

**WORKSHOP**

**INTRODUCTION**

**THE BUSINESS PLAN  
ROAD MAP TO SUCCESS**

**WORKBOOK**

**Training Module - 2**

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**Workshop Objectives**

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By the end of this workshop, you should be able to:

- Understand the role of the business plan.
- List several reasons for developing a business plan.
- Identify sources where you can get help in developing a business plan.
- Identify the type of information to include in the business plan.
- Prepare an outline for a business plan.

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## **BUSINESS PLAN OUTLINE**

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Below is an outline for a business plan. Use this model as a guide when developing the business plan for your business.

### ***Elements of a Business Plan***

1. Cover sheet
2. Statement of purpose
3. Table of contents

#### **I. The Business**

- A. Description of business
- A. Marketing
- B. Competition
- C. Operating procedures
- D. Personnel
- E. Business insurance
- G. Financial data

#### **II. Financial Data**

- A. Loan applications
- B. Capital equipment and supply list
- C. Balance sheet
- D. Breakeven analysis
- E. Pro-Forma income projections (profit & loss statements)
  - Three-year summary
  - Detail by month first year
  - Detail by quarters, second and third years
  - Assumptions upon which projections were based
- F. Pro-forma cash flow
  - Follow guidelines for letter E.

#### **III. Supporting Documents**

- Tax returns of principals for last three years
- Personal financial statement (all banks have these forms)
- In the case of a franchised business, a copy of franchise contract and all supporting documents provided by the franchisor
- Copy of proposed lease of purchase agreement for building space
- Copy of licenses and other legal documents
- Copy of resumes of all principals

- Copies of letters of intent from suppliers, etc.
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## **THE BUSINESS PLAN - WHAT IT INCLUDES**

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What goes in a business plan? This is an excellent question to ask. And, one that many new and potential small business owners should ask, but oftentimes don't ask. The body of the business plan can be divided into four distinct sections: 1) the **description of the business**, 2) the **marketing plan**, 3) the **financial management plan** and 4) the **management plan**. Addenda to the business plan should include the **executive summary**, **supporting documents** and **financial projections**.

### **Description of the business**

In this section, provide a detailed description of your business. An excellent question to ask yourself is: "What business am I in?" In answering this question include your products, market and services as well as a thorough description of what makes your business unique. Remember, however, that as you develop your business plan, you may have to modify or revise your initial questions.

The business description section is divided into three primary sections. Section 1 actually describes your business, Section 2 the product or service you will be offering and Section 3 the location of your business, and why this location is desirable (some franchisors assist in site selection).

#### **1. Business Description**

When describing your business, generally you should explain:

1. Legalities - business form: proprietorship, partnership, corporation. What licenses or permits you will need.
2. Business type: merchandizing, manufacturing or service.
3. What your product or service is.
4. Is it a new independent business, a takeover, an expansion, a franchise?
5. Why your business will be profitable. What are the growth opportunities? How will franchising impact on growth opportunities?
6. When your business will be open (days, hours)?
7. What you have learned about your kind of business from outside sources (trade suppliers, bankers, other franchise owners, franchisor, publications).

A cover sheet goes before the description. It includes the name, address and telephone number of the business and the names of all principals. In the description of your business,

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describe the unique aspects and how or why they will appeal to consumers. Emphasize any special features that you feel will appeal to customers and explain how and why these features are appealing.

The description of your business should clearly identify goals and objectives and it should clarify why you are, or why you want to be, in business.

## **2. Product/Service**

Try to describe the benefits of your goods and services from your customers' perspective. Successful business owners know or at least have an idea of what their customers want or expect from them. This type of anticipation can be helpful in building customer satisfaction and loyalty. And, it certainly is a good strategy for beating the competition or retaining your competitiveness. Describe:

1. What you are selling.
2. How your product or service will benefit the customer.
3. Which products/services are in demand; if there will be a steady flow of cash.
4. What is different about the product or service your business is offering.

## **3. The Location**

The location of your business can play a decisive role in its success or failure. Your location should be built around your customers, it should be accessible and it should provide a sense of security. Consider these questions when addressing this section of your business plan:

1. What are your location needs?
2. What kind of space will you need?
3. Why is the area desirable? the building desirable?
4. Is it easily accessible? Is public transportation available? Is street lighting adequate?
5. Are market shifts or demographic shifts occurring?

It may be a good idea to make a checklist of questions you identify when developing your business plan. Categorize your questions and, as you answer each question, remove it from your list.

## **The Marketing Plan**

Marketing plays a vital role in successful business ventures. How well you market your business, along with a few other considerations, will ultimately determine your degree of

success or failure. The key element of a successful marketing plan is to know your customers -- their likes, dislikes, expectations. By identifying these factors, you can develop a marketing strategy that will allow you to arouse and fulfill their needs.

Identify your customers by their age, sex, income/educational level and residence. At first, target only those customers who are more likely to purchase your product or service. As your customer base expands, you may need to consider modifying the marketing plan to include other customers.

