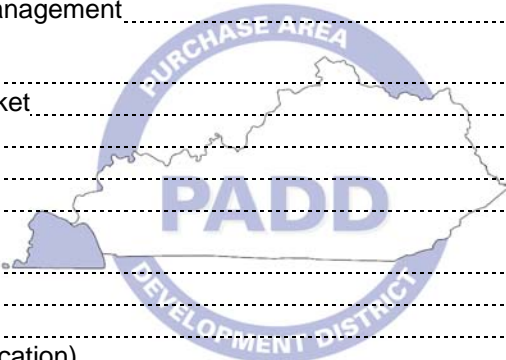


# BUSINESS PLAN GUIDE



- COMPLIMENTS OF THE PURCHASE AREA DEVELOPMENT DISTRICT -

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## INTRODUCTION

The “Business” Plan is supposed to help you (and your lender) to find hidden business flaws and to make you think carefully about each phase of your business. That is why it is so important that YOU write your business plan yourself - even more so if you do not have any former business and management experience - since you will gain in-depth knowledge about the business you are planning to start (expand), which in return will make it easier for you to answer lenders’ questions.

Divide your business plan into sections that match the “contents” outline that you will find on [page 26](#) of this guide. Always have in mind that there is no given length for your answers – they will range from a paragraph to a few pages long. Also, pay attention to misspelling, grammar and calculation errors – lenders become very guarded and cautious about future projects if the business plan connected to it is already flawed.



**Lenders use the eight “C’s” rule when they determine your eligibility for a loan:**

- 1. Credit? (Must be good, mainly derived from your credit report.)**
- 2. Capacity? (Your ability to repay the loan.)**
- 3. Capital? (How much money is going into the business?)**
- 4. Collateral? (The assets that secure your loan.)**
- 5. Character? (You.)**
- 6. Conditions? (General economy, finances and anything else that affects your business.)**
- 7. Commitment? (Your ability and willingness to succeed.)**
- 8. Cash Flow? (Can it support the business’ debt and expenses?)**

**Your business plan and the way it is presented will be used to answer some of these questions, which makes it even more important for you to pay attention to detail.**

Your business plan is a communication instrument since it is your main way to communicate your project idea to potential lenders and/or investors. The plan shows a structure that needs to be filled by you, including discussing details, making decisions and presenting it in a logical way.

A good business plan gives an overview, makes chances and risks transparent and can make people interested. Lenders will only follow up on you if your business plan has been able to make them interested in your idea. Otherwise, you will just get one more rejection letter for your collection. The plan creates confidence in your project and in you as founder/owner. So to say, the business plan is your very first business card and maybe even the ticket to your (first) business.

Of course, not all criteria and sections mentioned in the guide will apply to your specific business. So select the ones that do apply and concentrate on them while not wasting precious time and resources on the ones that do not apply to your business.

Always have in mind that you are writing the business plan not only for yourself, but also for third parties who don’t know your project and business as well as you do. Therefore, it is better to explain something a little bit more detailed than risking that the reader is losing interest in your project just because s/he does not understand it.

But don’t assume that your business plan will be the only and last piece of information that you are providing to potential lenders or investors. It is much more likely that you will be asked to provide more information, fill out more forms and explain even more details once you managed it to make a lender interested in you.

**EXECUTIVE SUMMARY**

The “Executive Summary” is supposed to make the reader interested in your project. It contains a brief outline of all important aspects (elements) of your business plan. Mainly, it is supposed to give information about:

- Your product(s) and/or service(s) and the use (benefit) for your customers,
- Your competence and the competence of the management,
- The market potential and the competition,
- The capital requirements and the expected profitability.

A lender is always looking at the “Executive Summary” first. The quality of the “Executive Summary” alone will not be enough to convince the lender to finance your project. But it will be enough to convince the lender not to do it!

A clear and sound presentation of your project is one way of proving your competence. Therefore, pay attention to details and be careful and thorough because your “Executive Summary” will be the decisive factor in whether the lender will read your whole business plan or not.



**The “Executive Summary is an independent element of your business plan. It represents the essence of all other chapters and should not contain any information that are not presented in more detail in other parts of the business plan.**

It is recommended to write the “Executive Summary” last even though it is the first part of your business plan. Design the “Executive Summary” in a way that the lender is able to read and understand it in 5 to 10 minutes. Make a test yourself before you give the business plan to the lender. Have a friend without any special knowledge of your project read it.



**GUIDING QUESTION FOR THE “EXECUTIVE SUMMARY”**

- What is the core of your business idea (description of your product(s) and/or service(s))?
- Do the business founders have the necessary qualification for a success of the business?
- What use do your customers have from you product(s) and/or service(s)?
- What makes your product(s) and/or service(s) innovative and different?
- Who are your targeted customers and how big is the market potential?
- What are the current and medium-term trends within your industrial sector?
- What are your advantages compared to your competitors?
- How much money do you need and what do you need it for?
- How long will it take for you to become profitable and how big will your profit be?
- What (is and) will be your rate of return (sales p.a. / profit p.a. before taxes)?

**PRODUCT(S) / SERVICE(S)**

The core of every business plan is the product and/or service your business is or will be offering. Any reader of your business plan wants to get to know and understand your product(s) and/or service(s) first. Make that process easier by giving a clearly arranged description of your product(s) and/or service(s) and bring out plain uses for your customers.

In this section, you have to illustrate how your product(s) and service(s) differ from the ones your competition is offering. Also, give some information about the level of development your product(s) and service(s) are in (if applicable) and describe the steps that are necessary to complete these product(s) and/or service(s).

### **Product Description**

Describe your product(s) and/or service(s). Pay attention that your presentation is understandable. If applicable, deal with your product(s) and/or service(s) innovative features and how they stand out from your competition (so called “unique selling points”).

In doing so, compare your product(s) and/or service(s) strength and weaknesses with product(s) and/or services that are already available. The important part hereby is, to find advantages that can guarantee that your product(s) and/or service(s) will be a success and can stand the existing competition.

If your product(s) and/or service(s) involve(s) technology based concepts, your presentation should allow even non-technical people to understand it. Concentrate on the general manner of operation rather than giving technical details. Technical details should be given only to a limited extent or (even more details are necessary) in an attachment.

In order to make it easier for the reader to understand and comprehend, you can use illustrations, pictures and/or graphics (while paying attention to any possible copyright infringements).

If you (plan to) offer several (different) product(s) and/or service(s), structure them into practical business segments (sorted by product/service or customer group) and separate them from each other. The following categories should then be tailored to these segments.

### **Customer Benefit**

Customers will only buy your product(s) and/or service(s) if these product(s) and/or service(s) can give them a lasting (or at least satisfying) benefit (use). That benefit (use) must be higher than the benefit (use) of product(s) and/or service(s) offered by your competition, or if the customer decides to forego your product(s) and/or service(s).

The product(s) and/or services you offer solve a customer’s “problem” and give an advantage respectively. In order to do that, you need to know the needs, wishes and problems of your potential customer.

Therefore, the “customer benefit” is a decisive factor for the success of your business. It is not only important that your offer has a “customer benefit” from your own point of view, but also that you can focus that benefit in a concrete manner to third parties. Not only the lender, but also (later on) your customers must be able to see and recognize that use.

Describe the customer “problem(s)” your product(s) and/or service(s) can solve (from a customer’s point of view) and try to point out what special benefit your product(s) and/or service(s) can provide. For example, how much time, capacity, material or money can be saved by buying your product(s) and/or service(s) over the product(s) and/or service(s) your competition is offering?

Or describe (if applicable), how your product(s) and/or service(s) enable your customers to enter new technological grounds by using your product(s) and/or services, or that your product(s) and/or services are so new that there is not even any competition or that your product(s) and/or service(s) quality is surpassing the quality of everything else.



**Have always in mind that a low price by itself can not be used as a “customer benefit” since it does not necessarily save money for your customer if (for example) your product(s) have a low quality and therefore break easily.**

### **Customer Target Group(s)**

From the description of the “customer use” you can derive your “customer target group(s)” since not everybody will have the same advantage from your product(s) and service(s). The presentation of your “customer target group(s)” will be the foundation for your market analysis and marketing.



