THE PLAN:

A Step-by-Step

BUSINESS PLAN

WORKBOOK

AMERICA'S SBDC ILLINOIS

Illinois Small Business Development Centers

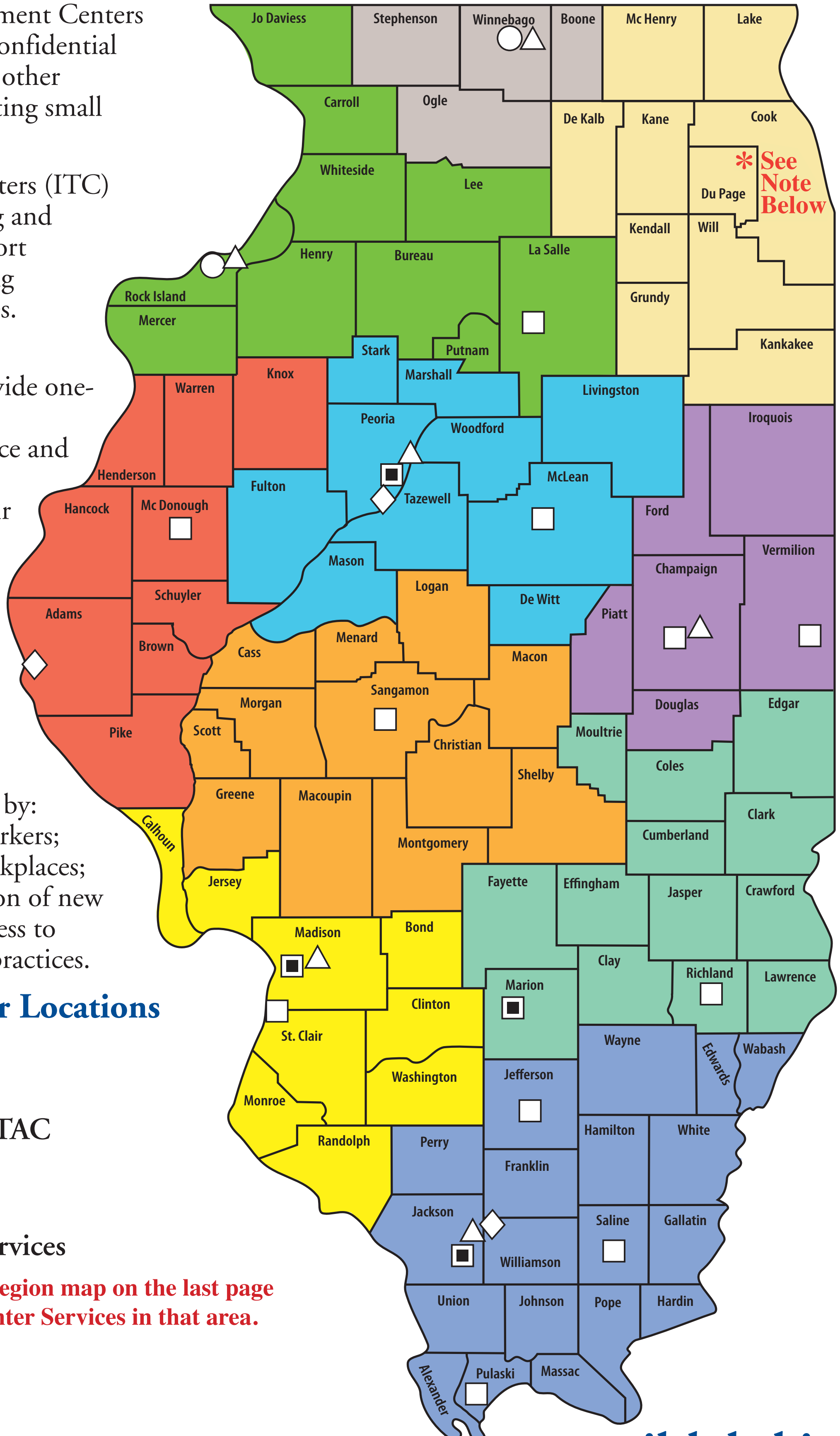
"Experts, networks, and tools to transform your business"

Illinois Small Business Development Centers (SBDC) provide information, confidential business guidance, training and other resources to early stage and existing small businesses.

