Business Project
CGS 2100
Instructor
Terry Long
Groups of three to four students will be created

Information can be gathered by using the Learning Resource Center or the Internet

- Cover Page (Using Microsoft Word)
- Include project name
- Name of students
- Clip Art (Logo) descriptive of your business.

Page describing the company including:

- Name
  - A possible location
  - Product
  - Target customers
  - Methods of operation
  - Licenses required

Create (Using Excel) an Estimated Start Up Capital Statement

Using Excel – Create your Financial Statements

- Balance Sheet
- Income Statement
- Cash Flow Statement ----- Recommended

Using Excel – Create any other documentation

- Pricing Policy
- Payment methods
- Invoicing

Using Access Create and Print out of at least three tables (ex. Customer, Employee, and Inventory) all should have at least one field in common.

- Need Primary Key

Three Queries

- One Form
- One Reports

Group PowerPoint Presentation

At the end of class anonymous evaluations will be collected from each class member regarding classmate’s performance during project.

Additional Information Page

- Should include at least three Internet sources used in your report

Your team will create a PowerPoint Presentation of at least 15 slides using transitions and sound. Humor is a must.

Your audience will be made up of potential investors that your business is trying to attract.
Your project should be as professional as possible.
Project is due one week before finals
Please hand in your project and a diskette will all the information regarding your projects
TEAM MEMBER AND E-MAIL ADDRESS or phone number – (optional)

The perfect business plan is one that meets its objective – which is usually raising money. So if a business plan gets that job done, it was pretty good.

All business plans cover essentially the same material – a description of the business, an executive summary, a description of the market, a description of the opportunity, the management team, financial projections and so on. The key to a well-written business plan is that it is easy to read – it’s clear, concise but complete. It should roll out specific milestones for progress so that the success of the company can be measured and appreciated.

Remember, it’s the business planning process that is most important at the end of the day. The business plan document is merely a tool. Investors care most about management’s ability to actually implement the plan.

- An explanation of the idea along with business assumptions and strategies
- Financial projections
- Revenue sources and amounts and profit projections
- Milestones for tracking and measuring progress

Professional advisors such as lawyers and accountants can help you write a business plan, but I believe that the more involved the co-founders of the company are in putting the plan together, the more they will get out of the experience. After all, if it is your company, you are the expert.

When writing your plan, keep in mind that all readers should be able to grasp the concept quickly. Realize that not everyone who reads our plan has more than passing knowledge of your industry. A well-written executive summary is extremely important, but you need to back it up with all the details to support your ideas. Finally, graphics can really help sell an idea, so use a professional to make the plan look as good as possible.

There are also a number of good books that can help you construct a business plan, not to mention computer software and Web sites that can guide you through the basic steps of how to write a plan. BizPlanit.com offers advice as well as a list of business planning books and software titles.
Target Market

A popular and critical question posed to business owners and entrepreneurs by lenders and investors is “Who is your customer?” It’s such a simple question, yet the inability to answer it has possibly caused more ‘going out of business’ sales than any other.

Why can failing to answer such a simple question have such a devastating impact on your business? Unfortunately, because many business owners place too much emphasis on their products and services, and too little on what the customer truly wants and needs. You may have a great product, with more neat gadgets, features, and benefits that your competition offers, but does your customer care? And how do you know they care?

The first place to start is by defining exactly who would be interested in buying your product or service. This is your target market, defined as the group of the population sharing a common set of traits, which distinguish them from everyone else.

For example, a children’s clothing store located in the mall might have a customer profile like this: Children between the ages of 3 to 8 years old, 65% female and 35% male, located within 10 miles of the mall, and whose parents earn over $40,000 a year. These characteristics define a target market – and a central set of characteristics for potential customers for children’s clothing. If you’re in the start-up phase, your target market may be less tangible than the target market for a company with years of operational history and customer files. But as you gain experience running your business, and you maintain accurate records of who actually purchases your product or service, your understanding of your ideal customer will improve.

So why focus on your target customer?

First, if you don’t understand who they are, how can you tailor your product or service to best meet their needs? One key to business success is the ability to provide products and services that meet the needs and wants of your customers. If your customers want to purchase red shoes, and all you sell are blue shoes, how many do you suspect you will see? If your customer believes that the speed of your service is more important than its quality, isn’t that information you need to know? Second, when you understand who your customer is, you can determine with more accuracy which marketing mediums and channels will be most effective in reaching them. If your potential customer only listens to FM stations, and you advertise on an AM station, your marketing efforts will be unsuccessful. The more narrowly you can define your customer, the more focused your marketing efforts become, and the more your marketing dollars will work for you.

For example, if you want to see print shop owners a product, then advertising in a print industry magazine is a far more effective use of marketing dollars than placing an ad in USA Today or Time. This doesn’t mean that your customer won’t read USA Today or TIME, just that you won’t be advertising to all the millions of people who clearly have no interest in your product.

Here are suggestions on how to breakdown your customer profile, on both the business and consumer level.
**Demographic** characteristics are specific, objective, and observable characteristics that your target customers share. Most Marketing mediums, such as newspapers, magazines, radio stations and television stations can provide excellent demographic characteristics on their audience. General demographic characteristics include:

- Age
- Gender
- Income Level
- Family Life Cycle
- Occupation
- Education
- Race / Ethnic Group
- Social Class
- Industry
- Product / Service Sold
- SIC Code
- Years in Business
- Revenues
- Number of Employees

**Geographic** characteristics are based on the location(s) where your target customer can be reached. Are they in the urban areas or do they reside in the rural areas? Are they in Montana or New York? Correctly deciding whether to run an advertisement in the New York Times or the Los Angeles Times, will save you money, and help you generate more effective marketing results. Try to identify your customer based on the following geographic characteristics:

- Country / Region
- State
- City / Town
- Size of Population
- Climate
- Population Density

**Psychographic** characteristics, though less tangible, are still important to identify and understand. These traits have more to do with a person’s psychological characteristics such as attitudes, beliefs, hopes, fears, prejudices, needs or desires, and are highly dependent on your customers’ self-image and their perceptions of your industry or product. Psychographic traits include such things as:

- Social Class
- Lifestyle
- Leader / Follower
- Extrovert / Introvert
- Independent / Dependent
- Conservative / Liberal
- Traditional / Experimental
Socially conscious / Self-centered

**Consumer / Behavioral** characteristics are those relating to the purchasing and usage traits of your customers. Do they use similar products as yours, and how often do they use them? What are the benefits people desire in your service, and how does this translate into sales? Consider these customer / behavioral traits for your target customer:

- Usage Ration
- Benefits Sought
- Method of Usage
- Frequency of Usage
- Frequency of Purchase

**Market Size**

Once you determine who your customer is, it’s important to identify the size of your customer base. Is it large or is it small? If it’s too large, consider narrowing it down and focusing on a particular niche. Trying to reach and sell a large target market is difficult and costly, especially if it’s populated by well-financed competitors who will force you to incur significant costs to achieve a sizeable market share. If too small, will you be able to capture enough customers to make a sufficient profit?

**Market Trends**

Once you define your customer, and determine their total numbers in the population, it’s a good idea to research the trends of your market. Over the next few years, what growth rate can be expected for your target market? What changes are taking place in the makeup of your market, and how will they change in the future? How are, and how will, customers change their use of your product or service?

So you ask, “How do I find all this information?”

BizPlanIt has a few suggestions. First, talk to as many of the people in your target market as possible. Seriously – just talk to them and ask questions. Conduct surveys. Discover what they like or dislike, and what they want and need. What is the most important factor in their purchase decision? Facilitate a focus group, or if you have the money, consider working with a market research firm.

