

THE BUSINESS PLAN

The Cover Sheet

- a) Include company name, company address, company phone number (including area code), logo (if any), names and titles of owners or corporate officers, month/year in which plan is issued.

I. The Business Plan

- a) Executive Summary
- b) Description of Business
 - Business History (if existing business)
 - Products & Services
- c) Market Analysis
 - Target Market
 - Market Size & Trends
 - Competition
- d) Marketing Plan
 - Advertising & Promotion
 - Pricing
 - Distribution
- e) Operating Plan
 - Location & Facilities Description
 - Source of Supplies
 - Regulations & Legal Issues
- f) Management Plan
 - Management
 - Key Personnel
 - Business Resources

II. The Financial Plan

- a) Sources and Uses of Funds
- b) Capital Equipment List
- c) Balance Sheet
- d) Pro-forma Income Projections (Income Statement)
 - Three-year summary detailed by month
 - Assumptions upon which projections were based
- e) Pro-forma Cash Flow Report
 - Three-year summary detailed by month

III. Supporting Documentation

- a) Tax returns of principals for last two years
- b) Personal Financial Statement (SBA Form 413)
- c) Personal History Statement (SBA Form 912)
- d) Copy of current credit report
- e) IRS Form 4506 – Request for copy or transcript of tax form
- f) Copy of licenses and other legal documents
- g) Copies of principals resumes
- h) **EXISTING BUSINESSES**: tax returns last three years & interim financials (within 90 days).

ALBUQUERQUE SMALL BUSINESS DEVELOPMENT CENTER

Phone: (505) 224-5250

email: sbdc@cnm.edu

Fax: (505) 224-5256

web: www.cnm.edu/abqsbdc

The Executive Summary

This is considered to be the most important part of your plan and is the last to be written. It represents your vision for your business and must convince the reader (a would-be investor, banker, or key manager) that the business has the potential to succeed. In no more than two pages, you should *summarize* the rest of the business plan. Be sure to focus on the opportunity that your business presents and try not to embellish too much.

- What is your mission statement? (*www.bizplanit.com*)
 - **Be **REALISTIC**, set goals that are attainable and reasonable.**
 - This is your businesses core purpose
 - It should be short but focused and stress your uniqueness
 - It should be phrased in terms of outcomes rather than actions
 - It should be measurable
 - It should be challenging yet realistic
 - It should be communicated
 - Ex: NIKE's Corporate Mission Statement "*To be the world's leading sports and fitness company.*"
- What are you planning to do? (*Describe your business*)
 - What is the name of the business?
 - What product/services will be offered?
 - What is the legal structure?
 - Where will the business be located?
 - When will it begin, or did it begin, operations?
- What is the opportunity and what is your strategy on exploiting the opportunity?
- Why are you planning to do it? (*Explain your business*)
 - What is the projected demand for this product/service?
 - Who is your primary customer?
 - What are the main products/services they will be buying?
- What is your competitive advantage?
 - Why would your potential customers buy from you rather than your competition?
- Who will make up the management team?
 - What is the relevant experience of the lead entrepreneurs?
- What are the business's intermediate and long-term goals?
- How will financing be obtained?
 - How much money is needed from the lender?
 - How much equity are you willing to offer in relation to the debt financing?
 - Equity may be cash or debt-free equipment, inventory, or other that you will contribute to the business.
 - How much collateral is available?
 - What is the principle use of the capital?

Description of Business

You want to describe the nature of your business and state what it is you are going to do and how you are going to do it.

What is the nature of your business? What is your product or service?

What is the legal structure of your business?

What licenses or permits, if any, are required?

What are your short-term and long-term goals and objectives?

What are your business hours?

Where will you be located?

- **Business History (if existing business)**

When and by whom was the business founded?

Why do they want to sell?

How did they arrive at their purchase price?

Determine exactly what you are buying.

What are you going to do to carry out the transition to maximize customer/employee goodwill?

If there is an appraisal include in the supporting documentation

- **Products and Services**

What is the product/service offering?

