

FROM IDEA TO BUSINESS

Business Planning and Research

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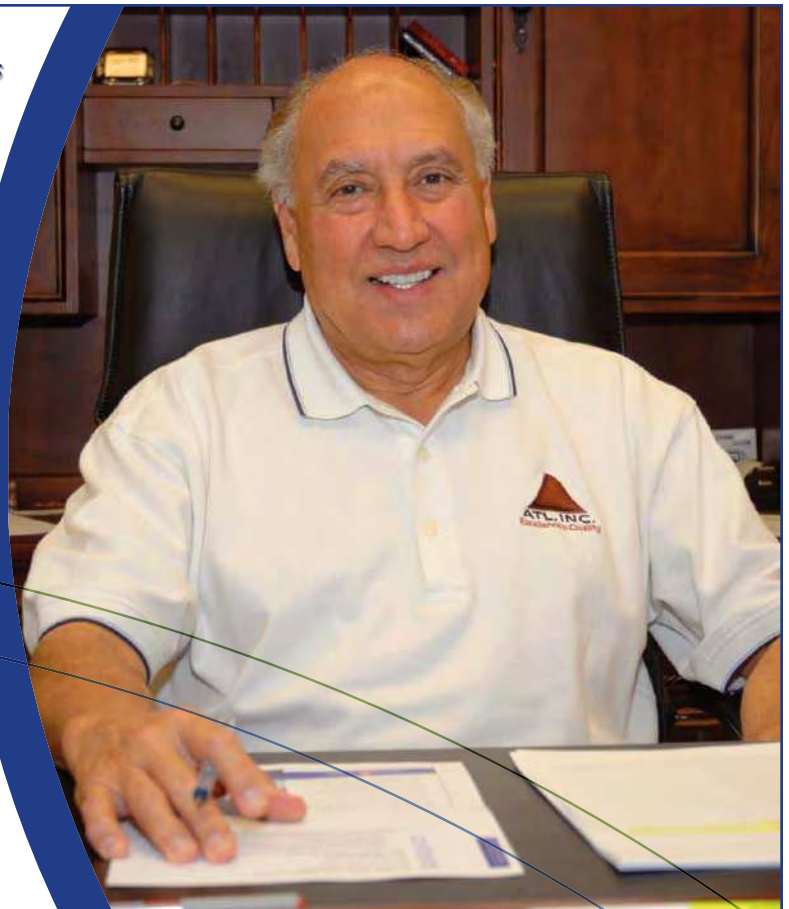
- » Personal Financial Statement Worksheet
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While every effort has been made to ensure the reliability of the information presented in this publication, the Arizona Department of Commerce cannot guarantee the accuracy of this information due to the fact that much of the information is created by external sources. Changes/updates brought to the attention of the Arizona Department of Commerce and verified will be corrected in future editions.

Top Success Factors To Succeed In Business

- Life is about relationships; build and nurture them.
- Character and integrity are critical in all matters.
- A disagreement is an opportunity to work together to solve a problem.
- Be accessible and be a good listener.
- Can't is not in my dictionary.

Frank C. Rivera, President/CEO, ATL, Inc.



Step-by-Step Checklist to Start, Operate and Grow a Business in Arizona

The Arizona Department of Commerce's free online program provides you with a customized step-by-step checklist for what you need to know, whom you need to contact and where you need to go for business licensing, registration, tax requirements, funding, hiring, certification, procurement opportunities and much more.

The process of going through the program generally takes 5-10 minutes to complete. In addition, at any given time, you may click on "My Report" to view your customized checklist.

From your customized checklist, you will be able to link over and download most of the forms you may need. It also provides you with telephone numbers and addresses in the event that you wish to contact an agency or organization directly. Visit the website at <http://www.azcommerce.com/smallbiz>, and click on "Step-by-Step Checklist to Start, Operate and Grow a Business in Arizona."

A business' growth pattern typically follows these stages:

Conception - Entrepreneurs determine the feasibility of their new business by evaluating the needs of the market, the potential profitability, and the availability of needed resources.

Starting - Once the business is launched, cash is usually tight. Customer responses validate the business concept and marketing efforts, but the business usually struggles to find its competitive advantage. All activities are focused on increasing sales.

Operating - Sales and profits are usually increasing as a result of new customers and expanding markets. Cash flow, staffing, and developing systems may be issues because of the costs and considerations of growth.