Second, don’t forget the local library. It’s rich with books, magazines, research journals, reference guides, and computer databases to help you find the information you need. Ask the librarian for help, we always find them extremely helpful in location specific sources quickly.

Lastly, use your own eyes and ears to discover valuable details about your target market and their buying habits. Visit your competitors disguised as a consumer. Hang out in a store related to the product or service you sell and take it all in. Request annual reports and marketing information to find out about the financial, operational, and marketing factors that are important in your industry. Essentially, look around, collect information, get organized, and figure out who your target customer is, and how you will reach them effectively.
How much startup capital do I need?

It is generally a good plan to have enough cash on hand to be able to carry your business through one full cycle. A business cycle is typically one year or less – during which the inventory of your customer base is completely turned over. The length of this time, of course, depends on your business, but when raising money, always try to raise enough to carry you through the next major risk window or up to the next level of accomplishment. You’ll also want to tack on a cushion of three months – just in case.
CONFIDENTIAL BUSINESS PLAN
OF
CATCHY SOFTWARE, INC.

November 2000

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Contact: Richard Smith
Balance Sheet

As of: _______________

**Assets**  
$________________

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th>$________________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$________________</td>
</tr>
<tr>
<td>Marketable Securities</td>
<td>$________________</td>
</tr>
<tr>
<td>Accounts Receivable (Net)</td>
<td>$________________</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed Assets:</th>
<th>$________________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and Equipment Buildings</td>
<td>$________________</td>
</tr>
<tr>
<td>Land</td>
<td>$________________</td>
</tr>
<tr>
<td>Less: Accumulated Dep.</td>
<td>$________________</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>$________________</td>
</tr>
</tbody>
</table>

| Other Assets           | $________________ |
| Total Assets           | $________________ |

**Liability and Equity**

Liabilities

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th>$________________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Payable</td>
<td>$________________</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>$________________</td>
</tr>
<tr>
<td>Taxes Payable</td>
<td>$________________</td>
</tr>
<tr>
<td>Other: ________________</td>
<td>$________________</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$________________</td>
</tr>
</tbody>
</table>

| Non-Current Liabilities: | $________________ |
| Long-Term Debt:         | $________________ |
| Other: ________________ | $________________ |
| Total Non-Current Liabilities | $________________ |
| Total Liabilities      | $________________ |

| Equity:                | $________________ |
| Stock (Capital)        | $________________ |
| Retained Earnings      | $________________ |
| Total Equity           | $________________ |

**Total Liabilities and Equity**  
$________________
Getting Started

How to Start A Small Business

Starting and managing a business takes motivation, desire and talent. It also takes research and planning.

Like a chess game, success in small business starts with decisive and correct opening moves. And, although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your change for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well-thought out business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business. It should also provide milestones to gauge your success.

Getting Started

Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

✓ You want to be your own boss.
✓ You want financial independence.
✓ You want creative freedom.
✓ You want to fully use your skills and knowledge.

Next you need to determine what business is “right for you.” Ask yourself these questions:

✓ What do I like to do with my time?
✓ What technical skills have I learned or developed?
✓ What do others say I am good at?
✓ How much time do I have to run a successful business?
✓ Do I have any hobbies or interests that are marketable?

Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions.

✓ Is my idea practical and will it fill a need?
✓ What is my competition?
✓ What is my business advantage over existing firms?
✓ Can I deliver a better quality service?
✓ Can I create a demand for your business?
The final step before developing your plan is the pre-business checklist. You should answer these questions:

- What business am I interested in starting?
- What services or products will I sell? Where will I be located?
- What will be my legal structure? (see overview below)
- What will I name my business?
- What equipment or supplies will I need?
- What insurance coverage will be needed?
- What financing will I need?
- What are my resources?
- How will I compensate myself?

Your answers will help you create focused, well researched business plan that should serve as a blueprint. It should detail how the business will be operated, managed, and capitalized.

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**Types of Business Organizations**

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- Legal Restrictions
- Liabilities assumed
- Type of business operation
- Earning distribution
- Capital needs
- Number of employees
- Tax advantages or disadvantages
- Length of business operation

The advantages and disadvantages of sole proprietorship, partnership and corporation are listed below.

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**Sole Proprietorship**

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney’s fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.
Partnership

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner’s business actions, as well as their own.

A Partnership Agreement should include the following:

- Type of business
- Amount of equity invested by each partner
- Division of profit or loss
- Partner’s compensation
- Distribution of partnership
- Duration of partnership
- Provisions for changes or dissolving the partnership
- Dispute settlement clause
- Restrictions of authority and expenditures
- Settlement in case of death or incapacitation

Corporation

A business may incorporate with an attorney, but legal advice is highly recommended. The corporate structure is usually the most complex and more costly to organize than the other two business formations. Control depends on stock ownership. Persons with the largest stock ownership, not the total number of shareholders, control the corporation. With control of stock shares or 51 percent of stock, a person or group is able to make policy decisions. Control is exercised through regular board of directors’ meetings and annual stockholders’ meetings. Records must be kept to document decisions made by the board of directors. Small, closely held corporations can be liable to stockholders for improper actions. Liability is generally limited to stock ownership, except where fraud is involved. You may want to incorporate as a “C” or “S” corporation.

Business Plan Outline

The following outline of a typical business plan can serve as a guide. You can adapt it to your specific business. Breaking down the plan into several components helps make drafting it a more manageable task.
Introduction

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and legal structure.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competitors.

In-depth help on developing a sound business plan can be found on the SBA Web site in the Starting Area.

Marketing

- Discuss the products/services offered.
- Identify the customer demand for your product/service.
- Identify your market, its size and location.
- Explain the pricing strategy.

Financial Management

- Explain your source and the amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a two year period.
- Discuss the breakeven point.
- Provide “what if” statements that address alternative approaches to any problem that may develop.

Operations

- Explain how the business will be managed on a day to day basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreements, and issues pertinent to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products and services.

Concluding Statement

- Summarize your business goals and objectives and express your commitment to the success of your business.
- Once you have completed your business plan, review it with a friend or business associate or a Service Corps of Retired Executives (SCORE) or Small Business Development Center (SBDC) counselor. (See SCORE and SBDC listings in this guide).
- When you feel comfortable with the content and structure make an appointment to review and discuss it with your lender. The business plan is flexible document that should change as your business grows.
To Lease or Not to Lease: Things to Know

Get the Answers

Here are some questions to ask before signing a lease:

26. Does the lease specifically state the square footage of the premises? The total rentable square footage of the building?

27. Is the tenant’s share of expenses based on total square footage of the building or the square footage leased by the landlord? Your share may be lower if it’s based on the total square footage.

28. Do the base year expenses, reflect full occupancy or are they adjusted to full occupancy (i.e., base year real estate taxes on an unfinished building are lower than in subsequent years)?

29. Must the landlord provide a detailed list of expenses, prepared by CPA, to support increases?

30. Does the lease clearly give the tenant the right to audit the landlord’s books or records?

31. If use of the building is interrupted, does the lease define the remedies available to the tenant, such as rent abatement or lease cancellation?

32. If the landlord does not meet repair responsibilities, can the tenant make the repairs, after notice to the landlord, and deduct the cost from the rent?

33. Is the landlord required to obtain nondisturbance agreements from current and future lenders?

34. Does the lease clearly define how disputes will be decided?

(Source: 327 Questions to Ask Before You Sign a Lease, by B. Alan Whitson (B. Alan Whitson Co., (800) 452-4480.)
Learn The Lingo

Lease terms you should know:

**Lessor**  Landlord

**Lessee** Tenant

**Right of First Refusal** Before vacant space is rented to someone, landlord must offer it to the current tenant with the same terms that will be offered to the public.