If there are multiple offerings list and describe individually.

What are its features? What makes it unique?

What benefits does it produce?

How is it used? Where will it be used?

What features give you an advantage over the competition? Price? Performance? Quality?

Market Analysis

This is the second most important part of the business (next to the Executive Summary). It is imperative that you understand the market for your product/service so look into your industry and determine if there is a need for your product/service. Use the following resources for reference:

- **Resources** – Be sure to obtain a NAICS (North American Industry Classification System) or SIC (Standard Industrial Classification) Code for your business to assist with your research, the SBDC can help you or visit <http://www.census.gov/epcd/www/naics.html>.

U.S. Census – www.census.gov

SBDC Information Clearing House – <http://sbdnet.org/>

UNM BBER – www.unm.edu/~bber

Market Analysis – www.zapdata.com

The Lifestyle Market Analyst

Competitor Analysis – State Business Directory or Yellow Pages

UNM Parish Library – they have several resources and databases to assist with your market research, for example U.S. Industry & Trade Outlook and S & P Industry Survey

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Market Analysis cont...

- **Target Market**

It is important to understand who you are going to market your product/services to. The more specific you are the better you can meet their needs and keep them coming back to you.

Who is your ideal customer? Demographic breakdown? Their needs?

How is your target market segmented?

Consumer Market: Age, sex, education level, occupation, income, geographic location, interests, frequency of need for your product/service

Business Market: Business type, size, geographic location, SIC (Standard Industrial Class), possible uses of your product/service, frequency of need for your product/service

How do your products/services meet the buyers' needs?

How will they purchase your product/service – store, via phone, catalog, and internet?

- **Market Size & Trends**

What is the size of the total market (all potential customers in your targeted area)?

Estimate the number of potential customers who will purchase your product/service.

Determine the average customer sales per year? Do these customers buy in cycles? Once a year? Monthly?

How many purchases can you expect from the customer during a year? Three years? (These sales estimates will help you with the Financial Plan)

Analyze your market nationally, statewide, and locally

What are the trends?

What is your potential market share? (e.g. your dollar sales as a percentage of total market dollar sales)

Is there room for you? Look at your average customer base, statewide and locally, if the local potential customer base is significantly higher than the state average, there is room for another competitor.

- **Competition**

EVERYONE has competition! Competition is healthy to the economic environment. Once again be specific because you can learn from your competitor's strengths and weaknesses.

Who are your nearest competitors?

How is their business similar or dissimilar to yours in terms of:

Image? Location? Store layout? Atmosphere? Products/Services? Pricing? Advertising?

What are their strengths and weaknesses?

Who do they market to? How do they market to them? What promotional tools do they use?

How do I get information about my competition?

Marketing Plan

- **Advertising & Promotion**

How are you going to convince people to buy your product/service?

How will you promote your product/service? What medium will be used?

What are costs are needed for advertising?

What are your sales goals and objectives?

- **Pricing Policies**

What prices will be charged for these products/services?

What costs are associated with these products/services?

Will these products/services be profitable and competitively priced?

Will you be eligible for discounts that will increase profitability?

Calculate the break-even price for your business:

$$\text{BEP} = (\text{FC}/\text{Q}) + \text{VC}$$

BEP = Price you need to charge for a single service or transaction to break even

FC = Fixed costs for one year

VC = Direct or variable costs related to each transaction

Q = Number of transactions necessary to break even (such as cars washed or hours worked)

- **Distribution**

What methods will be used to make sales and distribute the product/service to your market segment?

What customer service policies will be offered? Warranties?

Operating Plan

- **Location & Facilities Description**

What is the business address? Is it leased or owned?

What are the physical features of your building? What renovations will be needed, if any?

Include a store layout.

Is the location highly visible or out-of-the-way?

How much space are you going to need?

Is there room for expansion?

What are the traffic count and zoning considerations?

Is there any construction or renovation needed and at what cost?

Does the building meet safety codes for your type of business?