Aiming for the customer target group: Your business plan is introducing your potential customer groups ...

Attempt to concentrate on few differentiated customer groups that have a particularly big benefit from your product(s) and/or service(s) and from whom you expect a successful response to your product(s) and/or service(s).

### **Development Stage**

This chapter is especially important for businesses that do research and development for the product(s) that they are planning to sell. A description of the development stage for these product(s) is important information for lender since it enables the lender to draw conclusions from it about the potential risk of your project.

Explain the development stage of your product(s) and how many more steps are necessary to make the product(s) marketable. If there is a prototype, make sure to mention it explicitly. Also, mention any “beta customers” who might already use your product(s) as a trial period. For a better visualization, include pictures or drawings of your product(s).



**There is a risk for the realization of your project if competitors copy your idea and/or if your product(s) and/or service(s) need to fulfill certain legal requirements and certifications (Public Health Department, Patent Office, etc.).**

**Therefore, always include if you need to obtain permits and/or licenses for your product(s) and/or service(s). If you already obtained or requested these items, include copies.**

It is always recommended to describe what makes your product(s) and/or service(s) so innovative and what lead you have over your competition. Give information about granted or requested patents and/or utility- or taste model that can be used to protect your technology and/or ideas from the competition.

**FROM CUSTOMER BENEFIT TO REVENUE – THE CENTRAL THREAD**

**Create an advantage for your customers = Customer Benefit**

The customer benefit is one of the most important parts in your business plan. Once it is defined and quantified, you can use it as a central thread in your concept.

**Customer Benefit**

What advantage (benefit) do your customer have if the use your product(s) and/or service(s) over the ones offered by your competition? (For example: Saving time, capacity, money, etc.)

**Customer Target Group**

Who is benefiting from you product(s) and/or services the most?

**Market Analysis**

How many customers do you estimate have a need in your product(s) and/or service(s), per market segment (if your business is targeting several markets)?

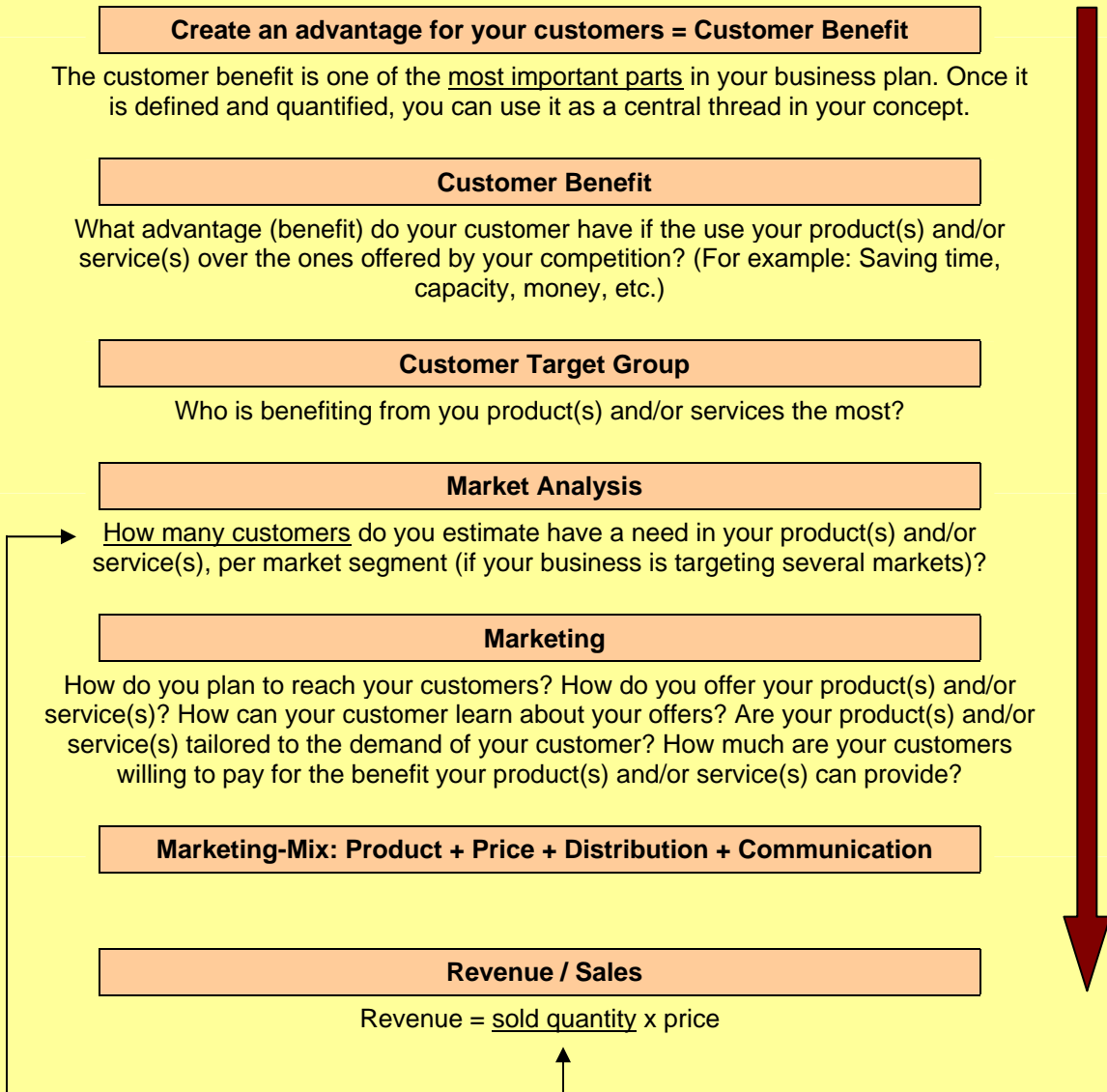
**Marketing**

How do you plan to reach your customers? How do you offer your product(s) and/or service(s)? How can your customer learn about your offers? Are your product(s) and/or service(s) tailored to the demand of your customer? How much are your customers willing to pay for the benefit your product(s) and/or service(s) can provide?

**Marketing-Mix: Product + Price + Distribution + Communication**

**Revenue / Sales**

Revenue = sold quantity x price



**GUIDING QUESTION FOR “PRODUCT(S) / SERVICE(S)”**

- What are your product(s) and service(s) exactly?
- What are your product(s) and/or service(s) main features?
- Does your competition offer similar product(s) and/or service(s)?
- What makes your product(s) and/or service(s) unique?
- What are your product(s) and/or service(s) strength and weaknesses when compared with the competition?
- Which of your customers “problems” or “needs” do you intend to “solve” with your product(s) and/or service(s)?
- What are the benefits your customers can derive from your product(s) and/or service(s)?
- What are your potential customer target groups?
- What is the development stage of your product(s) and/or service(s)?
- Is there a prototype existing?
- Do you know anything about the development stage of similar product(s) and/or service(s) your competition might offer?
- Do you need any permits and/or licenses in order to sell your product(s) and/or service(s)?
- How do you plan to protect your product(s) and/or service(s) (patents, etc.)?
- How do you plan to keep your technological/innovative lead over your competition?

**OWNER / MANAGEMENT TEAM**

The success of a business heavily depends on the personality and qualification of the owner (management): As an entrepreneur, you have to realize your business idea and constantly push it forward.

This chapter will document that you are capable of running your business. It will deal with your management qualities. A simple line up of your former activities and professions is hereby not sufficient. Demonstrate which one of your qualifications are important for a success of your business.

**Being successful in a team**

Building a business requires various abilities and talents. Depending upon the situation, abilities like level-headedness or being unafraid of decision-making, attention to detail or strategic farsightedness, capacity for teamwork or self-assertiveness, can be important.

For everyone who is planning to open an own business, the question arises whether to do that alone or with the help of others. Both ways have their advantages and disadvantages. A single owner can make all decisions by himself/herself and there is no danger that a long decision making process in a team can cause delays. On the other hand, a single founder is not always able to show all necessary abilities that are necessary to run a business successfully.