**Gross Lease** Tenant pays flat monthly amount; landlord pays all operating costs, including property taxes, insurance and utilities.

**Triple Net Lease** Tenant pays base rent, taxes, insurance, repairs and maintenance.

**Percentage Lease** Base rent, operating expenses, common area maintenance, plus percentage of tenant’s gross income (most common for retailers in shopping malls).

**Sublet** Tenant rents all or part of space to another business; tenant is still responsible for paying all costs to landlord.

**Assign Lease** Tenant turns lease over to another business, which assumes payments and obligations under the lease.

**Anchor Tenant** Major store or supermarket that attracts customers to a shopping center.

**Exclusively Provision** Shopping center can’t lease to another who provides the same product or service that existing tenant does.

**CAM** Common area maintenance charges including property taxes, security, parking lot lighting and maintenance; may not apply to anchor tenants in retail leases.

**Nondisturbance Clause** Tenant cannot be forced to move or sign a new lease if building or shopping center is sold or undergoes foreclosure.
Assuming you have ready the “First Steps” on how to Start a Small Business, you will recall that research is extremely important in planning your business endeavor. SBA has conducted numerous research projects readily available for your use. Below are some of these research efforts and information on how to obtain the studies.

1. **SBA’s Office of Advocacy**: The voice of small business in the federal government and the source for small business statistics.

2. **Economic Research and Statistics**

3. **Recent Research on Small Business and Ordering Reports**


5. **Reports, Statistics, Studies**

6. **Census Bureau**: Economic Statistics and Surveys by State/County.

7. **Bureau of Economic Analysis**: Survey of Current Business and Other BEA Publications.


Also, be sure to visit SBA’s Online Library which contains a wealth of information, including SBA Publications on small business management, Fact Sheets, online workbooks, success series and more.

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**THE BUSINESS PLAN – ROAD MAP TO SUCCESS**

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**BUSINESS PLAN OUTLINE**

Use the outline below as a guide. Also see Outside Business Plan Resources at the bottom of the page.

**Elements of a Business Plan**

- 1. Cover sheet
- 2. Statement of purpose
- 3. Table of contents
- 1. The Business
  - A. Description of business
  - B. Marketing
  - C. Competition
D. Operating procedures
E. Personnel
F. 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 or 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.
THE BUSINESS PLAN - WHAT IT INCLUDES

What goes in a business plan? This is an excellent question. And, it is 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.

THE BUSINESS PLAN - 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 (if you have a franchise, some franchisors assist in site selection).

- 1. Business Description

When describing your business, generally you should explain:

- 1. Legalities - business form: proprietorship, partnership, corporation. The 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? 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, 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.
THE BUSINESS PLAN - 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.

THE BUSINESS PLAN - 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?
- 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 BUSINESS PLAN - 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.

THE 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.
THE BUSINESS PLAN - 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.

THE BUSINESS PLAN - 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 BUSINESS PLAN - 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? If a franchise, 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 BUSINESS PLAN - 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
- accounting
- income
- utilities
- payroll expenses

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

- personnel
- insurance
- rent
- depreciation
- loan payments
- advertising/promotions
- legal/accounting
- miscellaneous expenses
- supplies
- payroll expenses
- salaries/wages
- utilities
- dues/subscriptions/fees
- taxes
- repairs/maintenance

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 segment 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 a 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? If a franchise, 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.

**THE BUSINESS PLAN - SELF-PACED ACTIVITY**

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.

**THE BUSINESS PLAN - APPENDIX 1**

**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):
   o 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

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

   o 2. The following are some important legal factors that will affect our market:
      __________________________________________________________________________
      __________________________________________________________________________
3. The following are some important government factors:

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

II. PRODUCT OR SERVICE ANALYSIS

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

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.)?

   2. What disadvantages does it have?

C. Some Considerations
   1. Where will you get your materials and supplies?

   2. List other considerations:
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 . . .)?

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 association’s ____________
   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:
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
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

2. **Marketing Positioning**
   - Follower versus Leader
   - Quality versus Price
   - Innovator versus Adaptor
   - Customer versus Product
   - International versus Domestic
   - Private Sector versus Government

3. **Sales Strategy**
   - 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.
  
  o Emphasize Customer Advantage

  - Must be Read: When a competitive advantage cannot 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.

___________________________________________________________

NOTES AND STRATEGIES FOR YOUR BUSINESS

___________________________________________________________

MARKETING TIPS, TRICKS & TRAPS

4. **Benefits vs. Features**

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

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

  o Convert features to benefits using the ". . . Which Means . . ."
  o Transition
  o 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 quality buyer)

NOTES AND STRATEGIES FOR YOUR BUSINESS

CONVERT FEATURES INTO BENEFITS-

THE "... WHICH MEANS ..." TRANSITION

FEATURES "WHICH MEANS" BENEFITS

- Performance Time Saved
- Reputation Reduced Cost
- Components Prestige
- Colors Bigger Savings
- Sizes Greater Profits
- Exclusive Greater
- Convenience
- Uses Uniform Production
- Applications Uniform Accuracy
- Ruggedness Continuous Output
- Delivery Leadership
- Service Increased Sales
- Price Economy of Use
- Design Ease of Use
- Availability Reduced Inventory
- Installation Low Operating Cost
- Promotion Simplicity
- Lab Tests Reduced Upkeep
- Terms Reduced Waste
- Workmanship Long Life

BUYING MOTIVES

RATIONAL EMOTIONAL

- Economy of Purchase Pride of Appearance
- Economy of Use Pride of Ownership
- Efficient Profits Desire of Prestige
- Increased Profits Desire for Recognition
- Durability Desire to Imitate
- Accurate Performance Desire for Variety
- Labor-Saving Safety
- Time-Saving Fear
- Simple Construction Desire to Create
- Simple Operation Desire for Security
Ease of Repair Convenience
Ease of Installation Desire to Be Unique
  o Space-Saving Curiosity
  o Increased Production
  o Availability
  o Complete Servicing
  o Good Workmanship
  o Low Maintenance
  o Thorough Research
  o Desire to be Unique
  o Curiosity

PRICE / QUALITY MATRIX

SALES APPEALS

PRICE/QUALITY HIGH MEDIUM LOW

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

THE BUSINESS PLAN - APPENDIX 2

FINANCIAL MANAGEMENT

1. Income Projection Statement
   o Instructions for Income Projection Statement
2. Balance Sheet
   o Instructions for Balance Sheet
3. Monthly Cash Flow Projection
   o Instructions for Monthly Cash Flow Projection
4. Information Resources
INCOME PROJECTION STATEMENT

% total %
- 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

Total expenses
- Net profit (loss)
- before taxes

Taxes

Net profit (loss) after taxes

______________________________________________

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 total net sales

Costs/expenses items x 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.