Growing - As a result of competitive markets, sales either hit their highest point or level off. Profits may decrease as prices are lowered to compete. Customer retention and managing resources are keys for growth.

Choosing the right professional partners to work with, including your accountant and attorney, can make the difference between failure and success. Get recommendations and do research. Don't hesitate to ask a lot of questions to determine whether their expertise matches your needs. Agree upon costs upfront and then build those into your financial plan.

These people, who have had the benefit of seeing other fledgling businesses such as yours grow over the years, can provide invaluable guidance.

Business Checklist

Follow the steps outlined below to get your business off to the right start:

- Conduct research on your industry, target market and competition.
- Prepare a written business plan complete with financial statements.
- Establish a source of adequate and reliable financing.
- Retain an attorney and CPA, if appropriate.
- Decide whether you wish to operate as a sole proprietorship, partnership or corporation.
- Check on zoning ordinances.
- Select a suitable location.
- Choose a name, research the availability and register.
- Obtain a Federal Employer Identification Number (EIN), if needed.
- Find a bank that's right for you. Open bank accounts.
- Acquire necessary licenses and/or permits for state, county and/or city.
- See insurance agent for full range of coverage.
- Obtain bonding and insurance, if necessary.
- Arrange for utilities, telephone and other services.
- Review all labor regulations, if hiring employees.
- Choose a record keeping system and method of inventory control.

The Business Plan

Your Road Map to Success

PURPOSES OF THE BUSINESS PLAN

As a communication tool, it is used to attract investment capital, secure loans, convince workers to hire on, and assist in attracting strategic business partners. The development of a comprehensive business plan shows whether a business has the potential to make a profit. It requires a realistic look at almost every phase of business and allows you to show that you have worked out all the problems and decided on potential alternatives before actually launching your business.

As a management tool, the business plan helps you track, monitor, and evaluate your progress. The business plan is a living document that you will modify as you gain knowledge and experience. By using your business plan to establish timelines and milestones, you can gauge your progress and compare your projections to actual accomplishments.

As a planning tool, the business plan guides you through the various phases of your business. A thoughtful plan will help identify roadblocks and obstacles so that you can avoid them and establish alternatives. Many business owners share their business plans with their employees to foster a broader understanding of where the business is going.

Before you begin writing your business plan, consider the following four core questions:

- » **What service or product does your business provide and what needs does it fill?**
- » **Who are the potential customers for your product or service and why will they purchase it from you?**
- » **How will you reach your potential customers?**
- » **Where will you get the financial resources to start your business?**

Elements of a Business Plan

I. TITLE PAGE

The title page should contain the following items, double-spaced, horizontally-centered and positioned just above the center of the page:

- » **Business name**
- » **Address**
- » **Telephone number(s)**
- » **Owner(s) name(s)**

II. TABLE OF CONTENTS

The table of contents should list the title of each section of the document and indicate the page number where each is located. It also should list specific support items (appendices) by name.

This page will be done last, since it requires the entire document as input. It allows the reader to quickly locate specific sections.

III. BUSINESS CONCEPT OR EXECUTIVE SUMMARY

The Business Concept, or Executive Summary, should be a one-page explanation of what your business is and its competitive advantage.

Here you will provide a clear description of the industry in which you are competing and

a precise explanation of your business' unique qualities that set it apart from the competition. This section should include key points from marketing, operational and financial plans. Your explanation should answer these questions:

- » **What does your business do?**
- » **In what general market does your business compete?**
- » **What quality/price image will your business have?**
- » **What customer needs are met?**
- » **What makes your business unique from competition?**
- » **Why will your business be successful financially?**

IV. MARKETING PLAN

This section should contain a narrative description of these factors:

A. Product/Service

- » **What needs/benefits are sought by your customers?**
- » **Specifically, how does your product/service meet those needs/benefits?**
- » **How is your product/service unique from the competition?**
- » **What customer services do you provide to support the central product/service?**

B. Target Market

First, determine if your focus is on consumers (end-users) or other businesses. Then tailor your responses to the following appropriate category.

- » **What needs/benefits are sought by your customer that your product/service satisfies?**
- » **When and under what circumstances**

Your business plan represents your "road map" toward a successful venture.