In a team, members can complement each other and combine their knowledge and experiences. But then, too many cooks spoil the broth, as a common saying goes. That is why every team should be aware of its strengths and weaknesses and develop strategies to ensure common actions. It is important that all team members share the same vision and don't get in the way of each other. The process of building a team is characterized by many challenges. So if you decide to have a team, take your time for it!



A good team gives impulses to the company – in order to make it work, there are many things to pay attention to ...

### Personal Qualification

In order for you to run a business successfully, you need to have practical experience and theoretical knowledge. Also, do not underestimate the importance of personal competences like goal-directedness, ability to cope with pressure, ability to communicate and the ability to work in a team. The bigger and more complex your project is, the higher the demands on you as an entrepreneur.

In this chapter, you will describe the competences and abilities of each of the business founder and the management team. Show, how these abilities can be beneficial for the company and what areas of responsibilities each owner (manager) will fill. Hereby, it is important to show praxis related experiences, for example in connection with former leadership and distribution responsibilities or well-founded knowledge of the market and the industry. You can attach resumes and references to support your exposition.

If you found your company during or right after your college/university time, you will most likely not have any real work experience. Since potential lender like to see just these kinds of experiences, you need to provide a substitution for these missing experiences. That includes activities like the leading of groups and seminars, the participation in committees and/or associations, etc.



**Internships and visits abroad (not tourist related) should be included as well. Furthermore, it can be interesting for potential lenders to learn that the founder team has been working together for several years already, for example in research, and wants to use the results of the former work to develop a product (spin-off).**

**Closing of gaps**

Create job profiles for the most important segments of your business and work out the kinds of abilities and competences that are necessary to fill these jobs. Then, compare these profiles with the abilities and competences you (and you founder/management team) bring with you. If you find gaps, describe how and when you intend to close them.

It is not necessary, to fill all important positions in your business immediately. That could result in uncontrolled costs that your business can't afford during the start-up phase. Rather it is recommended to pursue a prudent staff expansion that is oriented on the current needs of the business. If possible, use part-time staff and/or external service provider for some of these positions until your business is solid enough to support a full-time staff.

**Key personnel**

Every business has so called "key personnel" that plays (next to the founder/owner) a more or less important role for the business (i.e. know-how upholder, people with important customer contacts). Therefore, explain if there are any dependencies and reliance's on these people and how you plan to bind these people to your company.



**Have in mind, that a dependency on key personnel can be a risk for your business. That is why lenders like to see a solution for the case that one of these persons is leaving the business.**

**Income for the founder / management**

Include information about how much money you (and other founder / owner) plan to take out of the business as salary. You can use your salary from former jobs or published average incomes for your orientation. Your salary should be enough to cover your living expenses, which do not include luxury items. Avoid taking out too much money from the business since exaggerated salaries will be a strain on the financial situation of your business.

**GUIDING QUESTION FOR "OWNER / MANAGEMENT TEAM"**

- Who are the founder / owner of the business and what functions do they have in the management? Who are the other members of the management team?
- What abilities and professional experiences does the management bring to the company?
- Do you have entrepreneurial experiences?
- Does the management bring enough experience in sales and marketing and technical expertise to run the business sufficiently?
- Are the most important requirements of the job profiles covered by the owners / founders' personal profiles?
- How do you plan to close possible gaps?
- Ho do you plan to bind key personnel to your business?

**MARKET ANALYSIS**

A good knowledge of the market your business is in the kind of competition your business will encounter is decisive for a success of your business. As described in the chapter "product(s) / service(s)", customers will buy your product(s) and/or service(s) only if they can get a specific benefit from it.

Normally, you will not be the only protagonist on the market. That means, the benefit(s) your customers can derive from your product(s) and/or service(s) depend from the offers your competition is offering at the same time. Furthermore, it is important for you and your competition how the market itself is developing and what kind of factors can influence the market.



**You should always have in mind that changes in the market structure can be chance for your business, but also a risk!**

The market analysis in this chapter of your business plan is supposed to help you to assess your project and to determine, how and where your business should be positioned on the market. In order to do that, you will have to have a look at the market itself, the customers, the competition and the product(s) and/or service(s) your competition is offering.

### **Description of the total market**

Assign your product(s) and/or service(s) to a market (i.e. software, laser, medical, etc.) and describe the size (quantity of sold product(s) and/or services, turnover, etc.), as well as the expected market growth and other trends that could affect the market. Examine external factors that could affect the market on short and medium-term and show how these factors have any relevance for your particular business.

### **Market potential**

One of the most important information in your business plan is the market potential. The market potential shows the possible quantity of sales for a particular product and/or service within a specific market. You determine the market potential for a product and/or service by applying it to your targeted customer group, which means for a certain part of the total market, called market segment.

In order to do that, it is recommended to classify your customer into customer groups (equaling the market segments) by using appropriate criteria, which in return will enable you to estimate current and future sales and revenues.

Furthermore, creating market segments allows you to pinpoint your product(s) and/or service(s) to a specific customer clientele. The criteria used to create these segments will be chosen by you but have in mind that the number of clients and their buying patterns must be ascertainable and that you can reach all customers within one of these segments with the marketing strategy.

#### Possible criteria for market segments are:

Geographical criteria:	Countries, regions, cities, counties, etc.
Demographical criteria:	Age, gender, income, profession, also company size, industrial sector (for business clients)
Behavioral criteria (buying):	Brand awareness, price awareness, central or decentralized buys
Behavioral criteria (use):	Frequency of use, use of the product(s) and/or service(s)

### **Competition**

Examine the strength and weaknesses of your most important competitors. Give information about quantity of sold product(s) and/or service(s), sales volume in USD, price formation, growth, market share, location, distribution channel(s), service and image.

Compare your own profile with the strength and weaknesses of your main competitors in a so-called SWOT-Analysis (Strengths, Weaknesses, Opportunities, and Threats).

Definition of SWOT's		
	<b>Helpful</b> (to achieving the objective)	<b>Harmful</b> (to achieving the objective)
<b>Internal</b> (attributes of the business)	Strengths	Weaknesses
<b>External</b> (attributes of the market)	Opportunities	Threats

**Information Sources**

Content and size of a market analysis depends on the information available. Lenders expect you to obtain and analyze the information that is commonly available. They also expect you to (if applicable) interview potential customers. What they don't expect is for you to buy an expensive market study. Be careful with stating that there is no information available. Lenders know very well what kind of information can be obtained and from where.

One source for your information can be the office of statistics, chambers of commerce, confederations of industries, other banks, and insurances. Also, professional or trade journals as well as business brochures (from your competition) can be useful and give information about the particular market. Furthermore, conversations with customers and competitors can be very efficient, especially on trade fairs.



**GUIDING QUESTION FOR "MARKET ANALYSIS"**

- What is the size of the total market (projected sales volume)?
- How many potential customers are in which regions?
- What is the growth rate for the total market per year?
- What trends affect the total market?
- What criteria can you use to segment the total market?
- What market segments are useful for your business?
- What is the potential for every relevant market segment (projected sales volume)?
- Who are your main competitors?
- What are the market shares for your competitors (if known)?
- If known, what are your competitors' price-, product-, distribution- and communication policies?
- What are your competitors' strengths and weaknesses (image, service, innovational degree, location, economical potential, profit, etc.)?
- Are any potential customers bound to any of your competition? If so, how do you plan to delegate them to your business?
- Are there any market entrance barriers your business would have to overcome? What are these barriers and how do you plan to overcome them?

## **MARKETING**

If you follow the idea that not your business idea but your customers are the centre of your business, then you are following the classical principles of marketing. And even though “marketing” is often equated with “advertisement”, it is actually much more. “Marketing” is the orientation of your business onto your customers. Therefore, the marketing plan is an essential part in your business plan.

Your marketing concept shows how you plan your market entrance and how you plan to achieve the market potential that you determined in your market analysis. A complete marketing concept includes four elements: Product policy, price policy, promotion policy (communication) and place policy (distribution). The combination of these for elements creates a “marketing-mix”.

### **Product Policy**

The so called “product policy” answers the question how your product(s) and/or service(s) features are supposed to cover your customers needs as optimal as possible. Furthermore, you decide whether you favor a one product (service) or multi product (service) strategy.