- **Source of Supplies**

What is the source of supplies/materials? Distributors?

What are they providing you with? Is it a sole source?

Will there be discounts now in the future?

Are cost and payment factors competitive?

- **Regulations & Legal Issues**

Have all applications to start and conduct a business been submitted to city, county, state, and federal agencies?

Are there any special operating licenses that need to be in place before opening?

How often do they have to be updated? (i.e. liquor license, professional certification, etc.)

Management Plan

- **Management**

- What is your business background?
- Have you had managerial experience?
- What education have you had that will help with your managerial abilities?
- What is your direct experience, if any, in this kind of business?
- What are your reasons for going into business?
- Why do you feel you will be successful?

- **Key Personnel**

- What are your personnel needs now? In the future?
- What skills will they need?
- What will be their duties and responsibilities?
- What will be their monthly salaries?

- **Business Resources**

- Who will be handling your financial and legal needs? An accountant, bookkeeper, or yourself? Will you need an attorney to assist the business? What costs are associated with this?
- Who is your banker? *It is always advisable to get to know your banker, even if not seeking a loan. He/she has quite a bit of financial knowledge and building a rapport will help in the future if you should need a loan.*

FINANCIAL PLAN

*Don't forget the five C's of credit:
Credit, Capital, Collateral, Cash Flow, Character*

Sources & Uses of Funds

This is a summary of how your equity and the loan proceeds will be used. Remember that at a minimum the bank will require that you contribute at least 25% of the total capitalization.

<i>Use of Funds</i>	<i>Funds provided by OWNER</i>	<i>Funds provided by FINANCING</i>	<i>Total Funds Needed</i>
What is the money being used for? <i>(i.e. computer, equipment, building, inventory, start up expenses, etc.)</i>	What are your funds going to be applied to?	What are the loan funds going to be applied to?	What is the total?
Total Funds Needed	<i>This should be approx. 25% of total.</i>	<i>This should be approx. 75% of total.</i>	100% funds needed to start and operate your business (total capitalization)

Capital Equipment List

Create an itemized listing of the Equipment that will be used in your business, as well as what you paid for it. Be sure that it matches the figures that you noted in the **Sources and Uses of Funds** and **Balance Sheet**.

<i>Equipment</i>	<i>Value</i>
Your itemized list of equipment	What you paid for it.

Balance Sheet

Your Balance Sheet indicates how you have capitalized your business. It lists the **Assets** you must have in order to transact business, including cash on hand, inventory for resale, supplies, your equipment, as well as other fixed assets. You obviously have to pay for these things somehow, this is called **Capitalization**. Most entrepreneurs invest some of their own money into the business and borrow the rest. What you invest of your own is called **Owner's Equity** and what you borrow is called **Liabilities**.

$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}$$

A Balance Sheet explains the nature of your capital. It is a snapshot of what your business looks like on a particular day and is a very important financial tool for your business. It describes what you own and how much you owe. It is very important that you understand how this statement relates to both the Income Statement and Cash Flow Report because it is through these reports that you will minimize risk and maximize return.

ASSETS		LIABILITIES	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash	\$ _____	Accounts Payable	\$ _____
Accounts Receivable	\$ _____	Notes Payable	\$ _____
Inventory	\$ _____	Taxes Payable	\$ _____
Supplies	\$ _____	Current Portion of LTD	\$ _____
<i>Fixed Assets</i>		<i>Long Term Liabilities</i>	
Computers	\$ _____	Bank Loans	\$ _____
Buildings	\$ _____	Other LT Liabilities	\$ _____
Land	\$ _____		
Equipment	\$ _____	Total Liabilities	\$ _____
Furniture & Fixtures	\$ _____	OWNER'S EQUITY	
Leasehold Improvements	\$ _____	Paid In Capital	\$ _____
Vehicles	\$ _____	Retained Earnings	\$ _____
Other Fixed Assets	\$ _____	Total Owner's Equity	\$ _____
TOTAL ASSETS	\$ _____	TOTAL LIABILITIES & OWNER'S EQUITY	\$ _____

Basic Definitions	
Current Assets: converted into cash within a year or one operating cycle (cash, inventory, accts receivable)	Long Term Liabilities: debt due beyond a year.
Fixed Assets: long-life operating assets used by a business. Generally depreciated or amortized.	Paid In Capital: money invested by owners
Current Liabilities: debt due within one year. Generally paid out of current assets.	Retained Earnings: profit that the business has earned and retained.