Cost 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 gross profits total net sales

Controllable (also known as Variable) 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 Annual total x 100% total net sales

Annual total x 100%

Total net sales

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

As of __________________________ , 19__________

Assets

- Current assets
  - Cash $________________________
  - Petty cash $___________________
  - Accounts receivable $____________
  - Inventory $__________________
  - Short-term investment $________
  - Prepaid expenses $____________
  - Long-term investment $__________
    - Fixed assets
      - Land $____________________
      - Buildings $_______________
      - Improvements $____________
      - Equipment $________________
      - Furniture $________________
      - Automobile/vehicles $________

Other assets

- 1. $____________________________
- 2. $____________________________
- 3. $____________________________
- 4. $____________________________

Total assets $____________________
Liabilities

Current Liabilities

Accounts payable $__________________

Notes payable $__________________

Interest payable $__________________

Taxes payable

Federal income tax $__________________

State income tax $__________________

Self-employment tax $__________________

Sales tax (SBE) $__________________

Property tax $__________________

Payroll accrual $__________________

Long-term liabilities

Notes payable $__________________

Total liabilities $__________________

Net worth (owner equity) $__________________

Proprietorship or Partnership

(Name’s) equity $__________________

(Name’s) equity $__________________ or Corporation

Capital stock $__________________

Surplus paid in $__________________

Retained earnings $__________________

Total net worth $__________________

Total liabilities and total net worth $__________________

(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 cost 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 1 2 3 4 5 6 Total up position Columns 1-6

**Year Month**


1. **Cash on hand (beginning month)**

2. **Cash receipts**
   - (a) Cash sales
   - (b) Collections from credit accounts
   - (c) Loan or other cash injections (specify)

3. **Total cash receipts**
   
   (2a+2b+2c=3)

4. **Total cash available**
   
   (before cash out) (1+3)

5. **Cash paid out**
   - (a) purchases (merchandise)
   - (b) Gross wages (excludes withdrawals)
   - (c) Payroll expenses (taxes, etc.)
   - (d) Outside services
   - (e) Supplies (office and operating)
   - (f) Repairs and maintenance
   - (g) Advertising
   - (h) Car, delivery and travel
   - (i) Accounting and legal
   - (j) Rent
   - (k) Telephone
   - (l) Utilities
   - (m) Insurance
   - (n) Taxes (real estate, etc.)
   - (o) Interest
   - (p) Other expenses (specify each)
   - (q) Miscellaneous (unspecified)
INSTRUCTIONS FOR MONTHLY CASH FLOW PROJECTION

1. Cash on hand (beginning of month) -- Cash on hand same as (7), Cash position, previous month

2. Cash receipts-
   - (a) Cash sales-All cash sales. Omit credit sales unless cash is actually received
   - (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) -- Previous 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 amount sold current month

E. Accounts payable (end of month) Previous 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

THE BUSINESS PLAN - APPENDIX 3: 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 "Resource Directory for Small Business Management.” 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.

- Business Information Centers (BICs), offering state-of-the-art technology, informational resources and on-site counseling for start-up and expanding businesses to create business, marketing and other plans, do research, and receive expert training and assistance.

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, contact 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


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.

Environmental Protection Agency Office of Small Business Ombudsman
U. S. Environmental Protection Agency (EPA)
Small Business Ombudsman (Mail Code 2131) Room 3423
401 M Street, S. W.
Washington, D. C. 20460
1-800-368-5888 except in DC and VA
202-260-1211 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

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.

**Balance Sheet**

Also called a statement of financial position, a balance sheet is a financial "snapshot" of your business at a given date in time. It lists your assets, your liabilities, and the difference between the two, which is your owner's equity, or net worth. The accounting equation (assets = liabilities + owner's equity) is the basis for the balance sheet.

The balance sheet is prepared after all adjusting entries are made in the general journal, all journal entries have been posted to the general ledger, the general ledger accounts have been footed to arrive at the period end totals, and an adjusted trial balance is prepared from the general ledger amounts.

Financial statements normally do not show cents. All amounts should be rounded to the nearest dollar.

The following is an example of a balance sheet for a sole proprietorship:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td><strong>Current Liabilities</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>$12,300</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>22,900</td>
</tr>
<tr>
<td>Inventory</td>
<td>32,090</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>2,500</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$69,790</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td>Total Long-Term Liability</td>
</tr>
<tr>
<td>Equipment</td>
<td>100,200</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(78,321)</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>21,879</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$91,669</td>
</tr>
</tbody>
</table>

**Beta Sales Company**  
**Balance Sheet**  
**December 31, 2001**

For more detailed information on balance sheets and other financial statements, see our full discussion of financial statements.
Balance Sheet Template: Quick "Snapshot" of Your Business

Benefits: A balance sheet includes your assets and liabilities and tells you your business's net worth. You've probably seen a formal balance sheet for other businesses, or have paid an accountant to do one for yours. If you would like to try preparing a balance sheet for your business, you can use the spreadsheet template, contained in the attached file, as a starting point. Just plug in your account balances and the spreadsheet will automatically compute all the subtotals and totals and tell you if your balance sheet doesn't balance.

Although the template is an example of a balance sheet for a sole proprietorship, you can quickly modify it for a corporation or partnership. You can add or delete account titles, revise the format, or otherwise modify it to suit your needs.

File Description: The file contains a Microsoft Excel (version 4.0 and above) spreadsheet template. Once you've downloaded the file, you must copy it to your EXCEL\XLSTART directory in order to use it.

Balance sheet template

Income Statement

Also called a profit and loss statement, or a "P&L," an income statement lists your income, expenses, and net income (or loss). The net income (or loss) is equal to your income minus your expenses. Your business's tax return will use a variation of the income statement to determine your potentially taxable income.

The income statement is prepared after all adjusting entries are made in the general journal, all journal entries have been posted to the general ledger, the general ledger accounts have been footed to arrive at the period end totals, and an adjusted trial balance has been prepared from the general ledger totals.

Financial statements normally do not show cents. All amounts should be rounded to the nearest dollar.

The following is an example of an income statement:

<table>
<thead>
<tr>
<th>Beta Sales Company</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Year Ended December 31, 2001</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$462,452</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td></td>
</tr>
<tr>
<td>Beginning Inventory</td>
<td>$ 27,335</td>
</tr>
<tr>
<td>Add: Purchases</td>
<td>235,689</td>
</tr>
<tr>
<td>Total:</td>
<td>263,024</td>
</tr>
<tr>
<td>Less: Ending inventory</td>
<td>32,090</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>230,934</td>
</tr>
</tbody>
</table>
Gross Profit | 231,518

**Expenses**

Advertising | 1,850  
Depreciation | 13,250  
Insurance | 5,400  
Payroll taxes | 8,200  
Rent | 9,600  
Repairs and maintenance | 13,984  
Utilities | 17,801  
Wages | 98,852  
Total Expenses | 168,937

**Net Income** | **$ 62,581**

**Income Statement Template**

**Benefits:** An income statement (sometimes called a profit and loss statement) lists your revenues and expenses, and tells you the profit or loss of your business for a given period of time. You've probably seen a formal income statement for other businesses or have paid your accountant to prepare one for yours. If you would like to try creating an income statement yourself for your business, you can use the spreadsheet template, contained in the attached file, as a starting point. Just plug in your income and expense account balances and the spreadsheet will automatically calculate all the subtotals and totals, and compute your net income.

Although the template is an example of an income statement for a business that purchases inventory and processes it into a final product, you can quickly customize it to reflect your business situation.

**File Description:**
The file contains a Microsoft Excel (version 4.0 and above) spreadsheet template. Once you've downloaded the file, you must copy it to your EXCEL\XLSTART directory in order to use it.

**Income statement template**
Financial planning: Figuring cash flow

While your worksheets help you build a budget for the future, you will need to check periodically on the immediate financial health of your company. Cash flow analysis can help you do that. A projected cash flow statement estimates what the flow of money will be like in the coming months or years based on a history of sales and expenses. A monthly cash flow statement reveals the current state of affairs.

A cash flow budget is your core tool in maintaining control over company finances. While you can almost always cut back on costs, or the cash going out, you can't always generate sales, or income. So you need to know where the money is, and where it's going.

The basic elements of cash flow are:
- Starting cash, or starting balance -- What you have on hand at the beginning of the month.
- Cash in -- All cash received during the month, including sales, paid receivables, interest or cash from sales of assets or stock.
- Cash out -- All fixed and variable expenses
- Ending cash, or ending balance -- Add Starting Cash to Cash In for total cash, then subtract Cash Out.

