Did you get a quote from a company? Did you have a formula for income projections? These explanations should accompany all four worksheets so that everyone knows how you came up with your estimates.

## Start-Up Expenses and Capitalization

Start-up expenses include everything you need to purchase or spend BEFORE you open your business. It is important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance you will leave out important expenses or underestimate them. Again, start-up expenses are those expenses that occur BEFORE you open your doors. They include equipment, buildings, deposits, start-up advertising, legal expenses, website expenses, etc.

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

Talk to others who have started similar businesses to get a good idea of how much to allow for contingencies. If you cannot get good information, we recommend a rule of thumb that contingencies should equal at least 20 percent of the total of all other start-up expenses.

Remember to explain your research and how you arrived at your forecasts of expenses in your Critical Assumption.

## Sources and Uses

Organize your start-up expenses into a summarized explanation and show what the money is being used for (uses) and how it will be financed (sources).

Also, explain in detail how much will be contributed by each investor or financial institution and how much you will contribute as equity. A good rule of thumb is that at least 25% of the total start-up costs should come from you.

## **Operating Expenses**

Operating expenses occur AFTER you have started your business. These are fixed expenses and are considered to be monthly. These include utilities, rent, marketing, etc.

Some expenses will occur annually or quarterly. Make sure to make note what month(s) these payments will occur. Annual expenses might be licenses, subscriptions, etc.

## **Income Projections**

Income projections simply state what your business expects to make in income on a monthly basis. Income projections include gross projections as well as the projected costs of goods or services sold. Income projections are intimidating and hard to come up with because it is a bold guess on what your business can make.

Although this is a guess, it is a very important guess and together with carefully researched start-up costs and operating costs, provides the very important break-even number that shows how much your business NEEDS to make.

Income projections should be carefully considered and estimated by using several different methods. Make sure that you write down your methods and show how you came up with the projections in your Critical Assumptions.

## **Cost of Good/Services Sold (Cost of Revenue)**

Cost of revenue information is found in a company's Income Statement and is designed to represent the direct costs associated with the goods and services the company provides. Indirect costs, such as salaries, are not included.



## **To Be Included in Cost of Revenue**

*Raw Materials* – Service-based businesses don't have "raw materials," but if you are a product-based business, you would include all raw materials used to produce the product in cost of revenue.

*Direct Labor* – Direct labor should be included in cost of revenue. Let's say you own a junk removal business, and you get a job to clean up an old building. It will be a 3-hour job for your team of 3 guys. Each guy is paid \$10 per hour. Your employees' wages are considered cost of revenue, so in this scenario you would have \$90 in direct labor costs that would be included in your cost of revenue.

*Cost of Service* – If your service uses up tools or uses materials to get the job done, these tools and materials would be considered a cost of revenue.

*Shipping Costs* – Let's say you own an accounting firm that audits companies. At the end of the audit you print your report and mail copies to each member of the client's board of directors. If you end up paying \$100 to ship your report to the board, that \$100 should be included in cost of revenue because it is a necessary expense that you incur as part of your service.

*Sales Commissions* - Sales commissions are another common expense that should be included in cost of revenue. You only incur sales commission expenses when you generate revenue through a sale of your product or service; therefore, sales commissions should be included in your cost of revenue.

**HINT:** A rule of thumb when determining what is cost of revenue and what is not is to simply ask yourself, "Would I incur this expense if I did not make a sale today?"

## **12-Month Profit and Loss Projection (see above if you would like help in preparing this)**

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

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

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

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

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

The 12-month projection is the heart of your financial plan. The Four-Year Profit projection is for those who want to carry their forecasts beyond the first year. Most lenders and investors like to see at least 3 years of projections.

Again, keep detailed notes of your key assumptions, especially about things you expect will change dramatically after Year 1.

## **Projected Cash Flow**

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

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

There is no great trick to preparing it -- the cash-flow projection is just a forward look at your checking account.

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

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

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

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

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in Month 1, when

do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When?

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

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

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

## **Opening Day Balance Sheet**

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

Use a start-up expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the Year 1. This is especially useful when selling your proposal to investors.

## Break-Even Analysis

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

Expressed as a formula, break-even is:

$$\text{Break-Even Sales} = \frac{\text{Fixed Costs}}{1 - \text{Variable Costs}}$$

(Where fixed costs are expressed in dollars, but variable costs are expressed as a percent of total sales. Include all assumptions upon which your break-even calculation is based.)

# Executive Summary

Write this section **LAST**. The executive summary is a condensed version of the entire business plan. It should be no longer than two pages. **DO THIS SECTION LAST SO THAT IT COMPLETELY SUPPORTS THE REST OF YOUR DOCUMENT.** Go back after your plan is complete and summarize the plan's most important points from every section in the Executive Summary. **NOTHING NEW SHOULD BE INTRODUCED HERE.**

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

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

Make it enthusiastic, professional, complete, and concise.

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

# Appendices

Include details and backup for details used in your business plan. For example:

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

# Refining the Plan

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

## For Raising Capital

### For Bankers

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

### For Investors

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

## **For Type of Business**

### **Manufacturing**

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

### **Service Businesses**

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



## **High Technology Companies**

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

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

## **Retail Business**

- Company image
- Pricing:
  - Explain markup policies.
  - Prices should be profitable, competitive, and in accordance with company image.
- Inventory:
  - Selection and price should be consistent with company image.