Develop a marketing plan for your business by answering these questions. (Potential franchise owners will have to use the marketing strategy the franchisor has developed.) Your marketing plan should be included in your business plan and contain answers to the questions outlined below.

1. Who are your customers? Define your target market(s).
2. Are your markets growing? steady? declining?
3. Is your market share growing? steady? declining?
4. If a franchise, how is your market segmented?
5. Are your markets large enough to expand?
6. How will you attract, hold, increase your market share? If a franchise, will the franchisor provide assistance in this area? Based on the franchisor's strategy, how will you promote your sales?
7. What pricing strategy have you devised?

*Appendix I* contains a sample **Marketing Plan** and **Marketing Tips, Tricks and Traps**, a condensed guide on how to market your product or service. Study these documents carefully when developing the marketing portion of your business plan.

## 1. Competition

Competition is a way of life. We compete for jobs, promotions, scholarships to institutes of higher learning, in sports -- and in almost every aspect of your lives. Nations compete for the consumer in the global marketplace as do individual business owners. Advances in technology can send the profit margins of a successful business into a tailspin causing them to plummet overnight or within a few hours. When considering these and other factors, we can conclude that business is a highly competitive, volatile arena. Because of this volatility and competitiveness, it is important to know your competitors.

Questions like these can help you:

1. Who are your five nearest direct competitors?
2. Who are your indirect competitors?
3. How are their businesses: steady? increasing? decreasing?

4. What have you learned from their operations? from their advertising?
5. What are their strengths and weaknesses?
6. How does their product or service differ from yours?

Start a file on each of your competitors. Keep manila envelopes of their advertising and promotional materials and their pricing strategy techniques. Review these files periodically, determining when and how often they advertise, sponsor promotions and offer sales. Study the copy used in the advertising and promotional materials, and their sales strategy. For example, is their copy short? descriptive? catchy? or how much do they reduce prices for sales? Using this technique can help you to understand your competitors better and how they operate their businesses.

## **2. Pricing and Sales**

Your pricing strategy is another marketing technique you can use to improve your overall competitiveness. Get a feel for the pricing strategy your competitors are using. That way you can determine if your prices are in line with competitors in your market area and if they are in line with industry averages.

Some of the pricing strategies are:

- retail cost and pricing
- competitive position
- pricing below competition
- pricing above competition
- price lining
- multiple pricing
- service costs and pricing (for service businesses only)
  - service components
  - material costs
  - labor costs
  - overhead costs

The key to success is to have a well-planned strategy, to establish your policies and to constantly monitor prices and operating costs to ensure profits. Even in a franchise where the franchisor provides operational procedures and materials, it is a good policy to keep abreast of the changes in the marketplace because these changes can affect your competitiveness and profit margins.

*Appendix 1* contains a sample Price/Quality Matrix, review it for ideas on pricing strategies for your competitors. Determine which of the strategies they use, if it is effective and why it is effective.

### 3. Advertising and Public Relations

How you advertise and promote your goods and services may make or break your business. Having a good product or service and not advertising and promoting it is like not having a business at all. Many business owners operate under the mistaken concept that the business will promote itself, and channel money that should be used for advertising and promotions to other areas of the business. Advertising and promotions, however, are the life line of a business and should be treated as such.

Devise a plan that uses advertising and networking as a means to promote your business. Develop short, descriptive copy (text material) that clearly identifies your goods or services, its location and price. Use catchy phrases to arouse the interest of your readers, listeners or viewers. In the case of a franchise, the franchisor will provide advertising and promotional materials as part of the franchise package, you may need approval to use any materials that you and your staff develop. Whether or not this is the case, as a courtesy, allow the franchisor the opportunity to review, comment on and, if required, approve these materials before using them. Make sure the advertisements you create are consistent with the image the franchisor is trying to project. Remember the more care and attention you devote to your marketing program, the more successful your business will be.

A more detailed explanation of the marketing plan and how to develop an effective marketing program is provided in the **Workshop on Marketing**. See Training Module 3 - *Marketing Your Business for Success*.

#### The Management Plan

Managing a business requires more than just the desire to be your own boss. It demands dedication, persistence, the ability to make decisions and the ability to manage both employees and finances. Your management plan, along with your marketing and financial management plans, sets the foundation for and facilitates the success of your business.

Like plants and equipment, people are resources -- they are the most valuable asset a business has. You will soon discover that employees and staff will play an important role in the total operation of your business. Consequently, it's imperative that you know what skills you possess and those you lack since you will have to hire personnel to supply the skills that you lack. Additionally, it is imperative that you know how to manage and treat your employees. Make them a part of the team. Keep them informed of, and get their feedback regarding, changes. Employees oftentimes have excellent ideas that can lead to new market areas, innovations to existing products or services or new product lines or services which can improve your overall competitiveness.

Your management plan should answer questions such as:

- How does your background/business experience help you in this business?
- What are your weaknesses and how can you compensate for them?
- Who will be on the management team?
- What are their strengths/weaknesses?
- What are their duties?
- Are these duties clearly defined?
- If a franchise, what type of assistance can you expect from the franchisor?
- Will this assistance be ongoing?
- What are your current personnel needs?
- What are your plans for hiring and training personnel?
- What salaries, benefits, vacations, holidays will you offer? Are these issues covered in the management package the franchisor will provide?
- What benefits, if any, can you afford at this point?