You also decide whether you plan product modifications (constant modifications to keep up with new trends) and product variations (several different variations for one product and/or service for different customer groups) and/or product innovations (research). Also, the area of brand policy is part of your product policy.



Whether your product(s) and/or service(s) will score high will be decided by your marketing-mix ...

### **Price Policy**

Your price formation is primarily connected to your customers' willingness to pay, which is the question what price the market will accept. Of course, your price must be higher than your production or procurement costs. The higher your price is above these costs, the higher is your profit margin.

What price you can attain depends on the benefit your product(s) and/or service(s) will have for your customers. In the chapter “Product(s) / Service(s)”, you already described the benefits and in best case, quantified it. Use this chapter to determine the price margin for your product(s) and/or service(s).

Basically, you can choose between several price strategies. Your choice depends upon whether you want to penetrate the market quickly with a low price and a high quantity (“penetration-strategy”), or whether you want to generate high profits with a high price (“skimming strategy”).

If you decide for the “penetration strategy”, you should be aware that a strategy like that makes only sense if you plan to use the gained market share to generate profits later on since you will not make much profit (if at all) at the beginning. This strategy requires higher start-up investments in order to satisfy the higher demand that you plan to create.

The “skimming strategy” on the other hand generates high profits in a short period of time but bears the danger that you attract new competition to enter the market. So think about how you want to make the market as unattractive for new competitors as possible.

### **Promotion Policy (communication)**

A customer can buy your product(s) and/or service(s) only if he/she knows about it. If you stay “hidden”, even the best product and/or service benefit is worthless because nobody will buy it. Therefore, it is necessary to make the public aware about your (new) business. Convince the customers to (at least) test your business and its product(s) and/or service(s).

In your promotion policy you will describe all instruments that you plan to use in order to make contact with your (potential) customers and how you want to deepen and maintain that contact once it is established. In general, the following instruments are available for you:

- Classical advertisement in media (printed press, radio, TV, movie theaters, internet)
- Direct marketing (direct mailings to selected customers or households, phone marketing)
- Presence on trade fairs and exhibitions
- Client visits
- Public relations – newspaper articles and reports about you (not necessarily initiated by you), your company and your product(s) and/or service(s) are an efficient method to increase your degree of awareness among your target customer group



**Advertisement is expensive. Therefore, calculate your expenses before you initiate any advertisement. Have in mind to adjust your promotion channel to your customer target group(s) and its/their habits. Every communication medium has its own target group and you should inform yourself about these target groups before you start using these mediums. If you choose to talk to (potential) clients directly, focus on the person who is actually making the decision to buy in the end.**

### **Place(ment) Policy (Distribution)**

Your place policy determines which distribution channels you want to use in order to sell your product(s) and/or service(s). The selection of a direct or indirect distribution mainly depends upon the kind of product(s) and/or service(s), the customer structure and your price strategy.

For example, the number of potential clients, the way of shopping they prefer, the price segment your product(s) and/or service(s) are in, the fact whether your product(s) and/or service(s) need explanations or not and whether you want to sell your product(s) and/or service(s) to other businesses (B2B) or end customers (B2C), are just some of the factors that will influence your “place policy”.

Furthermore, you will have to decide whether you want to handle the distribution of your product(s) and/or service(s) yourself or whether you plan to outsource to a specialized service provider. That decision will heavily affect the organizational structure of your business.

Examples for distribution channels:

### Own sales locations

... Are interesting if presentation and design of your product(s) and/or service(s) are important for sales and you do not need a big number of stores to cover the market. Have in mind that own sales locations require higher investments but give you the best possible control over your distribution.

### Third party sales location

... Sell your product(s) and/or service(s) to the end customer. Have in mind that your product(s) and/or service(s) need to have a high profit margin for other businesses to take them into their range of offers.

### Own distribution staff (sales representative)

... Can be used if you offer product(s) and/or service(s) that need to be explained or are very complex and you need to visit your customers instead of them coming to you. Have in mind that the number of customers can't be too high and that an own distribution staff is quite expensive.

### Third part distribution staff (sales representative)

... Sell product(s) and/or service(s) from several different businesses, not just yours. Using third party distribution sales representatives makes sense if you do not want to start out with an own distribution staff. The risk hereby is very limited since they only cost money if they sell. Depending on the contract, these costs can be high.

### Wholesaler

... Have contact to several retailers. You can use the wholesaler's distribution channels but need to calculate a separated profit margin for the wholesaler in your price.

### Internet distribution

... Can be worthwhile since the internet allows you to reach a big number of customers with low costs. Have in mind to pay attention to your target customer groups' shopping habits. You also have to guarantee a smooth shipment and service for you customers.

When you developed all activities for the four parts “product policy”, “price policy”, “promotion policy” (communication) and “place policy” (distribution), and adjusted them to each other, you will get your individual marketing-mix. Already now you can estimate costs for your marketing measures. That information will be part of your finance planning.

### **Excursus: Internet**

The internet (World Wide Web ... WWW) has changed marketing in a way never seen before. Every business, big or small, that takes pride in itself has at least some form of (re)presentation in the internet.

The web is a very powerful tool for your marketing if you use it right. It can be used for distribution just as much as it serves as advertisement. That way, the internet could be the solution to several of your “marketing tasks”.



### WHY YOU SHOULD USE THE INTERNET

- Even a simple website without any options to buy will give your business a virtual storefront to make your business more visible to a worldwide audience.
- Your customer can use it as a resource for information about your product(s) and/or service(s), your location, contacts, and more, making the website a compliment to all other marketing efforts.
- If you should decide to forego the opportunities of an own website, set up at least an email account so you can send and receive information and customer requests. Maybe you want to pay for ads on other websites that relate to your own product(s) and/or service(s). Ask your provider/supplier to include your company's information on their own "link list".

### THINGS TO HAVE IN MIND ...

- Choose a site name (website address) that relates to your business. In case that name has already been taken by someone else, have several others as backup available.
- You can create your website yourself or hire someone to do that. Also, you can host the website on your own computer system or use an Internet Service Provider (ISP) to do that for you. Include the costs for your website in your marketing budget.
- If you want to sell your product(s) and/or service(s) through your website, make arrangements about who will handle the transactions (money traffic, fulfilling the order, etc.).
- Include security measures to protect your business' information from outsiders. Also, make sure that you protect your customers' information.
- Your website need to be updated, depending upon the product(s) and/or service(s) you are offering, quite frequently or just every once in a while. Make sure the information on your website is always complete.

### CREATING TRAFFIC FOR YOUR WEBSITE

- As in the real world, people will only find your website if they know about it. So think about registering with search engines so your website comes up in a search.
- You should also include a tracking program (so called "traffic or hit counter") to monitor how many people visit your site. Some of these programs even allow you to see how long the people stay on your website, what they are looking at and roughly where they come from).
- You can create additional revenue by allowing other companies to post advertisements on your website. Or, in return, you could post advertisements on other websites. Make sure to include any expenses and/or income into your finance planning.

### USE OF SOCIAL MEDIA OR WEB 2.0

- In "*Social Media*" there is "*Media*", which means that social media are digital places for publication.
- In "*Social Media*" there is "*Social*", which implies sharing (files, tastes, opinions...) but also social interactions (individuals gathering into groups, individual acquiring notoriety and influence...).
- Yes, you get the point: **social media are places, tools, services allowing individuals to express themselves (and so to exist) in order to meet, share ... So use it to your business' advantage!**

As described, the internet can offer your business a lot of opportunities, but you can also fail miserably using it. Whether you decide for a normal website or for a social network, your online representation serves as your virtual business card, so make sure your website is proportionate to your business and don't try to overdo it. Sometimes, less is even more.

# Social Media Landscape



## GUIDING QUESTION FOR "MARKETING"

- What steps do you plan to take to bring your product(s) and/or service(s) to the market?
- What features do your product(s) and/or service(s) must have in order to cover the customers' needs?
- Do you favor a one product/service strategy or a multi product/service strategy?
- Do you plan product/service modification, variations and innovations?
- What will be your product(s) and/or service(s) price when you position yourself on the market?
- What are you aiming at with your price strategy?
- How do you get direct contact with your customers?
- What kind of advertisement do you prefer and how do you plan to reach your customers?
- What distribution channels do you plan to use in order to sell your product(s) and/or service(s)?
- How do you want to build your distribution system/network?
- Have you thought about presenting your business on the internet? Did you set up an email-account so that customers can reach you 24/7?