The following guidelines do not address every aspect of every possible business plan. You should consider more questions than those posed in each section. Be sure to ask many questions – your success depends on the completeness of your planning process.

SBA's Small Business Training Network presents an online course "How to Write a Business Plan" at <http://app1.sba.gov/training/sbabp/index.htm>



does your customer buy your product or service?

- » Describe the volume and frequency of your customer's purchases.
- » Based on available data, what is the expected volume of your target market?
- » Of that target market, what is the projected volume of actual paying customers?
- » Describe your customer base.

Consumer: It is important for you to develop a clear, mental picture of your ideal customers. Describe your potential customers using the following factors: age, sex, income, education, location, occupation, interests, buying habits, and goals and aspirations.

Businesses: If selling to a business, your description should include type of business; size of business; priority placed on purchasing your product/service; projected image of the business; markets that the business services; its trade organizations and memberships; and the trade publications read.

C. Competition

A description of your competition should answer the following questions:

- » Who are your major competitors?
- » Why are they successful?
- » What alternatives are there to your product?
- » How do alternatives impact your sales?
- » What distinctive differences separate you from your competitors?
- » Why should customers leave your competitors to choose your product/service?
- » What market share do you expect to get?

D. Location Analysis

Describe your business location and how it will enhance the sale of your product or service.

Your description should answer the following questions:

- » What strategic advantages do you have at this location?
- » Is there opportunity for expansion?
- » What are the neighboring businesses?
- » Do they complement/detract from yours?
- » Are renovations needed? At what cost?
- » What is the zoning classification?
- » Is the neighborhood stale, changing, improving, deteriorating? How?
- » How is customer access, parking, etc.?

E. Price Determination

A description of the price structure for your product or service will answer the following questions:

- » How does the unit cost of your product compare to the relative value seen by the customer?
- » How does your price compare with the competition price?
- » Why will customers pay your price?
- » What image will this price project?
- » What special advantages do your customers get that is included in the price?
- » Will you offer credit terms?

F. Marketing Approach

A description of your marketing effort should answer the following questions:

- » What are the test market results?
- » Where do your customers seek information about purchasing your product/service?
- » How will your image be clearly and consistently conveyed to potential buyers?
- » Which media are most suitable?
- » How will you evaluate the effectiveness of each advertising and promotional effort?
- » How will you use/evaluate a sales staff?

V. MANAGEMENT PLAN OR OPERATIONAL PLAN

This section contains a description of who will run the business and how they will do it, including the following:

A. Management Team

A description of how the business will be managed will answer these questions:

- » What business management background do you have?
- » How will that drive the business?
- » How is the experience of key people related to this type of business?
- » What legal form will you use – corporation, partnership, sole proprietorship?
- » Who does what? Who reports to whom?
- » What resources are needed and who will provide them (accountant, lawyer, etc.)?

B. Employee Relations

A description of your methods of hiring, training and communicating with your staff will answer these questions:

- » What are your personnel needs?
- » What skills will be required?
- » How will you hire and train?
- » What salary/benefits will be provided?
- » How will you determine wage increases?
- » What personnel policies will be provided?

Note: Include in the appendix a photograph of the building, a drawing of the immediate area showing road access and identity of adjoining businesses and a drawing of the floor plan of your business.

Note: Include in the appendix the resumes of key personnel.

THE BUSINESS PLAN

C. Operational Controls

A description of the kinds of management systems and how they will be used will answer these questions:

- » What is your production capacity?
- » What operating advantages do you have?
- » What elements are key to your success?
- » How will you monitor these factors?
- » What hazards do you anticipate for your business? What protection and/or alternate plans do you have?
- » What policies will you establish for the operation of your business?

VI. FINANCIAL PLAN

A description of how your business will be financed and how you will maintain a sound financial condition will answer the following questions:

A. Current Funding Requirement

- » How much money will be needed for starting your business?
- » What will be the sources of startup capital?
- » What business and personal assets will be pledged as collateral?

B. Use of Funds

- » How will the money be spent (working capital, capital expenditures, etc.)?
- » How will borrowed funds make your business more profitable?

C. Long-Range Financial Strategies

- » How will you liquidate your investors' position?
- » What terms of repayment are feasible?
- » What will you do if repayment cannot be accomplished as planned?