Illinois International Trade Centers (ITC) provide information, counseling and training to existing, new to-export companies interested in pursuing international trade opportunities.

Illinois Procurement Technical Assistance Centers (PTAC) provide one-on-one counseling, technical information, marketing assistance and training to existing businesses that are interested in selling their products and/or services to local, state, or federal government agencies.

Technology, Innovation and Entrepreneurship Specialty (TIES) ten SBDC locations help Illinois businesses, entrepreneurs and citizens to succeed in a changing economy by: developing the skills of their workers; promoting safe and healthy workplaces; assisting in the commercialization of new technologies; and providing access to modernizing technologies and practices.



Business Center Locations

- ☐ SBDC
- ▣ SBDC/ITC
- ○ SBDC/ITC/PTAC
- ◉ SBDC/PTAC
- ◇ PTAC
- △ Technology Services

***See the Northeast Region map on the last page for the Business Center Services in that area.**

AMERICA'S SBDC ILLINOIS

www.ilsbdc.biz
800-252-2923

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THE PLAN

A Step-By-Step **Business Plan** Guidebook

INTRODUCTION

Planning is your map to success in the business world. You need to write a business plan if you are:

- **starting or buying a business**
- **financing or refinancing your business**
- **raising debt or equity capital**

Much money is made then lost because one area of a business fails, dragging the positive parts down with it.

THE PLAN helps you find hidden business flaws and makes you think carefully about each phase of your business.

It is important that ***you*** write your business plan. Why? You will gain in-depth knowledge about your business which will make it easier to answer lenders' questions. The process of writing your business plan will clarify what is involved in making your business work successfully.

How To Use This Workbook

Divide your business plan into sections that match the "contents" outline shown on the next page. There is no set length for your answers — they will range from a paragraph to a few pages long.

Once it's written, your business plan will need editing. Ask other people to read and critique your plan. Include a statement on the inside cover that says its contents are confidential, and making copies is prohibited.

Your business plan should be neat and organized to make a professional impression. After your text is written, use a spelling and grammar check feature to be sure your work is error free. For financial data, use a spreadsheet program.

Once you're done, make copies for your lender and for others who are interested in your business. Make sure all the copies you submit are readable and include original signatures. Lenders keep your presentation even if you are rejected, so make copies for yourself of everything you submit. Number the business plan copies and make a list of each person you've given one to.

It's a good idea to put your loan presentation in a 3-ring binder with tabs and indexes.

Business Loan Basics

ASK YOURSELF THESE QUESTIONS:

- How much money do I need? ________________
- What type of lender do I need? *(bank, state or federal agency, venture capitalist firm, or other investor)* ________________
- What is the lender's minimum and maximum loan size? ________________
- Can the lender meet my present and future needs? ________________
- What types of businesses will the lender finance? ________________
- What collateral does the lender accept? ________________

BEFORE MEETING WITH A LENDER:

- Call to find out the rules for their business loans.
- Make sure the lender is looking for loans of your size and type.
- Ask for a loan application.
- Make an appointment.
- Rehearse your presentation.
- Remember, the lender is like a customer. You have to convince the lender that your business has merit.

BASIC QUESTIONS A LENDER WILL ASK YOU:

- How much money do you want? ________________
- How much are you investing in the business? ________________
- Exactly how will the money be used? ________________
- How long do you need to repay the loan? ________________
- How will the loan be repaid? ________________
- What collateral do you have to offer? ________________

LENDERS USE THE EIGHT "C's" RULE:

1. Credit *(must be good)*
2. Capacity *(ability to repay)*
3. Capital *(money going into the business)*
4. Collateral *(your assets that secure the loan)*
5. Character *(you)*
6. Conditions *(economy, finances, anything that affects your business)*
7. Commitment *(your ability and willingness to succeed)*
8. Cash Flow *(can it support the business' debt and expenses?)*

Business Loan Basics

WHEN MEETING WITH A LENDER:

- Bring your business plan, a completed loan application, and any other materials you need.
- Keep the entire presentation to 30 minutes.
  Give an overview or outline at the beginning.
  Know how you are going to end the presentation.
- Invite your lender for a tour of your current or proposed operation.
- Answer all negative questions with positive answers.
  Be prepared to back up your answers.
- Find out when you can expect a decision.
- Ask that your lender's decision be sent in writing, even if you received the decision on the phone.
- Follow up with a thank you letter and a phone call, even if your loan request was rejected.