### **BUSINESS SET-UP AND ORGANIZATION**

After you clarified the market potential for your product(s) and/or service(s), it is now time to plan your business itself. At the beginning, a business is often still easily to manage. But once a business become really successful and grows rapidly, a thought-out organization becomes necessary. You shouldn't wait for that until that moment arrives, but much rather built a thought-out basis right at the beginning.



A highly trained staff that is not afraid of learning new things is one of your business' best assets ...

#### **Business Goals**

Name your medium and long-term goals (company vision) and give information about how and when you plan to achieve these goals (stepping stones). Pay attention to the fact that your goals and visions need to be optimistic, but at the same time realistic.

#### **Legal Form, Management and Ownership**

At first, make clear what legal form you chose for your company since that decision will heavily affect your liability towards lender. Also, it will determine the right for investors to have a say (if not even control) in your company and it will also affect your tax situation. You should also include information about the ownership situation of your business and the responsibilities every owner holds. The information given in this segment can be kept short.

#### **Business Key Tasks**

This segments' core is the question what kind of business your company is doing in general and how you plan to organize it. Some sections like marketing, distribution and accounting need to be set up for all companies, while other sections are only necessary for certain companies.

- If you plan to produce your products yourself, you need to set up a production process and acquire the necessary equipment.
- If you have a technological product, it can be useful to set up a business section (department) that is responsible for research and development.
- If your business is offering several different product(s) and/or service(s), setting up separated business sections (departments) can be helpful.

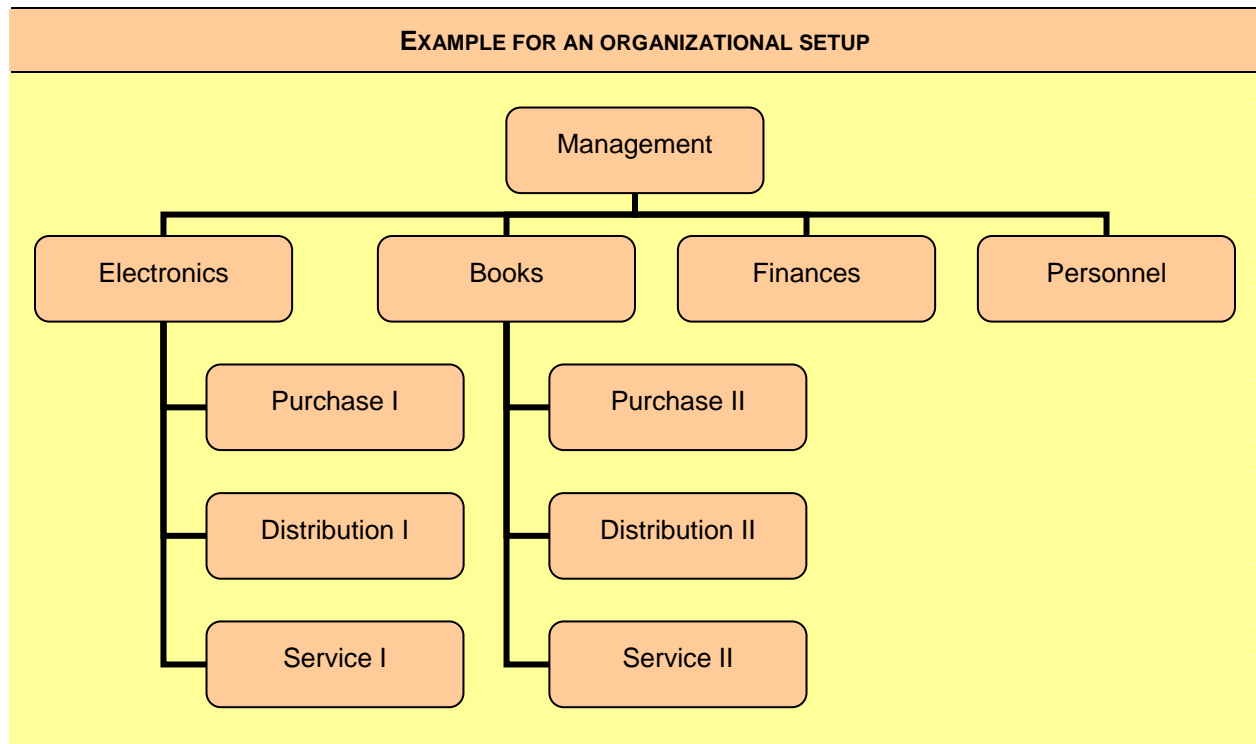
Make clear where your business' key competence is located and focus on it. Think about where your business' strengths are and how you can make your business stand out from your competition. Some tasks can be taken over by external service providers in order to save personnel and other costs, temporarily or permanently. That procedure ("make or buy") is an effective remedy, especially during the first years.

**Organization**

A business organization consists of an organizational setup and a process/operational setup.

Organizational Setup

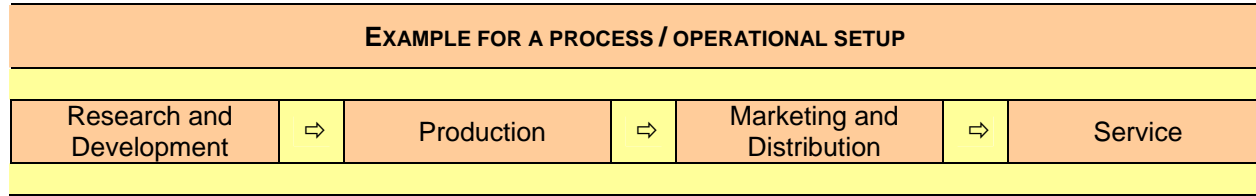
The organizational setup describes the system of organizational units in your business that regulates the responsibilities necessary to run the business. Here you give explicit information about the responsibilities and competences for each section (department) in your business. You should keep your organizational setup flexible so that you can adjust it to a changing environment at any time.



In order to create an organizational setup for your business, you can use the area of operations in your business (i.e. purchase, production, distribution, finances, etc.) for your orientation. Alternatively, you can structure by products (divisional organization), by customer group (market oriented organization) or even create mixtures. Usually, the organizational setup is shown in form of an organigram (organization chart).

Process / Operational Setup

The “process / operational setup” determines business processes and operating cycles. Here you describe your business’ activities that are necessary to provide (or deliver) your product(s) and/or service(s) to your customers. Sometimes it is helpful to create so called functional blocks.



**Personnel**

Give a short description of the training and experience your senior staff (management) and key personnel should have, whether the persons filling these positions belong to the founder (owner) team or if you need to hire external personnel as supplementation.

It is not necessary to include similar descriptions for the remaining staff. Nevertheless, you should always include an overview about how many people your company will have for the first three years of business (for every year separated).

**Location**

For many businesses, the choice of its location is very important, especially for retailer or chain stores. For other businesses, it is much more important to have a low rent. Therefore, think carefully which location factors are important for you (i.e. accessibility/reachability for your customers, existing technical equipment, transport connections, location related costs, infrastructure, etc.).



**Even though you will give much more detailed information about the cost for the organization of your business in the finance planning, you can start already here to determine the costs for personnel, investments and rent.**



**GUIDING QUESTION FOR “MARKETING”**

- Which legal form will your business be in?
- Who are the owner of the business and who will be responsible for the executive management?
- What kind of sections (departments) are necessary for your business in order to make it work?
- What are your business key tasks?
- Is it helpful for your business to hire third party service provider for some tasks?
- What kind of organizational setup are you planning for your business?
- How do you plan to allocate responsibilities and competences?
- What are your staff (personnel) requirements?
- How can you find the right personnel and how can you bind it to your business?
- Which location factors are important for your business?
- What are the costs related to running your business (production costs, distribution costs, administrative costs, etc.)?