Here is an example of how you measure cash flow by subtracting your monthly ending balance from your starting balance.

Let's say you started the month with $3,500. You brought in $1,000 in sales and you paid out $400 in rent and $600 in wages for a total of $1,000 in expenses. So your ending balance is still $3,500. While you did show some sales, your monthly cash flow would be $0. To survive in business, you want positive cash flow, which means you are taking more in than you are spending. Positive cash flow gives you forward motion to build and grow.

Even a small lag in sales can make a dramatic impact on cash flow, but you might not know that without your cash flow budget. At the end of every month, compare your actual business sales with your estimated cash flow projections. If they are out of whack, consider the cause. Maybe you didn't factor in the need to hire summer vacation replacement help or the jump in paper prices for your printing business inventory. Cut back on the outflow where you can, and adjust monthly cash flow projections to more realistically meet your needs.
The prime objective for any business is to survive. That means a firm must have enough cash to meet its obligations. This publication shows the owner-manager how to plan for the movement of cash through the business and thus plan for future requirements.

**Introduction**

All businesses, no matter how small or large, function on cash. Many businesses become insolvent because they do not have enough cash to meet their short term obligations; bills must be paid in cash, not profits. Sufficient cash is, therefore, one of the keys to maintaining a successful business. Thus, you must understand how cash moves or flows through the business and how planning can remove some of the uncertainties about future requirements.

**Cash Flow**

*Cash Cycle.* In any business there is a continual cycle of events which may increase or decrease the cash balance. The following diagram is used to illustrate this flow of cash.

Cash is decreased in the acquisition of materials and services to produce the finished goods. It is reduced in paying off the amounts owed to suppliers; that is, accounts payable. Then, inventory is sold and these sales generate cash and accounts receivable; that is money owed from customers. When customers pay, accounts receivable is reduced and the cash account increases. However, the cash flows are not necessarily related to the sales in that period because customers may pay in the next period.

The small business manager must continually be alert to changes in working capital accounts, the cause of these changes, and the implications of these changes for the financial health of the company.

*Net Working Capital.* Current assets are those resources of cash and those assets which can be converted to cash within one year or a normal business cycle. These include, cash, marketable securities, accounts receivable, inventories, etc. Current liabilities are obligations which become due within one year or a normal business cycle. These include accounts payable, notes payable, accrued expenses payable, etc. You may want to consider current assets as the source of funds which reduce current liabilities.

One way to measure the flow of cash and the firm’s ability to maintain its cash or liquid assets is to compute *working capital.* It is the difference between current assets and current liabilities. The change in this value from period to period is called *net working capital.* For example:

<table>
<thead>
<tr>
<th>Period 1</th>
<th>Period 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$110,000</td>
</tr>
<tr>
<td>less Current Liabilities</td>
<td>-70,000</td>
</tr>
<tr>
<td>Working Capital</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Net Working Capital Increase (Decrease)</strong></td>
<td></td>
</tr>
</tbody>
</table>

Net working capital increased during the year, but we don’t know how. It could have been all in cash or all in inventory. Or, it may have resulted from a reduction in accounts payable.
Cash Flow Statement. While net working capital shows only the changes in the current position, a “flow” statement can be developed to explain the changes that have occurred in any account during any time period. The cash flow statement is an analysis of the cash inflows and outflows.

The ability to forecast cash requirements is indeed a means of becoming a more efficient manager. If you can determine the cash requirements for any period, you can establish a bank loan in advance, or you can reduce other current asset accounts so that the cash will be made available. Also, when you have excess cash, you can put this cash into productive use to earn a return.

The change in the cash account can be readily determined if you know how net working capital and the changes in current liabilities and current assets other than cash.

Let:

\[
\begin{align*}
\text{NWC} & \quad \text{be net working capital} \\
\text{CA} & \quad \text{be the change in current assets other than cash} \\
\text{CL} & \quad \text{change in current liabilities} \\
\text{cash} & \quad \text{be the change in cash}
\end{align*}
\]

Because net working capital is the difference between the change in current assets and current liabilities:

\[
\text{NWC} = \text{CA} + \text{CL}
\]

Cash = NWC – CA + CL

This relationship states that if we know net working capital (NWC), the change in current liabilities (CL), and the change in current assets less cash (CA less cash), we can calculate the change in cash. The change in cash is then added to the beginning balance of cash to determine the ending balance.

Suppose you forecast that sales will increase $50,000 and the following will correspondingly change:

- Receivables: increase by $25,000
- Inventory: increase by $70,000
- Accounts payable: increase by $30,000
- Notes payable: increase by $10,000

Using net working capital of $48,000, what is the projected change in cash?

\[
\begin{align*}
\text{cash} & = \text{NWC} - \text{CA} + \text{CL} \\
& = 48,000 - 25,000 - 70,000 + 30,000 + 10,000 \\
& = -7,000
\end{align*}
\]

Conclusion: Over this time period, under an increasing sales volume, cash decreases by $7,000. Is there enough cash to cover this decrease? This will depend upon the beginning cash balance.

Sources and application of funds: At any given level of sales, it is easier to forecast the required inventory, accounts payable, receivables, etc., than net working capital. To forecast this net working capital account, you must trace the sources and application of funds. Sources of funds increase working capital. The difference between the sources and applications of funds is the net working capital.
The following calculation is based on the fact that the balance sheet is indeed in "balance". This is total assets equal total liabilities plus stockholders' equity.

\[ \text{current assets} + \text{noncurrent assets} = \text{current liabilities} + \text{long term liabilities} + \text{equity} \]

Because the left-hand side of the equation is working capital, the right-hand side must also equal working capital. A change to either side is the net working capital. If long-term liabilities and equity increase or noncurrent assets decrease, net working capital increases. This change would be a source of funds. If noncurrent assets increase or long-term liabilities and equity decrease, net working capital decreases. This change would be an application of funds.

Typical sources of funds or net working capital are:
- Funds provided by operations
- Disposal of fixed assets
- Issuance of stock
- Borrowing from a long term source

To obtain the item, “funds provided by operations”, subtract all expense items requiring funds from all revenue that was a source of funds. You can also obtain this result in an easier manner: add back expenses which did not result in inflows or outflows of funds to reported net income.

The most common nonfund expense is depreciation: the allocation of the cost of an asset as an expense over the life of the asset against the future revenues produced. Adjusting net income with depreciation is much simpler than computer revenues and expenses which require funds. Again, depreciation is not a source of funds.

The typical applications of funds or net working capital are:
- Purchase of fixed assets
- Payment of dividends
- Retirement of long-term liabilities
- Repurchase of equity

The following is an example of how sources and applications of funds may be shown to determine net working capital.

**Statement of Sources and Applications of Funds**

**Sources of funds:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$10,000</td>
</tr>
<tr>
<td>Add back depreciation (noncash item)</td>
<td>+15,000</td>
</tr>
<tr>
<td></td>
<td>$25,000</td>
</tr>
<tr>
<td>Issuance of debt</td>
<td>$175,000</td>
</tr>
<tr>
<td>Issuance of stock</td>
<td>+3,000</td>
</tr>
<tr>
<td></td>
<td>$203,000</td>
</tr>
</tbody>
</table>

**Application of funds:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of plant</td>
<td>$140,000</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>+15,000</td>
</tr>
<tr>
<td></td>
<td>$155,000</td>
</tr>
<tr>
<td>Net working capital increase (decrease)</td>
<td>$48,000</td>
</tr>
</tbody>
</table>
**Statement of Change in Financial Position.** This statement combines two statements previously discussed: the statement of sources and application of funds and the changes in working capital accounts. This statement can be converted into a cash flow statement by solving for cash as the unknown, as show below.