The Appendix

The **APPENDIX** comes at the end of your business plan and includes all details and documents that support the plan.

Items that need to be included in the **APPENDIX** are indicated throughout this workbook. On page 31, you'll find a comprehensive list, which you can use as a guide.

The first page of the **APPENDIX** should be a listing of its contents. Be sure to separate and organize the documents logically, perhaps in the order they are referred to in the plan.

The **APPENDIX** will grow, so it is a good idea to use a 3-ring binder with tabbed dividers. Some people prefer using an expandable file.

FORMULAS Generally, lenders like to simplify the process used to screen loan requests. Take your business through the same exercise that lenders do. The complexity or size of the loan request doesn't matter; the basic formula is as simple as **1-2-3**.

CONTENTS

BREAK DOWN YOUR BUSINESS PLAN INTO SECTIONS SIMILAR TO THOSE IN THIS BOOK.

EXECUTIVE SUMMARY

The **Executive Summary** *(your Cover Letter)* *briefly* explains the contents of your business plan in about *one or two pages*.

Page two is the **Table of Contents**. It shows the lender on which page each section can be found (*see page 5 for the breakdown of sections)*.

The Executive Summary should include:

- the owners' names and their credentials
- your products or services
- your market(s) and the competition
- the amount of money needed
- how the loan will be repaid
- how long you want the loan to last

YOUR COVER LETTER SHOULD READ SOMETHING LIKE THIS ONE:

Leave off your return address if the letter is on your company's stationery.

The Green Rose
456 Oak Street
This Town, USA 67890

Mr. John Nelson
ABC Bank
123 Main Street
Anytown, USA 12345

Re: Loan Request for $300,000

Dear Mr. Nelson,

List the purpose of the loan *(starting, buying, or expanding a business)*. Include owners' names and experience. Mention your products and services.

With 20 years of management experience in the residential landscaping business, we are requesting a loan to start our own landscaping business, called The Green Rose.

The climate for a successful landscaping business is perfect. Last year, the number of new homes built in Pembroke Pines increased by 15%. Just this quarter, new building permits are up 10% over last year. Of the 45,000 homes in the area, 3,000 were built last year.

Briefly mention your markets and customers.

Our target market is owners of new and older homes. We plan to reach them with focused marketing, which you will read about in our plan. In addition, we have good working relationships with many building contractors, who have indicated they will refer us to their clients.

Include key facts about your competition.

Two of our six local competitors have filed Chapter 11. Two are family-owned businesses who concentrate on commercial contracts. The last two are healthy competition, though they lack our marketing and management expertise.

Mention how much money you would like to finance and the terms (how many years). List the source of re-payment *(loans should be repaid by the business' cash flow)*. Also include how much **you** are investing and where your money will come from.

List the secondary source of repayment. This is usually collateral which includes business and personal assets (see page 18). Also, fill in the equity value of these assets.

We are investing $75K from our savings, and are requesting a $300K loan from your bank. We would like five years to repay the loan, using the cash flow of the business. Our secondary source of repayment will be from collateralized equipment. Our homes and business assets, valued at $300K, are offered as collateral for the loan.

Tell the lender who should be contacted and provide a phone number and email adderss.

Our business plan is attached. In it you will find the information you need. If you have any questions or need more information, please contact Mr. Green at (321) 234-5678.

Respectfully submitted,

Include all signature(s) and typed name(s).