If a franchise, the operating procedures, manuals and materials devised by the franchisor should be included in this section of the business plan. Study these documents carefully when writing your business plan, and be sure to incorporate this material. The franchisor should assist you with managing your franchise. Take advantage of their expertise and develop a management plan that will ensure the success for your franchise and satisfy the needs and expectations of employees, as well as the franchisor.

## The Financial Management Plan

Sound financial management is one of the best ways for your business to remain profitable and solvent. How well you manage the finances of your business is the cornerstone of every successful business venture. Each year thousands of potentially successful businesses fail because of poor financial management. As a business owner, you will need to identify and implement policies that will lead to and ensure that you will meet your financial obligations.

To effectively manage your finances, plan a sound, realistic budget by determining the actual amount of money needed to open your business (start-up costs) and the amount needed to keep it open (operating costs). The first step to building a sound financial plan is to devise a **start-up budget**. Your start-up budget will usually include such one-time-only costs as major equipment, utility deposits, down payments, etc.

The start-up budget should allow for these expenses.

### Start-up Budget

- |                                      |                           |
|--------------------------------------|---------------------------|
| • personnel (costs prior to opening) | • legal/professional fees |
| • occupancy                          | • licenses/permits        |
| • equipment                          | • insurance               |
| • supplies                           | • advertising/promotions  |

- salaries/wages
- income
- utilities
- payroll expenses
- accounting

An **operating budget** is prepared when you are actually ready to open for business. The operating budget will reflect your priorities in terms of how you spend your money, the expenses you will incur and how you will meet those expenses (income). Your operating budget also should include money to cover the first three to six months of operation. It should allow for the following expenses.

### Operating Budget

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• personnel</li> <li>• rent</li> <li>• loan payments</li> <li>• legal/accounting</li> <li>• supplies</li> <li>• salaries/wages</li> <li>• dues/subscriptions/fees</li> <li>• repairs/maintenance</li> </ul> | <ul style="list-style-type: none"> <li>• insurance</li> <li>• depreciation</li> <li>• advertising/promotions</li> <li>• miscellaneous expenses</li> <li>• payroll expenses</li> <li>• utilities</li> <li>• taxes</li> </ul> |
|--|---|

The financial section of your business plan should include any loan applications you've filed, a capital equipment and supply list, balance sheet, breakeven analysis, pro-forma income projections (profit and loss statement) and pro-forma cash flow. The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years.

The accounting system and the inventory control system that you will be using is generally addressed in this section of the business plan also. If a franchise, the franchisor may stipulate in the franchise contract the type of accounting and inventory systems you may use. If this is the case, he or she should have a system already intact and you will be required to adopt this system. Whether you develop the accounting and inventory systems yourself, have an outside financial advisor develop the systems or the franchisor provides these systems, you will need to acquire a thorough understanding of each and how it operates. Your financial advisor can assist you in developing this section of your business plan.

The following questions should help you determine the amount of start-up capital you will need to purchase and open your franchise.

- How much money do you have?
- How much money will you need to purchase the franchise?
- How much money will you need for start-up?

- How much money will you need to stay in business?

Other questions that you will need to consider are:

- What type of accounting system will you use? Is it a single entry or dual entry system?
- What will your sales goals and profit goals for the coming year be? Will the franchisor set your sales and profit goals? Or, will he or she expect you to reach and retain a certain sales level and profit margin?
- What financial projections will you need to include in your business plan?
- What kind of inventory control system will you use?

Your plan should include an explanation of all projections. Unless you are thoroughly familiar with financial statements, get help in preparing your cash flow and income statements and your balance sheet. Your aim is not to become a financial wizard, but to understand the financial tools well enough to gain their benefits. Your accountant or financial advisor can help you accomplish this goal.

Sample balance sheets, income projections (profit and loss statements) and cash flow statements are included in Appendix 2, **Financial Management**. For a detailed explanation of these and other more complex financial concepts, contact your local SBA Office. Look under the U.S. Government section of the local telephone directory.

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## **SELF-PACED ACTIVITY**

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During this activity you will:

- Briefly describe what goes into a business plan.
- Identify advantages of developing the marketing, management and financial management plans.
- List financial projections included in the financial management plan.
- Sketch an outline for a business plan.

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# **APPENDIX 1**

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## **MARKETING**

### **1. THE MARKETING PLAN**

### **2. PRICE/QUALITY MATRIX**

### **3. MARKETING TIPS, TRICKS & TRAPS**

# THE ENTREPRENEUR'S MARKETING PLAN

This is the marketing plan of \_\_\_\_\_

## I. MARKET ANALYSIS

### A. Target Market - Who are the customers?

1. We will be selling primarily to (check all that apply):

		Total Percent of Business
a. Private sector	_____	_____
b. Wholesalers	_____	_____
c. Retailers	_____	_____
d. Government	_____	_____
e. Other	_____	_____

2. We will be targeting customers by:

a. Product line/services.