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Pro-forma Income Projections (Income Statement)

Your Income Statement lets you know whether or not your business is profitable. You do this by subtracting all of your **Expenses** from your **Revenue**, so it is a very good idea to start thinking about what your expenses are going to be for the coming year, as well as how much revenue you are going to generate.

Write your business plan with the idea that it is going to give you the information you will need to develop a pro-forma Income Projection. Whether your plan is 5 or 50 pages long it is there to help you draw some assumptions about what it is going to cost to run this business and what kind of revenue this business will develop for you. Some of these items are easy to project, like rent or insurance, all you have to do is get on the phone and call a real estate agent or your insurance company and ask a few questions about the space you are wanting to lease or the insurance you are required to carry. Other line items, in particular Revenue, are much more difficult to project. Determining how much revenue you will generate is really a marketing issue. Therefore, you need a really good marketing plan within your business plan.

For example, you assume that you will make \$5,200 in January because you are going to charge \$65/hour per client and you can 'realistically' work with two clients per week. You can average 10 hours per client. That is a total of 20 hours at \$65/hour which totals \$1,300/week. At four weeks a month (\$1,300/week x 4 weeks) you end up with \$5,200 per month. Your business plan should also verify that there is a market for your product or service. If there is no one out there to buy your product or service you are not going to generate any revenue.

Use the following template to begin your projections. Microsoft Excel is a useful tool to assist with the formulas but remember you can not make these projections unless it is backed by some reasonable research that you have done from your business plan.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Revenue (sales)													
Total Revenue													
Cost of Sales													
Total Cost of Sales													
Gross Profit													
Operating Expenses													
Salary Expense													
Payroll Expense													
Outside Svcs													
Supplies													
Advertising													
Accounting													
Rent													
Telephone													
Utilities													
Insurance													
Interest													
Other Expenses													
Total Operating Expenses													
Net Profit (Loss)													

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Pro-forma Cash Flow Report

The cash flow report is very important to a business because it tells you where a business got its cash in the first place and what the business did with its cash during the period. At the very least, the report reveals how well a business handles its profit. There are three types of cash that flow through a business: cash flow from **operating (profit-making) activities**, cash flow from **investing activities**, and cash flow from **financing activities**.

Operating Activities	
The activities in which a business makes profit and turns the profit into cash flow (includes depreciation and changes in short-term operating assets and liabilities).	
<i>Cash Inflows</i>	<i>Cash Outflows</i>
<ul style="list-style-type: none"> • Collections from customers • Interest and dividends collected • Other operating receipts 	<ul style="list-style-type: none"> • Cash payments to suppliers • Cash payments to employees • Interest paid • Taxes paid • Other operating cash payments
Investing Activities	
Investments in long term assets needed for a business's operations; also includes money taken out of these assets from time to time (such as when a business sells its assets).	
<i>Cash Inflows</i>	<i>Cash Outflows</i>
<ul style="list-style-type: none"> • Sale of property, plant, & equipment • Sale of securities that are not cash equivalents • Receipt of loan repayments 	<ul style="list-style-type: none"> • Purchase of property, plant & equipment • Purchase of securities that are not cash equivalents • Making loans
Financing Activities	
Capital (from debt and owners equity) and distribution of profit to owners.	
<i>Cash Inflows</i>	<i>Cash Outflows</i>
<ul style="list-style-type: none"> • Borrowing cash from creditors • Issuing equity securities 	<ul style="list-style-type: none"> • Repayment of amounts borrowed • Repurchase of equity shares (including the purchase of treasury stock) • Payment of dividends