## **FINANCE PLAN AND PROJECT FINANCING**

There are many sources for financing out there. It is your job to find a lender and convince him that your business idea is economically sound and profitable. In order to do that, it is crucial to have a detailed and realistic financial planning. The most important information in your finance plan needs to be shown in this chapter of your business plan, while the details can be given as an attachment.



There are many lenders out there who are willing to finance projects. But is yours the right one? ...

The financial information you definitely need to include in your business plan are:

- The amount of financing you are requesting and the total costs, including an overview about how you intend to cover the costs not requested to be financed through a lender. Also, include information about the condition for the loan you are requesting (especially loan term, repayment rhythm, etc.).
- The expected profits or losses during your first years of business (at least three years should be shown).
- When you expect to become profitable (break-even-point).
- Explanation of your assumptions.
- A statement about your personal finances.

### **Sources and Uses of Funds (Loan Request)**

This section is brief, simply list where monies are coming from to fund the project or start-up of your business ("sources") and how you will spend the "sources" to complete the Project or start up the business ("uses").

The totals of both sides must be equal. "Working capital" is the money you have left over after totaling all of the specific "uses" and subtracting that total from the "sources" total. The "working capital" number will be used in month 1 of your "cash-flow projections".

Most lenders expect you to invest some of your own money in the project, since it shows commitment and your willingness to bear some of the risks connected with your project. Usually, lenders expect you to invest between 10% and 30% of the project costs, some lenders even more. Attach proof that you actually hold assets that can be used to finance your part of the project costs (bank statements, deeds if you want to use property, etc.).

Also, it is a good idea to include information about what kind of loan you are requesting (short term, intermediate term, or long term) and how you plan to repay the loan, as well as collateral you are willing to offer in order to secure the loan.



**In general, the loan term you are choosing should correspond with the life expectancy of the item you want to finance. For example, a car with an average life expectancy (standard appreciation time) of 5 years should not be financed with a loan longer than these 5 years.**

**Short Term (less than a year)**

**Short-term loans are called “Lines of Credit” (LOC) or “Revolvers” and work like a credit card, with a pre-determined amount. Lines of credit are primarily used for working capital and must be paid back in full within that year.**

**Intermediate Term (1 – 10 years)**

**An intermediate term loan can be used to buy a business, equipment or for long-term working capital. Repayment usually occurs in monthly payment, but quarterly, semi-annually or even annually payments are possible as well.**

**Long Term (10 years or more)**

**Loan with a long term work like a mortgage and can be used to finance commercial real estate, commercial vehicles (not cars) and heavy equipment.**

Be aware, that lenders do not consider your offered collateral with the value you are stating. It is common for lenders to initiate appraisals of your collateral and to discount the value. The costs for appraisals have to be paid by you, in most cases. Include an estimate for these costs in your calculation. The total discounted collateral must at least equal the loan amount you are requesting, but some lenders require an additional coverage of up to 25%.

**EXAMPLE FOR A COLLATERAL CALCULATION**

<b>Example</b>	<b>Market Value</b>	<b>Discount</b>	<b>Discounted Value</b>
Inventory	\$ 20,000.00	50%	\$ 10,000.00
Equipment, Machines	\$ 8,000.00	50%	\$ 4,000.00
Property	\$ 50,000.00	80%	\$ 40,000.00
Accounts Receivable	\$ 2,000.00	25%	\$ 500.00
<i>Total:</i>	<i>\$ 80,000.00</i>	<i>-</i>	<i>\$ 54,500.00</i>

**Pro-Forma Income Projections (Profit and Loss Statement)**

The core of your profit and loss statement is the determination when your business will start to make profit (break-even-point) and how much profit you expect. It requires you to project (estimate) future sales/income and expenses based on the business plan going forward.

Existing businesses can use their historical financial information as a starting point to project future sales and expenses. If you are a start-up, you won't have any prior numbers to work from.

You'll have to give your best estimates on what they will be. You have to be realistic. Also, you should do some research to support your estimates and get quotes for expense items to make sure your estimates are reasonable.

This is a guideline for your business's ability to be profitable. The business may not show profitability in its first year(s). However, it should be profitable within a reasonable amount of time or it may be showing you that the business can't support you. The profit and loss statement should be prepared for at least the first three years, with the first year on a monthly basis, while the other years can be on a cumulated basis. If your business is seasonal, explain why and how that will affect the business' income.

### **Pro-Forma Cash Flow Projections**

Next to your income projections, your cash-flow projections are just as important. Here you calculate your in and outgoing payments on your business account. Also, the capital requirements for your business (especially for the start-up period) have to be included. Your income projections will tell you if you have to expect a capital (cash) shortage in the future, allowing you to react to it before it actually occurs.

That way, you can make sure that your business will always have enough cash to actually stay in business. Note that the government estimates that most small businesses that file for bankruptcy are actually profitable when they file. These businesses just run out of money needed to run day-to-day operations!

As with the profit and loss statement, your cash-flow projections should include at least the first three years of business, with the first year on a monthly basis, while the remaining years can be on a cumulated basis.

**CREATING REVENUE AND EXPENSES (PROFIT & LOSS STATEMENT)  
VS.  
RECEIPT OF PAYMENTS AND MAKING PAYMENTS (CASH-FLOW PROJECTIONS)**

- Whenever you sell a product and/or service and create a bill for it, you generate revenue that will be shown in your profit and loss statement immediately. But for your cash-flow plan it is important to know when that bill has been or will be paid. If your customer pays that bill two months after he bought your product and/or service, accordingly your cash-flow will be affected only two months after the sell.
- If you make investments (i.e. new computers, machines, cars, etc.) you have to pay these investments by delivery (or shortly after). Your cash-flow plan will show that investment as payment by the time you pay the bill. But your profit and loss statement will never show that payment since investments are not considered expenses. The expense related to that investment will be the related depreciation throughout the following years.
- If you take out a loan and that loan gets disbursed to you, your cash-flow plan will show the receipt of that payment. But receiving the loan does not create revenue for your business. Also, the repayment of the loan principal does not affect your profit and loss statement, only your cash-flow statement. The only loan related expense that will be shown in your profit and loss statement as well will be the interest!

You will note that some numbers in the profit and loss statement and in the cash-flow projections are actually the same. But don't assume that you are doing the same work twice. There are some decisive differences between the profit and loss statement and the cash-flow projections.

### **Pro-Forma Balance Sheet (Fiscal Year-End Statement)**

The balance sheet is a snapshot of your business financial situation on a given date (mostly 12/31 or 06/30, but every other combination is possible too. It is just important to remember to use the same date for every year), mirroring your assets and liabilities.

Here you will find the profit or loss, determined in the profit and loss statement, as one influencing factor. The balance sheet consists of two parts (sides), while the total of both parts must equal each other. The first part is called “assets” and includes all your companies “belongings” and claims you have towards other (“accounts receivable”).

It is important to know that asset’s “wear out”, which means they loose value over time. The only exception is land. The “lost” value is called “deduction” and is shown as a reserve for the “depreciation”, which will be found in your “profit and loss statement”.

The remaining asset value in your balance sheet does not necessarily have to be equivalent to the real market value or the price you could sell that asset for.

The second part lists all your company’s debts (“liabilities”). The difference between these debts and the assets from the first part shows your company’s “capital or net worth”. The “liabilities” and the “capital or net worth” combined must equal the assets in your company.

If your company already exists, include the fiscal year-end statements for the last three years and an interim statement (not more than 90 days old) as attachment. For start-up companies, please provide an opening balance sheet that will show your company’s assumed financial situation the day after the loan closes.

<b>EXAMPLE FOR A BALANCE SHEET</b>	
<b>Assets</b>	<b>Liabilities</b>
<i>Cash</i>	<i>Current Portion of long-term debt</i>
<i>Time deposits and short-term investments</i>	<i>Notes Payable</i>
<i>Accounts Receivable (A/R)</i>	<i>Accrued Taxes</i>
<i>Prepayments</i>	<i>Accounts Payable (A/P)</i>
<i>Inventory</i>	Total Current Liabilities
Total Current Assets	
	<i>Loans Payable</i>
<i>Fixed Assets</i>	Total Long-term Liabilities
<i>(Less Accumulated Depreciation)</i>	
<i>Fixed Assets (net)</i>	Total Liabilities
<i>Advances to owners</i>	
Total Non-current Assets	<i>Owners Investment / Capital Stock</i>
	<i>Retained Earnings</i>
	Total Capital
<b>Total Assets</b>	<b>Total Liabilities &amp; Capital</b>

**Break-Even Analysis**

This section will show you what level of sales will be needed to cover all of your fixed expenses. This will tell you at what point you start to produce profits. (One dollar more and your business is profitable. One dollar less and your business shows a loss). To determine the break-even point for your business requires you to determine two numbers. The first is your fixed cost. These are expenses you must pay every month regardless of your sales volume.