Ed Rose *Tim Green*
Ed Rose Tim Green

To build the lender's enthusiasm, make references to what's included in your business plan

EXECUTIVE SUMMARY (YOUR COVER LETTER)

Date____
Your address____
____
____

Lender's name, bank name, and address

____
____
____
____

Re: Loan Request for $____________ (fill in amount)

Dear (fill in lender's name)________________________:

I (or we) am requesting a loan of_______________________________. The owner(s)
(fill in names) __________________ have experience in this industry including… (mention experience in industry or training that would qualify you to run this business).

The industry we are entering… (include one brief paragraph about the industry and its growth)

____
____
____
____

Our target market is… (include one brief paragraph about your target market/customers)

____
____
____

The competition includes…. (include one brief paragraph about your competition and how your business will attract their customers)

____
____
____
____
____

We are investing $_________ of our own money. Our collateral consists of business assets having a fair market value of $_______________ and personal assets (if applicable) with a value of $_______________

Attached is our business plan which backs up our request. If you have any questions, please contact (name) _______________ at _______________ (include phone number and email address).

Sincerely,

____________________ ________________________
Your signature(s) and printed name(s) here

BUSINESS DESCRIPTION

General:
List the business name, location, mailing address, telephone, fax, e-mail and web site address.

Owners:
List each owner's name, business title, home address, telephone number, email address and social security number. Include a brief description of owners and managers *(experience and credentials in running the business)* and their ownership percentage of the business.

Legal Business Description:
Sole proprietorship, partnership, limited liability, "C" or "S" corporation. List the state where the business is incorporated.

Purpose: Describe the intent of your business.

Business Status:
New/start up, ongoing, expansion, or buying a business. Include the date your business started or will start. *If buying a business, include a detailed business history in this section.*

Type of business:
Retail, wholesale, service, manufacturing, contracting, professional, importing/exporting.

Reasons for starting, buying, or expanding business.

GENERAL
Name: MRJ Design
Address: 21 Longwood Drive, Orlando, Florida 32751
Phone: (407) 123-4567 Fax: (407) 123-4789
E-mail: smith@MRJ.com, Web Site: www.MRJ.com

OWNERS:
Bob Smith: 10 Brookfield Rd., Orlando, FL 32751
Phone: 407-456-7891 Social Security: 367-89-7088
Over 20 years of experience in creative management. Worked for several design firms. Mr. Smith owns 60% of the business.
Linda Jones: 96 Elm St., Orlando, FL 32751
Phone: 407-567-1234 Social Security: 234-56-7891
Ten years of experience as manager of large marketing communications department within Fortune 1000 corporation. Ms. Jones owns 40% of the business.

LEGAL STATUS: Florida S Corporation

PURPOSE: Produce superior marketing communications material for other businesses.

STATUS: Start-Up.

BUSINESS TYPE: Service

PRODUCTS AND SERVICES: Graphic design, illustration, and artwork production. Other services, supplied by vendors/suppliers, include writing, photography, printing, and mailing.

REASONS: Both partners have over 30 years of industry experience that will be put to profitable use in our own firm. The demand for graphic communications is ...etc.

Goals:
Include both current and long-term projections.

Industry:
Talk about what's going on in your industry, including economic trends, outlook, growth patterns and forecasts. Keep this section short. Explain more fully in your Marketing section.

Professional Relationships:
Include name, address, and telephone/fax numbers and email address for your accountant, attorney, banker, insurance agent, and professional advisor(s).

GOALS:
CURRENT: Bring to profitable status that will equal or exceed current income levels. Create relationships with clients. Build ...etc.
LONG-TERM: In four years, we will have 50-100 clients. Hire administrative person ... etc.

INDUSTRY:
100 design firms and designers exist in our territory. Advertising agencies (about 235) are also competitors but their specialty is not design. Many companies have relocated to Orlando so the demand for our services is growing. The number of start-up companies numbered 6,000 last year...etc.