We will target specific lines

\_\_\_\_\_

b. Geographic area? Which areas?

\_\_\_\_\_

c. Sales? We will target sales of

\_\_\_\_\_

d. Industry? Our target industry is

\_\_\_\_\_

e. Other?

\_\_\_\_\_

3. How much will our selected market spend on our type of product or service

this coming year? \$ \_\_\_\_\_

B. Competition

1. Who are our competitors?

**NAME** \_\_\_\_\_

**ADDRESS** \_\_\_\_\_

\_\_\_\_\_

**Years in Business** \_\_\_\_\_

**Market Share** \_\_\_\_\_

**Price/Strategy** \_\_\_\_\_

**Product/Service  
Features** \_\_\_\_\_

**NAME** \_\_\_\_\_

**ADDRESS** \_\_\_\_\_

\_\_\_\_\_

**Years in Business** \_\_\_\_\_

**Market Share** \_\_\_\_\_

**Price/Strategy** \_\_\_\_\_

**Product/Service  
Features** \_\_\_\_\_

2. How competitive is the market?

High \_\_\_\_\_

Medium \_\_\_\_\_

Low \_\_\_\_\_

3. List below your strengths and weaknesses compared to your competition (consider such areas as location, size of resources, reputation, services, personnel, etc.):

Strengths

Weaknesses

1. \_\_\_\_\_

1. \_\_\_\_\_

2. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

4. \_\_\_\_\_

C. Environment

1. The following are some important economic factors that will affect our product or service (such as country growth, industry health, economic trends, taxes, rising energy prices, etc.):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. The following are some important legal factors that will affect our market:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. The following are some important government factors:

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4. The following are other environmental factors that will affect our market, but over which we have no control:

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## II. PRODUCT OR SERVICE ANALYSIS

### A. Description

1. Describe here what the product/service is and what it does:

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### B. Comparison

1. What advantages does our product/service have over those of the competition (consider such things as unique features, patents, expertise, special training, etc.)?

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2. What disadvantages does it have?

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C. Some Considerations

1. Where will you get your materials and supplies?

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2. List other considerations:

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**III. MARKETING STRATEGIES - MARKET MIX**

A. Image

1. First, what kind of image do we want to have (such as cheap but good, or exclusiveness, or customer-oriented or highest quality, or convenience, or speed, or ...)?

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B. Features

1. List the features we will emphasize:

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_

C. Pricing

1. We will be using the following pricing strategy:

- a. Markup on cost \_\_\_\_\_ What % Markup? \_\_\_\_\_
- b. Suggested price \_\_\_\_\_
- c. Competitive \_\_\_\_\_
- d. Below competition \_\_\_\_\_
- e. Premium price \_\_\_\_\_
- f. Other \_\_\_\_\_

2. Are our prices in line with our image?

YES \_\_\_ NO \_\_\_

3. Do our prices cover costs and leave a margin of profit?

YES \_\_\_ NO \_\_\_

D. Customer Services

1. List the customer services we provide:

a. \_\_\_\_\_

b. \_\_\_\_\_

c. \_\_\_\_\_

2. These are our sales/credit terms:

a. \_\_\_\_\_

b. \_\_\_\_\_

c. \_\_\_\_\_

3. The competition offers the following services:

a. \_\_\_\_\_

b. \_\_\_\_\_

c. \_\_\_\_\_

E. Advertising/Promotion

1. These are the things we wish to say about the business:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. We will use the following advertising/promotion sources:

1. Television \_\_\_\_\_

2. Radio \_\_\_\_\_

- 3. Direct mail \_\_\_\_\_
- 4. Personal contacts \_\_\_\_\_
- 5. Trade associations \_\_\_\_\_
- 6. Newspaper \_\_\_\_\_
- 7. Magazines \_\_\_\_\_
- 8. Yellow Pages \_\_\_\_\_
- 9. Billboard \_\_\_\_\_
- 10. Other \_\_\_\_\_

3. The following are the reasons why we consider the media we have chosen to be the most effective:

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## MARKETING TIPS, TRICKS & TRAPS

### 1. Marketing Steps

- Classifying Your Customers' Needs
- Targeting Your Customer(s)
- Examining Your "**Niche**"
- Identifying Your Competitors
- Assessing and Managing Your Available Resources
  - Financial
  - Human
  - Material
  - Production

**Notes and Strategies for Your Business**

**MARKETING TIPS, TRICKS & TRAPS**  
**Notes and Strategies for Your Franchise**

2. Marketing Positioning

- Follower versus Leader
- Quality versus Price
- Innovator versus Adaptor
- Customer versus Product
- International versus Domestic
- Private Sector versus Government





## MARKETING TIPS, TRICKS & TRAPS

### 3. Sales Strategies **Notes and Strategies for Your Franchise**

- Use **Customer-Oriented Selling** Approach - By Constructing Agreement
- **Phase one:** **Establish Rapport with Customer** - by agreeing to discuss what the customer wants to achieve.
- **Phase two:** **Determine Customer Objective and Situational Factors** - by agreeing on what the customer wants to achieve and those factors in the environment that will influence these results.
- **Phase Three:** **Recommend a Customer Action Plan** - by agreeing that using your product/service will indeed achieve what customer wants.
- **Phase Four:** **Obtaining Customer Commitment** - By agreeing that the customer will acquire your product/service.