**Cash Flow Statement**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Funds</td>
<td>$203,300</td>
</tr>
<tr>
<td>Applications of Funds</td>
<td>155,000</td>
</tr>
<tr>
<td>Net Working Capital</td>
<td>$ 48,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Increase in Receivables</td>
<td>25,000</td>
</tr>
<tr>
<td>Increase in Inventory</td>
<td>70,000</td>
</tr>
<tr>
<td></td>
<td>-95,000</td>
</tr>
<tr>
<td></td>
<td>-47,000</td>
</tr>
<tr>
<td>Plus:</td>
<td></td>
</tr>
<tr>
<td>Increase in Accounts Payable</td>
<td>30,000</td>
</tr>
<tr>
<td>Increase in Notes Payable</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Cash Flow</strong></td>
<td><strong>$-7,000</strong></td>
</tr>
</tbody>
</table>

**Planning For Cash Flow**

Cash flow can be used not only to determine how cash flowed through the business but also as an aid to determine the excess shortage of cash. Supposed your analysis of cash flow forecasts a potential cash deficiency. You may then do a number of things such as:

- Increase borrowings: loans, stock issuance, etc.
- Reduce current asset accounts: reduce receivables, inventory, etc.
- Reduce noncurrent assets: postpone expanding the facility, sell off some fixed assets, etc.

By using a cash flow statement you can determine if sufficient funds are available from financing activities, show funds generated from all sources, and show how these funds were applied. Using and adjusting the information gained from this cash flow analysis will help you to know in advance if there will be enough cash to pay:

- Supplier’s bills
- Bank loans
- Interest
- Dividends

Careful planning will insure a sufficient amount of cash to meet future obligations on schedule which is essential for the “successful” business.

**Planning Aid**

The following example is presented to help you develop a cash flow analysis. Of course, all names are fictitious.

During the next month, Irene Smith, owner-manager of Imagine Manufacturing, expects sales to increase to $10,000. Based on past experience, she made this forecast:
Net income to be 9% of sales $ 900
Income taxes to be 3.2% of sales 320
Accounts receivable to increase 5,000
Inventory to increase 2,000
Accounts payable to increase 3,000

Her beginning cash balance is $3,000 and she plans to purchase a piece of equipment for $1,500. What is her cash flow?

**Cash Flow Analysis**

<table>
<thead>
<tr>
<th>Sources of Funds:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$ 900</td>
</tr>
<tr>
<td>Add Back Depreciation</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>1,900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Application of Funds:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Addition to Fixed Assets</td>
<td>$ 1,500</td>
</tr>
<tr>
<td>Payment of Taxes</td>
<td>320</td>
</tr>
<tr>
<td></td>
<td>1,820</td>
</tr>
</tbody>
</table>

**Net Working Capital Increase (Decrease)** $ 80

**Working Capital Accounts:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Change in Inventory</td>
<td>$-2,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>-5,000</td>
</tr>
<tr>
<td>Plus Change in Accounts Payable</td>
<td>3,000</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>$-3,920</td>
</tr>
</tbody>
</table>

Plus Beginning Cash Balance 3,000
Equals Ending Cash Balance $-920

Assuming Irene’s forecast is correct, she has a cash need of $920 next month. If she cannot borrow the additional funds, she must either reduce sales, which may reduce profits, or find another source of cash. She can now use her cash flow analysis to try to determine a source of funds or a reduction in the application of funds. An easy solution is to postpone the purchase of the equipment. This would increase her cash flow by $1,500, more than enough for a positive cash balance at the end of the month.

**Analyzing Your Records for Potential Cash Resources**

In addition to the cash flow technique described in the previous section, it is important to know how to analyze your records in order to develop a more efficient business. By eliminating unnecessary cost through increased operating efficiency, the business’ cash flow will improve.
Analyzing Your Expenses

Sometimes you cannot cut an increase item. But you can get more from it and thus increase your profits. In analyzing your expenses, you should use percentages rather than actual dollar amounts.

For example, if you increase sales and keep the dollar amount of an expense the same, you have decreased that expense as a percentage of sales. When you decrease your cost percentage, you increase your percentage of profit.

On the other hand, if your sales volume remains the same, you can increase the percentage of profit by reducing a specific item of expense. Your goal, of course, is to do both: to decrease specific expenses and increase their productive worth at the same time.

Before you can determine whether cutting expenses will increase profits, you need information about your operation. This information can be obtained only if you have an adequate recordkeeping system. Such records will provide the figures to prepare a profit and loss statement (preferably monthly for most retail businesses), a budget, break-even calculations, and evaluations of your operating ratios compared with those of similar types of business.

Break-even. One useful method for making expense comparisons is break-even analysis. Break-even is the point at which gross profit equals expenses. In a business year, it is the time at which your sales volume has become sufficient to enable your over-all operation to start showing a profit. The two condensed profit and loss statements, in the accompanying example, illustrate the point. In statement “A,” the sales volume is beyond the break-even point and no profit is made. In statement “B” for the same store, the sales volume is beyond the break-even point and a profit is shown.

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Break-Even</td>
<td>Percent of</td>
</tr>
<tr>
<td>Sales</td>
<td>Amount</td>
<td>Sales</td>
</tr>
<tr>
<td>Sales</td>
<td>$ 500,000</td>
<td>100</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>300,000</td>
<td>60</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>200,000</td>
<td>40</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed</td>
<td>150,000</td>
<td>30</td>
</tr>
<tr>
<td>Variable</td>
<td>50,000</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>200,000</td>
<td>40</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>$ NONE</td>
<td>0</td>
</tr>
</tbody>
</table>

As shown in the example, once your sales volume reached the break-even point, your fixed expenses are covered. Beyond the break-even point, every dollar of sales should earn you an equivalent additional profit percentage.

It is important to remember that once sales pass the break-even point, the fixed expenses percentage goes down as the sales volume goes up. Also the operating profit percentage increases at the same rate as the percentage rate for fixed expenses decreases - provided, of course, that variable expenses are kept in line. In the illustration, fixed expenses in statement “B” decreased by 5 percent and operating profit increased by 5 percent. (For a more detailed discussion, see MA 1.019, Breakeven Analysis: A Decision-Making Tool.)

Locating Reducible Expenses
Your profit and loss (or income) statement provides a summary of expense information and is the focal point in locating expenses that can be cut. Therefore, the information should be as current as possible. As a report of what has already been spent, a P and L statement alerts you to expense items that bear watching in the present business period. If you get a P and L statement only at the end of the year, you should consider having one prepared more often. At the end of each quarter might be often enough for some firms. Ideally, you can get the most recent information from a monthly P and L.

Regardless of the frequency, for the most information two P and L statements should be prepared. One statement should report the sales, expenses, profits and/or loss of your operations cumulatively for the current business year to date. The other should report on the same items for the last complete month or quarter. Each of the statements should also carry the following information: (1) this year's figures and each item as a percentage of sales, (2) last year's figures and the percentages, (3) the difference between last year and this year - over or under, (4) budgeted figures and the respective percentages, (5) the difference between this year and the budgeted figures - over and under, (6) average percentages for your line of business (industry operating ratio) when available, and (7) the difference between your annual percentages and the industry ratios - under or over.

This information allows you to locate expense variation in three ways: (1) by comparing this year to last year, (2) by comparing expenses to your own budgeted figures, and (3) by comparing your percentages to the operating ratios for your line of business.

The important basis for comparison is the percentage figure. It represents a common denominator for all three methods. When you have indicated the percentage variations, you should then study the dollar amounts to determine what line of operative action is needed.