PROFESSIONAL RELATIONSHIPS:
ACCOUNTANT:
Larry Stuart, CPA, 123 Main St., Winter Springs, FL 32751. Ph: 407-678-9012, Fax: 407-678-7890
ATTORNEY:
Linda Johnson of Johnson and Smith, 456 Elm St., Winter Park, FL 32789.
Ph: 407-234-5678, Fax: 407-345-6789
BANKER:
John Nelson, Heritage Bank, 678 Oak St., Orlando, FL 32908. Ph: 407-123-4567. Fax: 407-0987-6543.
INSURANCE AGENT:
Linda Doe, Doe Insurance, 321 Grove Ave., Winter Park, FL 32789. Ph: 407-432-7654. Fax: 407-876-5432
PROFESSIONAL ADVISORS:
Claire Velleca, Velleca Consultants, 1 Park St., Orlando, FL 32701 Ph: 407-222-1456, Fax: 407-419-1989

BUSINESS DESCRIPTION

GENERAL

Business name__________

Location __________

Mailing address__________

Phone number__________Fax __________

Tax identification number__________

E-Mail address __________

Web Site address __________

PROFESSIONAL RELATIONSHIPS

Include name, address, and telephone/fax numbers for your:

Accountant __________

Attorney __________

Banker__________

Insurance agent __________

Professional advisor(s) __________

OWNERS

Provide the following information for each principal in the company.

Name __________

Business title__________

Home address __________

Telephone number __________

Social security number__________

Include a brief description of owners and managers *(experience and credentials in running the business)* and their percentage of ownership

Legal Business Description (sole proprietorship, partnership, corporation, etc.)__________

State What state is your business organized in? What states will you operate in? __________

Type of business (retail, wholesale, service, manufacturing, contracting, etc.)__________

Business Status New, ongoing, expanding, or buying a business __________

Date your business started or will start __________

To Do Done **Reasons**
for starting, buying, or expanding business.

To Do Done **Products and Services**
Provide a summary.

To Do Done **Purpose**
Describe the intent of your business.

To Do Done **Goals**
Current goals (within the next year)
Long-term (over the next five years)

To Do Done **Industry**
Provide a brief summary of what's going on in your industry. Include economic trends, outlook, growth patterns and forecasts. Include details in the **APPENDIX.**

To Do Done

KEEP TRACK

Use this check box as a reminder system. Some answers will be short and some will be long.

MANAGERS & EMPLOYEES

Managers

- ☐ To Do ☐ Done — How many departments and managers do you need? What are their functions?
- ☐ To Do ☐ Done — If there are gaps in your management team, explain how they will be filled. Lenders also like to see a back-up plan.
  If you die or can no longer work, who will run the business and repay the company's debts? One solution is to buy enough life insurance to cover the business debt.

Employees

- ☐ To Do ☐ Done — How many part-time and full-time employees are needed to run the company? *It's a good idea to develop an organizational chart (example below).*
- ☐ To Do ☐ Done — How and where will you find employees and keep them?

Costs

- ☐ To Do ☐ Done — Include managers' job descriptions, salaries, benefits and résumés in the **APPENDIX.**
- ☐ To Do ☐ Done — How much are you going to pay each employee?
- ☐ To Do ☐ Done — What are the employee benefits and their costs?
- ☐ To Do ☐ Done — What employee training is needed and how much will it cost? How will it occur?

General

- ☐ To Do ☐ Done — Describe any resources available from outside the business. *For example, you may use an accountant for financial reporting.*
- ☐ To Do ☐ Done — The cost for outsourcing some services should be included in the **APPENDIX.** *For example, you can outsource a direct mail program to a marketing firm.*

The Good Earth Organizational Chart

Finance

MIKE JONES (accountant and owner)
20 years of accounting experience in various industries...

A bookkeeper will be outsourced.

Sales & Marketing

LEE MYERS
10 years of marketing experience. Myers will be responsible for the sales staff (estimators), customer service, promotional plans...

Two office staff: One full-time customer service representative and one full-time administrative assistant. Each will be paid $40,000 annually. They will receive health insurance, ten paid sick days, paid holidays, and two weeks of vacation. These benefits will cost ...

Operations

JOHN SMITH
20 years of operational experience in landscaping industry. Smith will supervise the grounds staff and handle ...