- Emphasize **Customer Advantage**

**Must be Read:** When a competitive advantage can not be demonstrated, it will not translate into a benefit.

**Must be Important to the Customer:** When the perception of competitive advantage varies between supplier and customer, the customer wins.

**Must be Specific:** When a competitive advantage lacks specificity, it translates into mere puffery and is ignored.

**Must be Promotable:** When a competitive advantage is proven, it is essential that your customer know it, lest it not exist at all.



**MARKETING TIPS, TRICKS & TRAPS**  
**Notes and Strategies for Your Franchise**

4. Benefits vs. Features

- The six "O's" of organizing Customer Buying Behavior

<b>ORIGINS</b> of purchase:	<b>Who</b> buys it?
<b>OBJECTIVES</b> of purchase:	<b>What</b> do they need/buy?
<b>OCCASIONS</b> of purchase:	<b>When</b> do they buy it?
<b>OUTLETS</b> of purchase:	<b>Where</b> do they buy it?
<b>OBJECTIVES</b> of purchase:	<b>Why</b> do they buy it?
<b>OPERATIONS</b> of purchase:	<b>How</b> do they buy it?

- Convert features to benefits using the "...Which Means..." Transition
- Sales Maxim: **"Unless the proposition appeals to their INTEREST, unless it satisfies their DESIRES, and unless it shows them a GAIN-- then they will not buy!"**

• Quality Customer Leads:	Level of need	Ability to pay
	Authority to pay	Accessibility
	Sympathetic attitude	Business history
	One-source buyer	Reputation (price
		or quantity buyer)



CONVERT FEATURES INTO BENEFITS--THE "...Which means..."

TRANSITION		
<p><b>Features</b></p> <p>Performance            Reputation            Components            Colors            Sizes            Exclusive            Uses            Applications            Ruggedness            Delivery            Service            Price            Design            Availability            Installation            Promotion            Lab Tests            Terms            Workmanship</p> <p><u>Rational</u></p> <p>Economy of Purchase            Economy of Use            Efficient Profits            Increased Profits            Durability            Accurate Performance            Labor-Saving            Time-Saving            Simple Construction            Simple Operation</p>	<p>Ease of Repair            Ease of Installation            Space-Saving            Increased Production            Availability  <b>"Which Means"</b></p> <p><u>Buying Motives</u></p>	<p><b>Benefits</b></p> <p>Time Saved            Reduced Cost            Prestige            Bigger Savings            Greater Profits            Greater Convenience            Uniform Production            Uniform Accuracy            Continuous Output            Leadership            Increased Sales            Economy of Use            Ease of Use            Reduced Inventory            Low Operating Cost            Simplicity            Reduced Upkeep            Reduced Waste            Long Life</p> <p><u>Emotional</u></p>

Pride of Appearance  
Pride of Ownership  
Desire of Prestige  
Desire for Recognition  
Desire to Imitate  
Desire for Variety  
Safety  
Fear  
Desire to Create  
Desire for Security  
Convenience  
Desire to be Unique  
Curiosity

Complete Servicing  
Good Workmanship  
Low Maintenance  
Thorough Research  
Desire to be Unique  
Curiosity

**PRICE / QUALITY MATRIX  
SALES APPEALS**

<b>PRICE/QUALITY</b>	<b>HIGH</b>	<b>MEDIUM</b>	<b>LOW</b>
<b>HIGH</b>	"Rolls Royce" Strategy	"We Try Harder" Strategy	"Best Buy" Strategy
<b>MEDIUM</b>	"Out Performs" Strategy	"Piece of the Rock" Strategy	"Smart Shopper" Strategy
<b>LOW</b>	"Feature Packed" Strategy	"Keeps on Ticking"	"Bargain Hunter" Strategy

		Strategy	
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## **APPENDIX 2**

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### **FINANCIAL MANAGEMENT**

- 1. Income Projection Statement**
  - Instructions for Income Projection Statement**
  
- 2. Balance Sheet**
  - Instructions for Balance Sheet**
  
- 3. Monthly Cash Flow Projection**
  - Instructions for Monthly Cash Flow Projection**

## 4. Information Resources

### INCOME PROJECTION STATEMENT

	Industry %	J	F	M	A	M	J	J	A	S	O	N	D	Annual total	Annual %
Total net sales (revenues)															
Costs of sales															
Gross profit															
Gross profit margin															
Controllable expenses															
Salaries/wages															
Payroll expenses															
Legal/accounting															
Advertising															

Automobile																			
Office supplies																			
Dues/Subscriptions																			
Utilities																			
Miscellaneous																			
Total controllable expenses																			
Fixed expenses																			
Rent																			
Depreciation																			
Utilities																			

Insurance																			
License/permits																			
Loan payments																			
Miscellaneous																			
Total fixed expenses																			
<b>Total expenses</b>																			
<b>Net profit (loss) before taxes</b>																			
Taxes																			
<b>Net profit (loss) after taxes</b>																			

## INSTRUCTIONS FOR INCOME PROJECTIONS STATEMENT

The income projections (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projections are developed and entered into the income projections statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner/manager

to compare actual figures with monthly projections and to take steps to correct any problems.