Inventory Level: Find industry average numbers for annual inventory turnover rate (available in RMA book). Multiply your initial inventory investment by the average turnover rate. The result should be at least equal to your projected first year's cost of goods sold. If it is not, you may not have enough budgeted for startup inventory.

- Customer service policies: These should be competitive and in accord with company image.
- Location: Does it give the exposure you need? Is it convenient for customers? Is it consistent with company image?
- Promotion: Methods used and cost. Does it project a consistent company image?
- Credit: Do you extend credit to customers? If yes, do you really need to, and do you factor the cost into prices?

# Financial Worksheets

Use the following worksheets to help calculate your Start Up-Costs, Pricing, Operating Costs, and Income. If you choose to produce your spreadsheets with the help of an IWCC SBDC Counselor, you will need to have these filled out to the best of your ability.

## Estimated Startup Cost Template

*\*Attach a detailed itemized listing of each item below including price, model number (if applicable) contractor estimates, etc.*

1. Land/Building	\$ _____
2. Remodel, Repair, Improvements	\$ _____
3. Machinery/Equipment	\$ _____
4. Furniture/Fixtures	\$ _____
5. Initial Inventory	\$ _____
6. Start Up Costs	
a. Start Up Advertising	\$ _____
b. Deposits	\$ _____
c. Professional Services	\$ _____
d. Website Expenses	\$ _____
e. Other	\$ _____
7. Working Capital	\$ _____
Sub Total	\$ _____
Contingencies (20 to 25% of Total)	\$ _____
<b>TOTAL</b>	<b>\$ _____</b>
Amount of Personal Funds Invested (25% to 30% of total Start-up)	\$ _____
Amount to be financed (Total Start-up minus amount Of personal funds invested)	\$ _____

## Products and Services Pricing Worksheet

Determine the price, cost, and profit for each product or service you offer.

- **Price** is the amount *you charge* customers for one (1) unit of your product/service.
- **Cost** – also known as Cost of Goods Sold (COGS) – is the amount *you pay* for the components that comprise one (1) unit of your product/service.
- **Profit** – also known as Gross Margin – is the amount *you make* on one (1) unit of your product/service after your cost is deducted from price charged.

Product/Service #1	Price	Our Cost	Profit (Price – Cost)

Product/Service #2	Price	Our Cost	Profit (Price – Cost)

Product/Service #3	Price	Our Cost	Profit (Price – Cost)

## Operating Costs Worksheet

**Fixed operating expenses per month** (if annual or semiannual – please indicate what month(s) it is paid)

Supplies/Office expenses (not inventory)	\$ _____
Maintenance	\$ _____
Ad/Promotion	\$ _____
Car/Travel	\$ _____
Acct. & Legal	\$ _____
Rent	\$ _____
Telephone/Internet/Cable	\$ _____
Utilities	\$ _____
Insurance	\$ _____
Equipment Lease	\$ _____
Real Estate Taxes	\$ _____
Dues/Subs	\$ _____
Misc.	\$ _____
Other	\$ _____
Other	\$ _____
Other	\$ _____
Other	\$ _____
Required Owners Draw or Salary per Month	\$ _____

**Employee Wages/Salaries** (not including owner(s))

**Variable Salaries** (if your employees only work when there is sales then use a % of sales)

Labor cost as a % of sales: \_\_\_\_\_%

**Fixed Salaries:** (use hourly rate when employees will work regular weekly hours and will be paid per hour and use annual rate when employee will earn a lump annual salary)

Number of hours per week is \_\_\_\_\_ at \$ \_\_\_\_\_ per hour (use hourly rate when employees will work regular weekly hours)

Salary Employee #1 \$ \_\_\_\_\_ Title \_\_\_\_\_  
 Salary Employee #2 \$ \_\_\_\_\_ Title \_\_\_\_\_

## Pro Forma Income Statement Worksheet

### Sales Data

- a. Calculate Sales Per Month by Using the chart below
- Use sales 1, 2, 3, etc. for different products with different margins
  - Starting month is \_\_\_\_\_

	1	2	3	4	5	6	7	8	9	10	11	12
<b>Sales 1</b>												
<b>Sales 2</b>												
<b>Sales 3</b>												

- b. Projected Annual Sales for year one \$ \_\_\_\_\_
- c. How will sales increase for years 2 and 3?
- d. Method of determining sales
- e. Will you offer credit? If yes explain why, how you will determine credit worthiness and provide a breakdown of the timing of your accounts receivable
- \_\_\_% of accounts collected in cash or credit cards
- \_\_\_% of accounts collected in 0-30 days
- \_\_\_% of accounts collected in 31-59 days
- \_\_\_% of accounts collected in 60-89 days
- \_\_\_% of accounts collected in 90+ days
- \_\_\_% of accounts not collected (bad debts)
- f. Cost of Sales or Cost of Goods for each sales category.
- Sales 1 % \_\_\_\_\_
- Sales 2 % \_\_\_\_\_
- Sales 3 % \_\_\_\_\_