Four full-time grounds employees starting at minimum wage for working Monday- Friday, 7:00 a.m. to 3:30 p.m. A two-day training program is required before joining the company. Employees will receive paid health insurance, five paid sick days, paid holidays, and one week of vacation. These benefits will cost ...

OPERATIONS & LOCATION

HOW WILL YOUR BUSINESS OPERATE?

- How will the product be produced and sold? How will your services be rendered?
- What months, days, and hours will your business be open? Is the business seasonal? If so, show how you will adjust your time, schedule, inventory, and personnel.
- What furniture, fixtures, equipment and machinery is needed? Will it be bought, leased, or rented? Include proposed purchases in your **APPENDIX**.

SUPPLIERS

- If you need suppliers and other companies to complete your product or service:
  - What and how much will you need?
  - Where will you get these products and services?
  - How much will they cost?
  - What system will you use for materials processing and inventory control?
- In the **APPENDIX** include details about your suppliers, including names, addresses, products or services supplied, costs/quotes, delivery/shipping fees and turnaround, terms of sales, contracts, and a purchasing plan.
- If you've requested financial, managerial, or technical assistance from your suppliers, include details in the **APPENDIX**.

LOCATION

- What kind of space does your business need?
  - Why is the area and location desirable?
  - Does this location affect your costs?
  - How much are utilities, taxes, and other expenses?
  - Is it easily accessible? Is public transportation available? Is there adequate parking?
  - Does your business comply with zoning laws?
  - Do you own or lease the building? In the **APPENDIX** include zoning statements from local government and approval letters from local and state inspectors. If owned, provide a copy of the deed in the **APPENDIX**. If leased, the term of the lease must be renewable to match the loan period you are requesting. Include a copy of the lease (or proposed lease) with terms, conditions, length, and cost in your **APPENDIX**.
  - Are improvements, renovations, furniture, fixtures, equipment or machinery necessary? Show quotes in the **APPENDIX**.
  - Retailers:
    - Research and show traffic patterns in the **APPENDIX**.
    - What other businesses are in your immediate area?
  - Wholesalers, manufacturers and other businesses:
    - Are you located near your customers and suppliers?
    - Do you have easy access to major highways, railways, and airports?
- Provide photos and a summary of your location including a floor plan, blueprint or plot plan (if building) in the **APPENDIX**.

CLOTHES WITH CLASS

We are a school uniform shop. Business hours will be from 10 to 5, Monday through Saturday. Our plan is to purchase fixtures to display uniforms and furniture to create a relaxed retail atmosphere. A computer system to track customer purchases and inventory will be leased. These costs are included in the Appendix.

Our stock will come from three suppliers — two national and one local. Local supplies will be delivered by truck, with the remainder of goods coming via UPS. Information on our proposed suppliers and purchases may be found in the Appendix.

The five-year lease we have signed on a 1,500 sq. ft. building is included in the Appendix. The building is located within 15 miles of 22 private and parochial schools who require uniforms that we will stock. Our building is on a major thoroughfare, conveniently located right off Highway 93.

A floor plan of the building is included in the Appendix. We have divided the area into retail space and warehousing/office space. 700 sq. ft. will include retail displays, three dressing rooms, restroom facilities and two purchasing counters. The remaining 800 sq. ft. will warehouse stock. It includes a delivery receiving area, two offices, and a small employee lounge with restroom. The 20-space parking lot is adjacent to the building.

MARKETING

Thinking like a marketer is necessary to attract and keep customers. The right product and service at the right price is only the beginning. You also need to create a mix of marketing on and off the internet.

PRODUCT, PRICE, PLACE AND **PROMOTION** ARE THE TRADITIONAL "FOUR PS" OF MARKETING. BUT DON'T FORGET TO ADD ONE MORE, IMPORTANT ELEMENT – **PLAN.**

Product

- What are the benefits of your products and services? Is there a demand?
- Who are your customers and what do they want? Think about their age, income, gender, education, marital status, and lifestyle. If you're selling to businesses, learn about the companies you're targeting.
- How are your products and services different from your competitors? Research their weaknesses, strengths, pricing, service, creativity and marketing.
- Are research and development needed?
- What are the licensing requirements and regulations?
- What about legal issues? Do you need patents, copyrights, and trademarks?
- Is your business seasonal? How will your business fare during the rest of the year?