### Industry Percentage

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry, which are derived by dividing

$$\frac{\text{Costs/expenses items}}{\text{total net sales}} \times 100\%$$

These percentages can be obtained from various sources, such as trade associations, accountants or banks. The reference librarian in your nearest public library can refer you to documents that contain the percentage figures, for example, Robert Morris Associates' *Annual Statement Studies* (One Liberty Place, Philadelphia, PA 19103).

Industry figures serve as a useful bench mark against which to compare cost and expense estimates that you develop for your firm. Compare the figures in the industry percentage column to those in the annual percentage column.

### Total Net Sales (Revenues)

Determine the total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projections to review your pricing practices.

- What returns, allowances and markdowns can be expected?
- Exclude any revenue that is not strictly related to the business.

### Costs of Sales

The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales of all products and services used to determine total net sales. Where inventory is involved, do not overlook transportation costs. Also include any direct labor.

### Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

### Gross Profit Margin

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing

$$\frac{\text{gross profits}}{\text{total net sales}}$$

### Controllable Expenses

- Salary expenses -- Base pay plus overtime.
- Payroll expenses -- Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes.
- Outside services -- Include costs of subcontracts, overflow work and special or one-time services.
- Supplies -- Services and items purchased for use in the business.
- Repair and maintenance -- Regular maintenance and repair, including periodic large expenditures such as painting.
- Advertising -- Include desired sales volume and classified directory advertising expenses.
- Car delivery and travel -- Include charges if personal car is used in business, including parking, tools, buying trips, etc.
- Accounting and legal -- Outside professional services.

### Fixed Expenses

- Rent -- List only real estate used in business.
- Depreciation -- Amortization of capital assets.
- Utilities -- Water, heat, light, etc.
- Insurance -- Fire or liability on property or products. Include workers' compensation.
- Loan repayments -- Interest on outstanding loans.
- Miscellaneous -- Unspecified; small expenditures without separate accounts.

Net Profit (loss)  
(before taxes)

- Subtract total expenses from gross profit.

Taxes

- Include inventory and sales tax, excise tax, real estate tax, etc.

Net Profit (loss)  
(after taxes)

- Subtract taxes from net profit (before taxes)

Annual Total

- For each of the sales and expense items in your income projection statement, add all the monthly figures across the table and put the result in the annual total column.

Annual Percentage - Calculate the annual percentage by dividing

$$\frac{\text{Annual total}}{\text{total net sales}} \times 100\%$$

- Compare this figure to the industry percentage in the first column.

# BALANCE SHEET

COMPANY NAME

As of \_\_\_\_\_, 19\_\_\_\_

<b>Assets</b>		<b>Liabilities</b>	
Current assets		Current Liabilities	
Cash	\$ _____	Accounts payable	\$ _____
Petty cash	\$ _____	Notes payable	\$ _____
Accounts receivable	\$ _____	Interest payable	\$ _____
Inventory	\$ _____	Taxes payable	
Short-term investment	\$ _____	Federal income tax	\$ _____
Prepaid expenses	\$ _____	State income tax	\$ _____
		Self-employment tax	\$ _____
		Sales tax (SBE)	\$ _____
		Property tax	\$ _____
Long-term investments	\$ _____	Payroll accrual	\$ _____
Fixed assets		<b>Long-term liabilities</b>	
Land	\$ _____	Notes payable	\$ _____
Buildings	\$ _____	<b>Total liabilities</b>	\$ _____
Improvements	\$ _____		
Equipment	\$ _____	Net worth (owner equity)	\$ _____
Furniture	\$ _____	Proprietorship	
Automobile/vehicles	\$ _____	or	
Other assets		Partnership	
1.	\$ _____	(name's) equity	\$ _____
2.	\$ _____	(name's) equity	\$ _____
3.	\$ _____	or	
4.	\$ _____	Corporation	
		Capital stock	\$ _____
		Surplus paid in	\$ _____
		Retained earnings	\$ _____
		<b>Total net worth</b>	\$ _____
		<hr/>	
		<b>Total liabilities and total net worth</b>	\$ _____
<b>Total assets</b>	\$ _____		

*(Total assets will always equal total liabilities and total net worth)*

## INSTRUCTIONS FOR BALANCE SHEET

Figures used to compile the balance sheet are taken from the previous and current balance sheet as well as the current income statement. The income statement is usually attached to the balance sheet. The following text covers the essential elements of the balance sheet.

At the top of the page fill in the legal name of the business, the type of statement and the day, month and year.