Fixed costs include rent, insurance, interest, office supplies, maintenance fees, administrative costs, salaries, etc. Total your Fixed Costs and divide the total by your Average Gross Profit Margin, Simply put, your Gross Profit is the amount of profit you make on a sale. The Gross Profit Margin is your Gross Profit shown as a percentage of your total sales.

For example, you sell an item for \$25.00. The item has variable costs of \$15.00, related strictly to the item and not including any overhead (fixed) costs. Your Gross Profit is \$10.00 (\$25.00 sale minus \$15.00 cost). Your Gross Profit Margin is calculated by dividing Gross Profits by Sales Price.

In this example, the Gross Profit Margin is 40% (\$10 divided by \$25). Your Average Gross Profit Margin is the average estimated gross Profit Margin on all sales of all products. This is also expressed as a percentage.

Now that you know your Fixed Costs and your Average Gross Profit Margin, you can complete your break-even analysis. The formula is as follows:

$$\frac{\text{Fixed Costs}}{\text{Profit Margin}} = \text{Break-even Point}$$

For example, if you have \$1000 per month in Fixed Cost and your Average Gross Profit Margin is 40%, then your Break-even point would be \$1000 divided by 0.40 or \$2500. This means that you have to sell good for \$2500.00 to break even for the month.

**Determination of the loan amount (1-2-3 method)**

No matter how high your startup costs are, there is a maximum amount of loans your business can handle. Many people (and especially first-time founders) have problems to determine how much money they should request from a lender. And although there is no definitive way to determine the best possible loan amount, some easy calculations can help you to come up with a number that can be used as starting point for your “negotiations” with potential lenders.

The “1-2-3 method” will provide you three different values: The lowest value from 1 to 3 is the maximum loan size you should request from your lender. If your capital need is higher than that, you need to think about increasing you own share of the project costs or revise the project completely in order to match it to the loan amount possible. If you manage it to obtain subsidized financing with lower interest rates, the maximal loan amount goes up accordingly.

**CALCULATION OF THE MAXIMUM LOAN AMOUNT**

**1. “Collateral Coverage” (“Discounted Collateral”)**

In general, it doesn’t matter how much money you want to borrow, it is important that every dollar borrowed is covered in collateral. As described in the guide (page 21), lenders discount the collateral that you offer to them. That means that the discounted value of your collateral (and not the assumed current value) must equal the loan amount. By using the example from page 21, your maximum loan amount would be \$54,500.

**2. Your (business) ability to repay (“Debt Service Coverage”)**

As a rule of thumb, every two dollars your business has in annual cash-flow, a lender will allow a maximum of one dollar in loan payments (50% rule). Of course, that will differ from lender to lender, but it should send you into the right direction.

Example: Your annual cash-flow is \$12K, which results in \$6K as the maximum amount lenders usually allow in annual payments. Now you need the average interest rate lenders charge on business loans. For our calculation, we assume 8% per anno for a 5 year loan. For every \$1,000 loan, that would result in around \$244 in payments per year. Finally, you divide the \$6K (the maximum lenders allow as annual loan payments) by these \$244 and you come up with 24.59 ... which equals \$24,590 (since the calculation was based on \$1,000).

**CALCULATION OF THE MAXIMUM LOAN AMOUNT**

**3. Equity (“Debt-to-Worth” / “Leverage”)**

Another rule says that a business can borrow up to three dollar for every dollar it has invested (“Capital Stock”).

Example: You business has a net worth or equity of \$15K. The maximum loan based on the equity is \$45,000 (\$15K x 3).

You will gather the information necessary to complete the “1-2-3 method” during the course of writing your business plan anyway, so don’t be afraid of using them. It is much better for you if you find out by yourself that you can’t finance your project the way you wanted, than being told by a bank. That way you can revise your project and hopefully find another way to achieve your dream.

In our calculation, the lowest amount results from number 2 ... \$24,590. That means that even if your collateral could cover a much higher loan, your business can only support a loan in the amount of roughly \$25,000. Of course, you can always try to apply for an amount higher, but be aware that lenders do make their own calculation in order to find out how much loan your business can handle. Sometimes, if your collateral is really good, lenders are willing to give you a higher amount, but there is no guarantee for that.

**Business Ratios**

If you ask yourself right now what a “business ratio” is, than just imagine it as a “score” that your business is reaching in a certain area. And there are many business areas lenders determine “scores” for. These “business ratios” help the lender to make a decision whether they want to be a part of your project or not.

Lenders (and potential investors as well) compare these ratios to:

- Internal acceptable bank ranges,
- Your company’s former years (history), and
- Other companies in your industry.

You can find industry averages in reference books and on the internet. They include:

- The RMA Annual Statement Studies,
- The Almanac of Business and Industrial Financial Ratios,
- Dun & Bradstreet,
- Your industry’s associations,
- Trade periodicals (magazines and newspapers for your industry), and
- The Small Business Administration (SBA).

**ASSET MANAGEMENT RATIOS**

**Accounts Receivable Turnover** =  $\frac{\text{Accounts Receivable}}{\text{Net Sales Figure}}$

... Shows how many days it takes for you to collect money that is owed to you. The lower, the better. Number sources are the balance sheet and the loss & income statement.

**Inventory Turnover** =  $\frac{\text{Inventory Figure}}{\text{Cost of Goods sold}}$

... Shows how many days it takes you to turnover (or sell) your inventory. The lower, the better. Number sources are the balance sheet and the loss & income statement.

**LIQUIDITY RATIOS**

**Working Capital** =  $\frac{\text{Current Assets} - \text{Current Liabilities}}$

... Shows if your company has enough cash to pay bills. The answer must be positive. Otherwise your company needs more money (higher loan amount). Number source is the balance sheet.

**Quick or Acid Test** =  $\frac{\text{Total Current Assets} - \text{Inventory}}{\text{Total Current Liabilities}}$

... This ratio eliminates the inventory from current assets and cash since it may become no longer useful. It is called "quick" because it includes only item that can be turned into cash. Number source is the balance sheet.

**Current** =  $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

... Tests a company's short-term debt paying ability. The ratio must be at least one, but should be actually higher. Number source is the balance sheet.

**DEBT MANAGEMENT RATIOS**

**Leverage (Debt-to Worth)** =  $\frac{\text{Total Liabilities}}{\text{Total Capital}}$

... Determines whether a company has enough equity. Lower answers are better. Lenders prefer it to be lower than three. Number source is the balance sheet.

**Accounts Payable turnover** =  $\frac{\text{Accounts Payable} \times 365 \text{ Days}}{\text{Purchases}}$

... Shows how quickly a company pays its suppliers. Lower number are better (a high number could implicate that your business has cash-flow problems). Number sources are the balance sheet and the loss & income statement.

**PROFITABILITY MANAGEMENT RATIOS**

**Profit Margin on Sales** =  $\frac{\text{Net Profit}}{\text{Net Sales}}$

... Shows the percentage of net profit for every dollar of sales. If the profit margin is too low: The prices are too low, the costs of goods are too high, or expenses are too high. You should compare the profit margin to previous years (for existing companies) and hopefully show a positive development. Number source is the loss & income statement.

**Cash-flow to Current Maturities (Debt Service)** =  $\frac{\text{Net Profit} + \text{Depreciation}}{\text{Current Portion of long-term Debt}^*}$

... Shows your business' ability to pay term debts after owner's withdrawal. Lenders prefer a ratio of two or better. Number sources are the balance sheet and the loss & income statement. (\* For new business, use one year's worth of loan payments.)