D. Financial Statements

To support this section, several financial statements will be required, such as the following:

- » Personal financial statement of owner
- » Business startup costs
- » Pro forma cash flow analysis (expected)
- » Balance sheet (actual or proposed)
- » Income statement (actual or proposed)
- » Competitive analysis

See worksheets on the following pages

VII. STRATEGIC PLAN

It is very important to include a description of where you want your venture to be in the next few years and how you intend to achieve those goals.

This strategic plan should focus on years two through five and include descriptions of the following items:

- » Strengths within your organization
- » Weaknesses within your organization
- » Opportunities available to you
- » Threats impeding you

Using these four factors, you should describe strategies that use your strengths to take advantage of opportunities and overcome threats; and strategies to reduce weaknesses and avoid threats to your business.

The strategies should identify intermediate goals (yearly) and the marketing, management and financial resources to achieve these goals.

Research Resources

- » Arizona Department of Commerce, Small Business Services
<http://www.azcommerce.com/smallbiz>
- » Arizona Department of Commerce, Office of Economic Information and Research
<http://www.azcommerce.com/Research>
- » The Center for Competitiveness and Prosperity Research at Arizona State University's W.P. Carey School of Business
<http://www.cob.asu.edu/seid/cbr>
- » JP Morgan Chase Economic Outlook Center in Arizona State University's W.P. Carey School of Business
<http://wpcarey.asu.edu/seid/eoc>
- » Arizona Rural Policy Institute (ARPI) of Northern Arizona University, College of Business Administration
<http://www.franke.nau.edu/RPI>
- » The University of Arizona Center for Computer and Professional Education
<http://www.ceao.arizona.edu/comped>
- » Economic Development Information Center (EDIC)
<http://www.lib.az.us/extension/edic.cfm>

Visit your local library

It's a great resource for starting or running a business.

Librarians will help you find information on every phase of business ownership, information on writing the business plan and electronic databases where you can research industries and competitors.

The library provides access to subscription databases you can use in the library, office or home when you obtain a library card and a PIN number.

In addition, libraries provide free access to the Internet. Many libraries present free programs, workshops and book lists on business topics.

To find your local library, visit the website at <http://www.lib.az.us/libdir>.

Personal Financial Statement Worksheet

As of: __/__/____

Assets

	<u>Amount in Dollars</u>
Cash - checking accounts	\$ _____
Cash - savings accounts	\$ _____
Certificates of deposit	\$ _____
Securities - stocks / bonds / mutual funds*	\$ _____
Notes and contracts receivable*	\$ _____
Life insurance (cash surrender value)	\$ _____
Personal property (autos, jewelry, etc.)*	\$ _____
Retirement funds (IRAs, 401k, etc.)	\$ _____
Real estate (market value)	\$ _____
Other assets (specify)* _____	\$ _____

Total Assets \$ _____

Liabilities

	<u>Amount in Dollars</u>
Current debt (credit cards, accounts)	\$ _____
Notes payable*	\$ _____
Taxes payable*	\$ _____
Real estate mortgages*	\$ _____
Other liabilities (specify)* _____	\$ _____

Total Liabilities \$ _____

Net Worth \$ _____

**Describe in the appropriate section below.*

1. Describe securities - stocks/bonds/mutual funds:
2. Describe notes and contracts receivable:
3. Describe personal property:
4. Describe other assets:
5. Describe notes payable:
6. Describe tax liability:
7. Describe real estate mortgages:
8. Describe other liabilities:

WORKSHEETS

Business Startup Costs Worksheet

As of: __/__/____

Living Expenses

From last pay check to opening day \$ _____
 For three months after opening day (startup cushion) \$ _____

Deposits, Licenses, Prepayments

Deposit for rent \$ _____
 Telephone and utilities \$ _____
 Business licenses \$ _____
 Insurance premiums \$ _____

Leasehold Improvements

Remodeling and redecorating \$ _____
 Fixtures, equipment, displays \$ _____
 Installation labor \$ _____
 Signs – outside, inside \$ _____

Inventory

Service, delivery equipment and supplies \$ _____
 Merchandise (approx. 65% of startup costs are invested in opening stock) \$ _____

Operating Expense for the First 3 Months

(From Cash Flow Projection) \$ _____

Reserve to Carry Customers' Accounts

\$ _____

Cash for Petty Cash, etc.