### Assets

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

#### Current Assets

- *Cash* -- List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.

- *Petty cash* -- If your business has a fund for small miscellaneous expenditures, include the total here.

- *Accounts receivable* -- The amounts due from customers in payment for merchandise or services.

- *Inventory* -- Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.

- *Short-term investments* -- Also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their costs or market value, whichever is less.

- *Prepaid expenses* -- Goods, benefits or services a business buys or rents in advance.

- Examples are office supplies, insurance protection and floor space.

#### Long-term Investments

Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

#### Fixed Assets

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets may be leased. Depending on the leasing arrangements, both the value and the liability of the leased property may need to be listed on the balance sheet.

- *Land* -- List original purchase price without allowances for market value.

- *Buildings*

- *Improvements*

- *Equipment*

- *Furniture*

- *Automobile/vehicles*

### Liabilities

#### Current Liabilities

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operation. Typically they include the following:

- *Accounts payable* -- Amounts owed to suppliers for goods and services purchased in connection with business operations.

- *Notes payable* -- The balance of principal due to pay off short-term debt for borrowed funds. Also includes the current amount due of total balance on notes whose terms exceed 12 months.

- *Interest payable* -- Any accrued fees due for use of both short-and long-term borrowed capital and credit extended to the business.

- *Taxes payable* -- Amounts estimated by an accountant to have been incurred during the accounting period.

- *Payroll accrual* -- Salaries and wages

currently owed.

### **Long-term Liabilities**

*Notes payable* -- List notes, contract payments or mortgage payments due over a period exceeding 12 months or one cycle of operation. They are listed by outstanding balance less the current position due.

### **Net worth**

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

### **Total Liabilities and Net Worth**

The sum of these two amounts must always match that for total assets.

# MONTHLY CASH FLOW PROJECTION

Name of Business	Owner		Type of Business				Prepared by				Date						
	Pre-start-up position		1		2		3		4		5		6		Total Columns 1-6		
Year	Month																
	Est	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	
1. <b>Cash on hand</b> (beginning month)																	<b>1.</b>
2. <b>Cash receipts</b>																	<b>2.</b>
(a) Cash sales																	(a)
(b) Collections from credit accounts																	(b)
(c) Loan or other cash injections (specify)																	(c)
3. <b>Total cash receipts</b> (2a+2b+2c=3)																	<b>3.</b>
4. <b>Total cash available</b> (before cash out) (1+3)																	<b>4.</b>
5. <b>Cash paid out</b>																	<b>5.</b>
(a) purchases merchandise																	(a)
(b) Gross wages (excludes withdrawals)																	(b)
(c) Payroll expenses (taxes, etc.)																	(c)
(d) Outside services																	(d)
(e) Supplies (office and operating)																	(e)
(f) Repairs and maintenance																	(f)
(g) Advertising																	(g)
(h) Car, delivery and travel																	(h)
(i) Accounting and legal																	(i)
(j) Rent																	(j)
(k) Telephone																	(k)
(l) Utilities																	(l)
(m) Insurance																	(m)
(n) Taxes (real estate, etc.)																	(n)
(o) Interest																	(o)
(p) Other expenses (specify each)																	(p)
(q) Miscellaneous (unspecified)																	(q)

Name of Business	Owner				Type of Business				Prepared by				Date			
	Pre-start-up position		1		2		3		4		5		6		Total Columns 1-6	
Year	Month															
	Est	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual
(r) Subtotal																(r)
(s) Loan principal payment																(s)
(t) Capital purchases (specify)																(t)
(u) Other start-up costs																(u)
(v) Reserve and/or escrow (specify)																(v)
(w) Owner's withdrawal																(w)
<b>6. Total cash paid out</b> (5a through 5w)																<b>6.</b>
<b>7. Cash position</b> (end of month) (4 minus 6)																<b>7.</b>
Essential operating data (non-cash flow information)																A.
A. Sales volume (dollars)																
B. Accounts receivable (end on month)																B.
C. Bad debt (end of month)																C.
D. Inventory on hand (end of month)																D.
E. Accounts payable (end of month)																E.