For your business plan, it is not always necessary to calculate and include these ratios since lenders will make their own calculations anyway. But these ratios can give you information about the state of your business that can be useful for your day-to-day operations and for creating a business plan.

Therefore, you should familiarize yourself with these ratios. If you know where your business' problems are, you are automatically identifying areas for improvements and areas where your business can potentially grow. Use these numbers for your business' advantage and adjust your business plan in a way that your future is designed to improve these ratios.

Lenders don't finance your business because they want it to stay the way it is. They always have in mind that every financing they give you should be used to improve your business. The ratios explained above can help you to show these improvements.



Knowing where your business is going financially is one of your most important tasks ...

**SUGGESTED BUSINESS PLAN OUTLINE****Cover Sheet:**

- Business name and address,
- Names of principals, and
- Business phone number.

**1. The Business, Goals, and Visions**

- Description and brief history
- Name of owners / principals
- Type of organization, date organized, and principals
- Location

**2. Business Idea, Products and/or Services**

- Type of business
- Product and/or Services and their volumes (by sections)
- Number of Employees
- Prospects and expectations
- Description of plant and equipment, and whether facility is owned or leased
- Adequacy or plans for expansion

**3. Market, Industry and Competition**

- Market situation and industry
- Competition
- Territories covered
- Target Customer Group
- Sales policies and distribution methods

**4. Marketing**

- Marketing Mix (Product, Price, Promotion/Communication and Place/Distribution)
- Market Entry Strategy

**5. Team, Management, and Organization**

- Management, including a brief background on each principal (If management differs from owners, include background of both managers and owners.)
- Organization of Business

**6. Financial Data / Financial Planning & Personal Information**

- Summary of historical financial reports for existing business
- Summary for your three year projections (future)
- Summary of personal financial information / Income
- Explanation of your assumptions
- Credit Terms / Loan requested
- Collateral available
- References

**7. Supporting Information and Documents**

- Historical (3 Year) business and personal Tax Returns
- Current balance sheet / List of Accounts receivable and payable
- Balance sheet and income statements for last three years
- Pro-forma cash flow for three years
- Break-even analysis
- Schedule of existing debts

**GLOSSARY OF TERMS**

<b>Accounts payable</b>	Amount owed to creditors for goods and services received on an open account.
<b>Accounts receivable</b>	Amount due from customers for merchandise or services purchased on an open account.
<b>Asset</b>	Anything owned by a business or individual that has commercial or exchange value.
<b>Balance Sheet</b>	Financial statement that presents a “snapshot” of what the business owns, what it owes, and what equity it has on a given date.
<b>Capital</b>	See “Equity”.
<b>Capital expenditures</b>	Purchases of long-term assets, such as equipment, used in manufacturing a product.
<b>Cash flow</b>	Incoming cash to the business less the outgoing cash during a given period. Also used to refer to the figure derived from the net income plus non-cash items charged off in the accrual accounting process.
<b>Collateral</b>	Assets pledged to secure a loan.
<b>Compensating Balance</b>	Money a bank requires a company to leave in a deposit account as part of a loan agreement.
<b>Corporation</b>	Form of business ownership that is a legal entity on its own and puts stockholders and the board of directors in control. Owners have limited liability for the corporation's actions. A corporation has unlimited life and in most cases is taxed as an entity on its own.
<b>Cost of goods sold</b>	Figure representing the cost of buying raw materials and producing finished goods.
<b>Current assets</b>	Cash or other assets you expect to use in the operation of the firm within one year.
<b>Current liabilities</b>	Debts you expect to pay within one year.
<b>Depreciation</b>	Amortization of the cost of a fixed asset, such as plant and equipment, over several years, or the “depreciable life.”
<b>Equity</b>	The ownership interest in a business remaining after its liabilities are deducted. Also known as common stock plus retained earnings, or capital.
<b>Extraordinary items</b>	Unusual or nonrecurring event that must be explained to shareholders or investors, such as a manufacturer's sale of a building.
<b>Finance company</b>	Competitors of commercial banks in providing credit to households and firms. Unlike banks, they do not accept deposits.
<b>Financial projections</b>	Estimates of the future financial performance of a firm.

<b>Financial Statements</b>	Written record of the financial status of an individual or organization. Commonly include profit and loss, or income, statement; the balance sheet, which includes a statement of the company's retained earnings; and the cash flow statement.
<b>Fixed assets</b>	Long-term assets such as buildings, equipment, or property that are not expected to be converted to cash in the near term.
<b>Gross profit</b>	Indicates the revenues of the firm before consideration of its operating expenses. New sales less cost of goods sold.
<b>Gross profit margin</b>	Measures a firm's profitability.
<b>Installment loan</b>	Loan type that is paid in periodic payments, such as an automobile loan.
<b>Investor</b>	An individual who takes an ownership position in a company, thus assuming risk of loss in exchange for anticipated returns.
<b>LLC</b>	See "Limited Liability Company".
<b>Leverage</b>	Measures the firm's use of borrowed funds versus those funds provided by the shareholders or owners (equity).
<b>Liabilities</b>	Anything owed by a business or individual that has commercial or exchange value.
<b>Limited Liability Company</b>	Provides benefits of a corporation, but less complicated to set up and maintain. Abbreviation: LLC.
<b>Line of credit</b>	Although not a contract, a bank's promise to lend to a specific borrower up to a pre-agreed amount during a specific time frame. Usually reviewed annually and subject to cancellation without notice.
<b>Liquid assets</b>	Those assets that can be readily turned into cash.
<b>Liquidity</b>	Gauges firm's ability to quickly turn assets into cash.
<b>Marketable securities</b>	Securities that can be sold easily.
<b>Net income</b>	The sum remaining after all expenses have been met or deducted. Also called profit.
<b>Net sales</b>	Gross sales minus returns and allowances.
<b>Net worth</b>	Excess of assets over debt.
<b>Niche</b>	Particular specialty in which a firm has gained a large market share.
<b>Operating expenses</b>	Those costs associated with the day-to-day activities of the business.
<b>Operating profit (loss)</b>	Income or loss before taxes and extraordinary items resulting from transactions other than those in the normal course of business.
<b>Operating profit margin</b>	Measures a firm's profitability by examining the pre-tax profit generated from primary operations (versus extraordinary items) in relation to net sales: operating-profit divided by net sales.
<b>PADD</b>	See "Purchase Area Development District"

<b>Partnership</b>	Can be general or limited, but in either case the general partners are in control. The tax burden is shared by all the partners at their personal rate, and the general partners have unlimited liability. Limited partners have limited liability.
<b>Principal</b>	The currently unpaid balance of a loan, not including interest owed. Also can refer to a primary owner or investor.
<b>Profit</b>	Compensation an entrepreneur receives for the assumption of risk in a business venture. Also called net income.
<b>Profit and loss statement</b>	Summary of the revenues, costs, and expenses for a business over a period of time. Also called the income statement.
<b>Pro forma financial statements</b>	Financial statements for a business where certain amounts are shown hypothetical, or estimated, for the period projected.
<b>Purchase Area Development District</b>	Local agency that coordinates a pool of federal, state, and local funding sources to compliment existing lenders, in order to provide gap financing to new and expanding businesses. Abbreviation: PADD.
<b>RD</b>	See "Rural Development"
<b>Retained earnings</b>	Net profits accumulated in a business after dividends are paid.
<b>Rural Development</b>	Federal agency created to support essential public facilities and services such as water and sewer systems, housing, health clinics, emergency service facilities and electric and telephone service; and to promote economic development by supporting loans to businesses through banks and community-managed lending pools. Abbreviation: RD.
<b>SBA</b>	See "Small Business Administration".
<b>Seasonal loan</b>	A loan made for the purpose of meeting predictable and periodic funding needs, such as funding of camping gear inventory before summer purchases.
<b>Small Business Administration</b>	Federal agency (SBA) created in 1953 to provide management and financial assistance to small businesses. Mainly, the SBA guarantees loans through financial institutions. The loans may be used for working capital, machinery and equipment acquisition of real estate, and expansion.
<b>Sole proprietorship</b>	A type of business where the owner has full control and unlimited liability. A sole proprietorship is taxed at the personal income tax rate.