Because your cost cutting will come largely from variable expenses, you should make sure that they are flagged on your P and L statements. Variable expenses are those which fluctuate with the increase or decrease of sales volume. Some of them are: advertising, delivery, wrapping supplies, sales salaries, commissions, and payroll taxes. Fixed expenses are those which stay the same regardless of sales volume. Among them are: your salary, salaries for permanent non-selling employees (for example, the bookkeeper), depreciation, rent, and utilities.

**Checking Accounts Receivable and Inventory**

Accounts receivable represent the extension of credit to support sales. In many lines of business, the types and terms of credit granted by the firm are set by established competitive practices. As an investment, the accounts receivable should contribute to overall Return On Investment (ROI).

Excessive investment in accounts receivable can hurt ROI by tying up funds unnecessarily. One good way to just the extent of accounts receivable is to compare your average collection period with that of rivals or the industry average. If your average collection period is much higher than your competitors’ or the industry norm, your accounts receivable may be excessive.

If they are excessive, it may be that you are not keeping tight control of late payers. You can check this by developing an aging schedule. The aging schedule shows the distribution of accounts
receivable with respect on being on time or late. Failure to closely monitor late payments ties up investment and weakens profits.

If the aging schedule does not reveal excessive late accounts, your average collection period may be out of line simply because your credit policy is more liberal than most. If so, it should translate into more competitive sales and greater profits; otherwise, you should rethink your credit program.

**Inventory** also ties up cash. Excessive inventory will reduce your Return On Investment. One way to determine whether your inventory level is excessive is to compare your inventory turnover ratio with the industry norm. If your inventory turnover is much lower than the industry average, your ROI will suffer.

If inventory is much higher than it should be for your level of sales, it may be that you are holding items that are obsolete or that simply do not move fast enough to justify their cost. You may also be speculating on price increases. Or perhaps for competitive reasons you think a full line of inventory items is essential, even if some items are in very low demand. In any case, you should reevaluate your policy and make sure that the gains outweigh the costs of the higher investment.

You must also consider the cost of inventory. There are two basic types of inventory costs: carrying costs and ordering costs.

Carrying costs are the costs associated with inventory shortage, handling, and insurance. Ordering costs are the clerical and administrative costs incurred when an order is placed for an item in inventory. If you expect to use 10,000 widgets over the next thirty days, you could simply buy 10,000 now and carry them in inventory until they are all used up. Or you could buy 3,333 units every ten days. The more frequently you place orders for inventory, the less inventory you have to keep on hand and the less carrying costs you have. But more frequent orders also result in greater ordering costs.
Bibliography

Information presented here is necessarily selective and no slight is intended toward material not mentioned. Publishers are invited to notify the SBA of relevant publications and other sources of information for possible inclusion in future editions. Prices of publications are subject to change. Management Aids may be reprinted but not used to indicate approval or disapproval by the SBA of any private organization, product or service.

U.S. Government Publications

The publications cited in this section are books and pamphlets issued by federal agencies and listed under the issuing agency. Some are free; others cost a nominal fee. Where availability of individual listing is indicated by GPO (Government Printing Office), publication may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. For current prices contact the local office of the issuing agency. When ordering a GPO publication, give the title and stock number of the publication and the name of the agency. Most libraries maintain listings of currently available federal publications. Some keep selected government publications for ready reference through the Federal Depository Library System.

Small Business Administration
Washington, D.C. 20416

SBA issues a wide range of management and technical publications designed to help owner-managers and prospective owners of small businesses. (For general information about the SBA, its policies and assistance programs, ask for Your Business and the SBA at your nearest SBA office.) Listings of currently available publications can be obtained by requesting order forms 115A and 115B from SBA, P. O. Box 15434, Fort Worth, TX 76119. The lists are free and may be used for ordering particular series listed, either from SBA or from the Superintendent of Documents (GPO).

Management Aids (3 to 30 page pamphlets). Each title in this series discusses the application of specific management technique to help owner-managers of small firms with their management problems. Listed in 115A.

Small Business Management Series. Each book in this series discusses in depth the application of a specific management technique. The series covers a wide range of small business subjects. Prices vary. GPO. Listed in 115B

A Handbook of Small Business Finance. Written for the small business owner who wants to improve financial management skills. Reviews the major areas off small business finance and describes several techniques that can help the business financial manager. Topics covered include financial statement analysis, break-even analysis, managing investments in assets, and uses of credit and equity financing. GPO Stock No. 045-000-00208-0.
Ratio Analysis for Small Business. Financial ratio analysis is used to portray the relationships among various key financial statistics in order to provide a basis for managerial control. This booklet provides the small business manager with the essentials of ratio analysis. GPO Stock No. 045-000-00150-4.

Guides for Profit Planning. Designed for small business owner-manager with no specialized training in accounting or economics. GPO Stock No. 045-000-00137-7.
Financial Control by Time-Absorption Analysis. Discusses in detail a profit control system for managers in all types of small business. A control system, organized around the use of break-even analysis, is proposed to allow the determination of the break-even point, establish a method to quickly estimate profit or loss, and provide an extension to the basic system which is capable of handling a complex product mix. GPO Stock No. 045-000-00134-2.

Department of Commerce
Washington, D.C. 20230

Survey of Current Business (Monthly) GPO. Contains brief assessment of overall business situation along with detailed statistics relative to important business statistical series such as Gross National Product, Corporate Profits, New Plant and Equipment Expenditures, Producer and Consumer Price Indexes, etc.

Department of Treasury
Internal Revenue Service
Washington, D.C. 20224

Employers Tax Guide (IRS Pub. 15). Contains withholding rates and calendar of employer’s reporting dates and responsibilities. Revised annually to include changes in tax laws and rates.

Tax Guide for Small Business. (IRS Pub. 334). Designed to assist small business owners in preparation of Federal tax returns for the preceding year. Also useful as a guide during the current year on Federal tax problems including individuals, partnerships, corporation, income excise and employment taxes. Available annually in December, GPO or local District Director of Internal Revenue.

Nongovernment Publications

The textbook references listed below fall mainly in the area of managerial finance, having a primary orientation toward specific problems and opportunities which must be confronted by the financial manager. In general, most of the references cited place emphasis upon the tools available to analyze various financial situations and decision oriented technique, which will be used in solving major categories of financial problems using the tools available. There are also a few hooks listed in the area of financial statement analysis which place primary stress on the analysis and interpretation of corporate reports. Prices shown are subject to change.

Addison – Wesley Publishing Company
Reading, MA 01867

Finance and Accounting for Non-Financial Managers. Droms, William G. 1983. $17.95. This book is specifically designed for managers and executives who are untrained in finance and accounting and wish to develop basic skills in these areas. Emphasis is on practical decision making skills which may be used in the normal course of business. Coverage includes financial forecasting and budgeting, zero-based budgeting, compound interest, and capital budgeting.

Harper and Row Publishers
10 East 53rd Street
New York, NY 10022
Finance: Environment and Decision. Christy, George, and Peyton F. Roden. 1981. $25.00. An introductory text for non-business majors, this book provides a knowledge of the economic environment in which the reader will be working and a knowledge of the decision-making tools available to financial managers in large corporations and small businesses.

Managerial Finance. Gitman, Lawrence J. 1985. $32.50. This undergraduate text is designed for use in the basic pre-MBA course and is structured around the corporate balance sheet. Features strong coverage of financial planning and working capital manager, with equal attention given to short- and long-term aspects of finance.

Holt, Rinehart and Winston
The Dryden Press
383 Madison Avenue
New York, NY 10017


Managerial Finance. Weston, J. Fred and Eugene F. Brigham. 6th ed. 1986. $39.95. Emphasis on decisions relating to financial controls, working capital management, capital budgeting, and capital structure management. Stresses how financial decisions affect the value of the firm. Of particular interest is a separate chapter on financial management in the small firm.