Price

Your products and services need to be offered at prices your market will pay, while providing your desired profit. Thinking about about your products and services from the customer's point of view is called the perceived value. What does your customer expect to receive at certain prices? For example, a company produced a top-selling light bulb for $2 and then raised the price to $3 and sales went down. Study the benefits, convenience and quality of your products and services, factoring in your company's image and reputation.

Place

How will you connect your product or service with your customers? There are many methods for reaching customers besides retail stores and internet sites. You could sell:

- to a wholesaler who buys a large quantity from you and resells it. or through a manufacturer's representatives who charge you commissions.
- by "consignment" when another company sells your product and the price is divided between the two of you.
- via business partnerships, even if the other company is different than yours. For example, a pool cleaning company sends new customers coupons every month for free coffee at a local shop. Websites are perfect for partnerships, since clicking on a link connects people from one site to another.

Promotion

How will you create awareness of your products and services? Make it your business to know what your audience is looking for, and gear your promotion accordingly. See pages 13-15 for ideas.

Plan

Without a marketing plan, your efforts could become scattered and your results not measurable. You should include money for marketing in your annual budget. Think of marketing as an investment, not an expense. Industry trends, consumer sentiment and the economy are always changing, so your marketing plan should grow, adjust and evolve. Include detailed plans and costs in the **Appendix.**

MARKETING

You need professionals to make you look and sound your best. A graphic designer will create your logo, packaging, signage and website, working closely with your website programmer/developer/host. A copywriter can create copy to help your website, ads and other promotional material get noticed.”

YOUR IMAGE

Name Getting customers to remember your name is a mighty hurdle! Think about standing out. If you repair computers, The Mouse Trap is a better choice than JB Computer Repair.

Logo The symbol or type treatment that represents your business should be memorable. Choose colors and use them consistently. Your logo belongs everywhere, from business cards to signage to emails, and it can be used, unchanged, for years.

Tagline Your company tagline should be short, catchy and, in some cases, functional. If your company is called Ocean State Restoration, it’s unclear what you restore. So a tagline like “New Life for Old Boats” serves an important purpose. Your logo and tagline should be inseparable.

Packaging A beautiful gold watch in a rumpled brown bag will never be given the same value as that same watch presented in an elegant velvet box. Presentation and packaging is branding, so everything customers see – from bags to menus – represents you.

Printed Material If it’s on paper, it matters. Ads, direct mail and brochures represent your image, so never compromise when it comes to being sure they look polished and professional. Even emails, invoices and letters to your customers should be given attention.

TRADITIONAL TOOLS

In addition to your website, traditional marketing tools are still vital to your overall marketing mix. It may take a little time to find the combination that works best for you.

Advertising can take the form of print ads in local or trade publications, or media ads on radio and TV. If you’re unsure where to advertise, consult with professional organizations. Talk to your local radio and TV stations about affordable packages. Analyze websites that make sense for advertising your product or service. For example, online banner ads are more effective on websites that attract your target audience.

Direct Marketing uses traditional mail, email or phone to contact prospects “directly.” Be focused in choosing your method. Measuring response is crucial, because it will help you determine which lists are best – and the cost of gaining an order or client. You can buy databases or develop your own list from customers and leads. Keep a book for customers to sign, ask them for business cards or send emails that request feedback.

Public Relations is a great way to build a brand identity, and to influence the attitudes of your audience. If you make all-natural sunblock, you could sponsor a sandcastle contest at the beach. To create a buzz, send press releases to area newspapers, online publications, radio and TV stations.

Trade Shows offer a chance to meet customers, introduce products, get leads and write orders. Networking with others in your industry and sharing information can uncover unexpected insights and connections.

MARKETING

A website in today's world is as basic as a business card. "If you build it, they will come" doesn't always apply to websites, which are dynamic (changing constantly) and not static (do it and you're done). Directing traffic to your site – and giving visitors a reason to come back – is the goal.