\$ _____

TOTAL STARTUP CASH NEEDS \$ _____

Pro Forma Cash Flow Analysis Worksheet

As of: __/__/____

Cash Receipts

Cash Sales	\$ _____
Cash from Accounts Receivable	\$ _____
Cash from Investments	\$ _____
Total Cash Receipts	\$ _____

Cash Disbursements

Merchandise, inventory	\$ _____
Salary and wages	\$ _____
Outside labor	\$ _____
Payroll taxes	\$ _____
Advertising	\$ _____
Car and delivery	\$ _____
General office administration	\$ _____
Legal and accounting	\$ _____
Operating supplies	\$ _____
Bad debts	\$ _____
Rent	\$ _____
Repairs and maintenance	\$ _____
Utilities	\$ _____
Insurance	\$ _____
Taxes and licenses	\$ _____
Loan payments (principal and interest)	\$ _____
Total Cash Disbursements	\$ _____

NET CASH FLOW (+/-) \$ _____

Note: *This analysis should be done on a monthly basis for the first year and on a quarterly basis for years 2 and 3.*

WORKSHEETS

Balance Sheet Worksheet

As of: ___/___/____

ASSETS

Current Assets

Cash in bank	\$ _____
Accounts receivable	\$ _____
Inventory	\$ _____
Other current assets	\$ _____
Total Current Assets	\$ _____

Fixed Assets

Machinery & equipment	\$ _____
Furniture & fixtures	\$ _____
Land & buildings	\$ _____
Other fixed assets	\$ _____
Total Fixed Assets (net of depreciation)	\$ _____

TOTAL ASSETS \$ _____

LIABILITIES AND EQUITY

Current Liabilities

Accounts payable	\$ _____
Interest payable	\$ _____
Taxes payable	\$ _____
Notes, short-term (due within 12 months)	\$ _____
Current part, long-term debt	\$ _____
Other current liabilities	\$ _____
Total Current Liabilities	\$ _____

Long-Term Debt

Bank loans payable	\$ _____
Notes payable to stockholders	\$ _____
LESS: Short-term portion	\$ _____
Other long-term debt	\$ _____
Total Long-term Debt	\$ _____

TOTAL LIABILITIES \$ _____

Owners' Equity

Invested capital	\$ _____
Retained earnings - beginning	\$ _____
Retained earnings - current	\$ _____
Total Owners' Equity	\$ _____

TOTAL LIABILITIES & EQUITY \$ _____

Income Statement Worksheet

As of: __/__/____

(3 previous years for existing business)

	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>
SALES	\$ _____	\$ _____	\$ _____
Less Cost of Goods	\$ _____	\$ _____	\$ _____
GROSS PROFIT	\$ _____	\$ _____	\$ _____
OPERATING EXPENSES			
Salaries and wages	\$ _____	\$ _____	\$ _____
Commissions	\$ _____	\$ _____	\$ _____
Outside labor	\$ _____	\$ _____	\$ _____
Payroll taxes	\$ _____	\$ _____	\$ _____
Advertising	\$ _____	\$ _____	\$ _____
Car and delivery	\$ _____	\$ _____	\$ _____
General office administration	\$ _____	\$ _____	\$ _____
Legal and accounting	\$ _____	\$ _____	\$ _____
Supplies	\$ _____	\$ _____	\$ _____
Bad debts	\$ _____	\$ _____	\$ _____
Rent	\$ _____	\$ _____	\$ _____
Repairs and maintenance	\$ _____	\$ _____	\$ _____
Utilities	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____
Taxes and licenses	\$ _____	\$ _____	\$ _____
Depreciation	\$ _____	\$ _____	\$ _____
Interest	\$ _____	\$ _____	\$ _____
Miscellaneous	\$ _____	\$ _____	\$ _____
TOTAL OPERATING EXPENSES	\$ _____	\$ _____	\$ _____
PROFIT/LOSS BEFORE TAXES	\$ _____	\$ _____	\$ _____

Competitive Analysis Worksheet

As of: ___/___/___

FACTOR	MY BUSINESS	STRENGTH	WEAKNESS	COMPETITOR A	COMPETITOR B	COMPETITOR C	IMPORTANCE TO CUSTOMER
Products							
Price							
Quality							
Selection							
Service							
Reliability							
Stability							
Expertise							
Company Reputation							
Location							
Appearance							
Sales Method							
Credit Policies							
Advertising							
Image							