Financial Management: Theory and Practice. Brigham, Eugene F. 1985. $38.95. This text has more of an “investments flavor” than do most introductory texts. It begins by developing the basic valuation concepts, including models for valuing stocks and bonds, and then goes on to show how effective financial management can help maximize the value of a firm.

Fundamentals of Financial Management. Brigham, Eugene F. 1986. $37.95. An introductory level text which ties together the three traditional areas of finance: investments, capital markets, and business finance. Like Brigham’s Financial Management: Theory and Practice, the Fundamentals text begins with valuation concepts and then goes on to show how the principles of financial management can be used to help maximize the value of a firm.

Richard D. Irwin
1818 Ridge Road
Homewood, IL 60430

Financial Statement Analysis: Theory, Application and Interpretation. Bernstein, Leópold A. 3rd ed. 1983. $38.95. An excellent and comprehensive treatment of the subject of financial statement analysis. Text is concerned with the analysis of financial statements as an aid to decision-making – the major usefulness of such analysis being in the making of investing and lending decisions. Main focus is on understanding financial data and the method by which these data may be analyzed and interpreted.

Techniques of Financial Analysis. Helfert, Erich A. 1982. $17.95. The purpose of this book is to provide the student, business owner, analyst, or other interested person with a precise reference collection of the more important tools and techniques of financial analysis, without delving into their broad and theatrical and institutional background.
Foundations of Financial Analysis. Block, Stanley B. and Geoffrey A. Hirt. 1984. $36.95. The intent of the text is to present the essential concepts of finance in an enlightening and interesting manner. Provides a thorough review of account before the normal stream of financial concepts are considered. Apple and IBM Spreadsheets available.

Introduction to Financial Management. Joy, O. Maurice. 1983. $35.95. Intended as a basic text for the beginning course in financial management at the undergraduate or MBA level, this book covers the practical aspects of financial management. The emphasis is on financial decision making by corporations: specifically, the investment decision, the financing decision, and the dividend decision.

McGraw-Hill Book Company
1221 Avenue of the Americas
New York, NY 10020

Introduction to Financial Management. Schall, Lawrence D. and Charles W. Haley. 1966. $35.95. Basic concepts such as risk, cost of capital, time value of money, and capital budgeting are covered early in the text to assist in acquiring tools for analyzing investment opportunities and to learn the fundamentals of decision-making. Contains a chapter on the American financial system which presents the necessary information on the institutions which play a major role in finance.

Prentice-Hall. Inc.
Englewood Cliffs, NJ


Southwestern Publishing Company
5105 Madison Road
Cincinnati, OH 45227


Finance. Merle Welahens and Ronal Melicher. 6th ed. 1984. $27.95. Subject matter surveys the field of both public and private finance. Organization mainly descriptive in nature, covering the monetary and credit system in the United States, the demand for funds in the business sector off the economy, the demand for funds in other sectors of the economy and money and credit policies and problems.
Periodicals – Business and Professional

General business magazines, trade papers and professional journals often contain articles of interest to financial managers. The following listings are an example of such publications. For a complete list, consult the Business Periodicals Index available at local libraries.

**Business Week.** $39.95  
McGraw-Hill Publishing Company  
1221 Avenue of the Americas  
New York, NY 10020

**Journal of Business.** $22 per year.  
University of Chicago Press  
Journals Division  
P.O. Box 37005  
Chicago, IL 60637

**Dun’s Business Month.** $32 per year.  
Circulation Department  
875 Third Avenue  
New York, NY 10022

**Journal of Small Business Management.** $25 per year.  
Executive Secretary  
ICSB – USA  
The University of Georgia  
Chicopee Complex  
1180 East Broad St.  
Athens, GA 30602

**Financial Management**  
The Financial Management Association  
School of Business  
University of Southern Florida  
Tampa, FL 33620

**Journal of Finance.** $30.00 per year (membership).  
American Finance Association  
Graduate School of Business  
New York University  
100 Trinity Place  
New York, NY 10006

**Forbes.** $44.50 per year.  
Forbes, Inc.  
60 Fifth Avenue  
New York, NY 10011

**Management Science.** $33 per year (membership).  
The Institute for Management Sciences  
290 Westminster Street  
Providence, RI 02903

**Fortune.** $44.50 per year.  
540 North Fairbanks Court  
Chicago, IL 60611-3333

**Harvard Business Review.** $49 per year.  
Subscriber Service  
P.O. Box 866  
Farmingdale, NY 11737

Associations

Professional and trade associations offer a variety of services to members and others in specific areas of interest. Write directly for information or services offered. For further listings, consult the Encyclopedia of Associations available for reference at most libraries.

**American Bankers Association**  
1120 Connecticut Avenue, N.W.  
Washington, D.C. 20036

**Financial Management Association**  
School of Business  
University of Southern Florida  
Tampa, FL 33620
Top 10 Reasons Small Businesses Fail

About half of all small businesses fail within the first four years -- a statistic that generates a shudder of fear in even the most dauntless entrepreneur. Most of these failures, however, resemble one another in crucial ways. And once you identify these harbingers of failure, you can increase your own chance of success.

**Procrastination.** When you own a small business, you will find that tasks and paperwork pile up like snowdrifts on your desk. Putting them off is like piling up debt; eventually they could overwhelm you.

**Ignoring the competition.** Consumer loyalty has declined sharply in recent years. Today, customers go where they can find the best products and services, even if that means breaking off long-term business relationships. Monitor your competitors, and don't be ashamed to copy their best ideas (assuming that doesn't mean violating patent law). Better yet, devote some time each week or month to devising new methods, products or services for your firm.

**Sloppy or ineffective marketing.** Contrary to the popular cliché, few products or services "sell themselves." If you don't have time to market your product effectively, hire an experienced person to do it for you. Marketing keeps your products selling and money flowing into your business. It's crucial that you do it well.

**Ignoring customers' needs.** Once you attract customers, you'll have to work hard to keep them. Customer service should be a key aspect of your business. If you don't follow through with your customers, they'll find someone who will.

**Incompetent employees.** Hire only workers who are essential to your operation. When you do hire employees, make sure they're well trained and able to complete the tasks expected of them. And remember that happy employees make good workers — try to create a work environment that keeps your staff happy and motivated.
Lack of versatility. You may be great at making hats or painting houses or fixing computers, but that's not enough to make your millinery shop or house painting business or computer consultancy successful. Successful business owners tend to be adept at a number of tasks, from accounting to marketing to hiring.

Poor location. Even the best restaurant or retail store will fail if it's in the wrong place. When you're scouting a location for your firm, consider factors such as traffic (how many potential customers pass your firm during the course of an afternoon or evening?) and convenience (how hard is it for your regular customers to get to your location on a regular basis?).

Cash flow problems. You need to know how to track the money coming into and out of your business — even a profitable venture will flounder if it runs short of cash. In addition, you must learn to make cash flow projections that will help you decide how much money you can afford to spend and warn you of impending trouble.

A closed mind. Everyone goes into business with some preconceptions — don't be surprised if you find that many of yours are wrong. Look for mentors who can give you advice and run your ideas by them before you make important financial commitments. Read books and magazines about small business, visit business-related Web sites and network with your peers in the business community.

Inadequate planning. Start with realistic but precise goals for your firm, including deadlines. For example, don't just say that you want to increase sales; instead, decide that you want sales to reach $100,000 by next holiday season. Then write down the steps you can take to meet those goals on time, and set deadlines for completing those steps. Consult your goal list every day, and make sure you are doing what you need to do to meet your objectives.