## INSTRUCTIONS FOR MONTHLY CASH FLOW PROJECTION

1. Cash on hand (beginning of month)	Cash on hand same as (7), Cash position, pervious month
2. Cash receipts - (a) Cash sales	<b>All cash sales. Omit credit sales unless cash is actually received</b>
(b) Gross wages (including withdrawals)	Amount to be expected from all accounts.
(c) Loan or other cash injection	Indicate here all cash injections not shown in 2(a) or 2(b) above.
3. Total cash receipts (2a+2b+2c=3)	
4. Total cash available (before cash out)(1+3)	
5. Cash paid out - (a) Purchases (merchandise)	Merchandise for resale or for use in product (paid for in current month).
(b) Gross wages (including withdrawals)	Base pay plus overtime (if any)
(c) Payroll expenses (taxes, etc.)	Include paid vacations, paid sick leave, health insurance, unemployment insurance, (this might be 10 to 45% of 5(b))
(d) Outside services	This could include outside labor and/or material for specialized or overflow work, including subcontracting
(e) Supplies (office and operating)	Items purchased for use in the business (not for resale)
(f) Repairs and maintenance	Include periodic large expenditures such as painting or decorating
(g) Advertising	This amount should be adequate to maintain sales volume
(h) Car, delivery and travel	If personal car is used, charge in this column, include parking
(i) Accounting and legal	Outside services, including, for example, bookkeeping
(j) Rent	Real estate only (See 5(p) for other rentals)
(k) Telephone	
(l) Utilities	Water, heat, light and/or power
(m) Insurance	Coverage on business property and products (fire, liability); also worker's compensation, fidelity, etc. Exclude executive life (include in 5(w))
(n) Taxes (real estate, etc.)	Plus inventory tax, sales tax, excise tax, if applicable
(o) Interest	Remember to add interest on loan as it is injected (See 2(c) above)
(p) Other expenses (specify each) _____ _____ _____	Unexpected expenditures may be included here as a safety factor -----Equipment expenses during the month should be included here (non-capital equipment) _____ ___ When equipment is rented or leased, record payments here
(q) Miscellaneous (unspecified)	Small expenditures for which separate accounts would be practical
(r) Subtotal	This subtotal indicates cash out for operating costs
(s) Loan principal payment	Include payment on all loans, including vehicle and equipment purchases on time payment
(t) Capital purchases (specify)	Nonexpensed (depreciable) expenditures such as equipment, building purchases on time payment
(u) Other start-up costs	Expenses incurred prior to first month projection and paid for after start-up
(v) Reserve and/or escrow (specify)	Example: insurance, tax or equipment escrow to reduce impact of large periodic payments
(w) Owner's withdrawals	Should include payment for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.
6. Total cash paid out (5a through 5w)	
7. Cash position (end on month) (4 minus 6)	Enter this amount in (1) Cash on hand following month--

Essential operating data (non-cash flow information)	This is basic information necessary for proper planning and for proper cash flow projection. Also with this data, the cash flow can be evolved and shown in the above form.
A. Sales volume (dollars)	This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received).
B. Accounts receivable (end of month)	Pervious unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below)
C. Bad debt (end on month)	Bad debts should be subtracted from (B) in the month anticipated
D. Inventory on hand (end on month)	Last month's inventory plus merchandise received and/or manufactured current month minus account sold current month
E. Accounts payable (end of month)	Pervious month's payable plus current month's payable minus amount paid during month.
F. Depreciation	Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service

## APPENDIX: INFORMATION RESOURCES

### U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy contact your nearest SBA office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services, call the SBA Small Business Answer Desk at **1-800-U-ASK-SBA (827-5722)**.

#### Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject*

*Bibliography* by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contract the regional offices listed in the telephone directory or write to the addresses below:

#### Consumer Information Center (CIC)

P.O. Box 100  
Pueblo, CO 81002  
The CIC offers a consumer information catalog of federal publications.

#### Consumer Product Safety Commission (CPSC)

Publications Request  
Washington, DC 20207  
The CPSC offers guidelines for product safety requirements.

#### U.S. Department of Agriculture (USDA)

12th Street and Independence Avenue, SW  
Washington, DC 20250

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

#### U.S. Department of Commerce (DOC)

##### Office of Business Liaison

14th Street and Constitution Avenue, NW  
Room 5898C  
Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

#### U.S. Department of Health and Human Services (HHS) - Public Health Service

##### Alcohol, Drug Abuse and Mental Health Administration

5600 Fishers Lane  
Rockville, MD 20857

Drug Free Workplace Helpline: **1-800-843-4971**.

Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline:

**1-800-662-4357**. Provides information on preventing

substance abuse in the workplace.  
The National Clearinghouse for Alcohol and Drug Information: **1-800-729-6686** toll-free. Provides pamphlets and resource materials on substance abuse.

**U.S. Department of Labor (DOL)  
Employment Standards Administration**

200 Constitution Avenue, NW  
Washington, DC 20210  
The DOL offers publications on compliance with labor laws.

**U.S. Department of Treasury  
Internal Revenue Service (IRS)**

P.O. Box 25866  
Richmond, VA 23260  
1-800-424-3676  
The IRS offers information on tax requirements for small businesses.

**U.S. Environmental Protection Agency (EPA)  
Small Business Ombudsman**

Crystal Mall - No.2  
Room 1102  
1921 Jefferson Davis Highway  
Arlington, VA 22202  
**1-800-368-5888** except in DC and VA  
703-557-1938 in DC and VA  
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

**U.S. Food and Drug Administration (FDA)  
FDA Center for Food Safety and Applied Nutrition**

200 C Street, SW  
Washington, DC 20204  
The FDA offers information on packaging and labeling requirements for food and food-related products.

**For More Information**

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

• **Trade association information**

Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

• **Books**

Many guidebooks, textbooks and manuals on small business are published annually. To find

the names of books not in your local library check *Books In Prints*, a directory of books currently available from publishers.

• **Magazine and newspaper articles**

Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