WEBSITES

Internet Marketing You'll find that maintaining a vital Internet presence does require some time and effort, so put limits and practical guidelines in place. You don't want customers browsing in your retail business while you remain behind the counter, updating your site. Here are some other basics:

- Virtually visit your competition and other websites in your industry on a regular basis. What do you like about the experience, and what don't you like? Is the copy boring or interesting? Is the site easy to negotiate? What's the balance between words and pictures? This will help you develop a more tangible idea of what you want your website to be – or not be.

- Working with a web designer/developer and a copywriter pays off, making you look polished and professional. Once your site is "live," you'll need a "host." A good one will be able to help you create traffic, measure activity, collect data and insure security.

- Be sure that you have a system in place, so you can "go in" yourself and update your website information. There's nothing that gives website visitors a worse impression than to see you promoting an event that happened last month.

SEO Matters A potential customer who lives just six miles away wants 28 replacement windows for her Victorian home. She googles "replacement windows" and chooses another company that appeared third on the list of results. Why is your website buried on the second page? Because your SEO/Search Engine Optimization left something to be desired. Codes written by the developer, the regularity of blogging posts or the use of highly relevant words and phrases can all enhance optimization.

Online Feedback Years ago, people shared their opinions about companies with 2 or 3 people over the back fence. Today, websites that feature consumer feedback reach thousands, even millions of people.

Cross Marketing can be quite effective. Suppose you make organic pet treats. Why not approach a local dog grooming business and ask to be featured on their website – and you, of course, return the favor. Get creative in partnering with your community!

MARKETING

Social media sites are two-way expressways, where people contribute to, interact with and participate in your online presence. These sites help you gain new customers and engage existing ones. Another advantage of social media is your ability to measure results. Your posts and updates can also be "shared" across many social media sites.

SOCIAL MEDIA

Blasting is sending one email out to a large audience made up of active, interested recipients. After signing on at your physical site or your website, your "A-listers" should be romanced with special offers that are exclusive to them, as a thank you for allowing you into their inboxes. Sign yourself up on multiple email lists, from the local nursery to big retailers and see how they do it. Companies that specialize in email marketing can make your emails look great – and compile valuable data on effectiveness.

Blogging is keeping an online journal ("web" + "log" = blog). Start by subscribing to relevant blogs, especially from competitors. Blogs with high readability are fairly short, and feature "no scroll" posts. Determine the content your audience wants, and write to it. Keep your tone positive and chatty – and always end by asking for the reader's feedback or comments. Blogging with regularity will help move you higher up in search results ranking. Ask your website developer to incorporate a blog into your website, or check out sites that let you set up a blog.

Facebook is the social media "go to" site – the place where the world "meets." This open forum can be a marketer's dream, an easy way to get a message out, talk about promotions, get feedback and generally engage customers. Check out how other companies are handling their postings.

LinkedIn is the site that means business, where professionals post résumés, network and read industry news. You should establish profiles for yourself and your staff, and don't be afraid to brag a little. It is a good site to find vendors and resources, too.

Twitter is a "microblogging" network, where messages called "tweets" are sent out to only those readers who "follow" you. This isn't the place for long messages, as tweets are limited to just 140 characters. The word "immediacy" captures the essence of Twitter; it's a buzz generator.

YouTube is the world's TV channel. It's easy to start your own "network" where you can post videos that will educate, inform, market to and entertain your audience. And YouTube has made cross promoting as simple as possible.

Vlogging is video blogging, plain and simple. Suppose you're celebrating your 10th year in business, or you want to show off what your new printing press can do for your customers. A short video – no more than 2 or 3 minutes – can be posted on your website, or other sites like Facebook or YouTube, and reach a bigger audience than you ever thought possible!

BUYING A BUSINESS

QUESTIONS THAT NEED ANSWERS:

- Why is the business for sale?
- What is the value of the business?
- What are the company's products and services?
- Who started the business? What is the history of the business? Where is it located and where are its customers located?
- Has the competition increased or changed? (see page 15.)
- What sales and marketing plans have you seen? What are the business' sales trends? How will you increase sales?
- Will you hire new employees and managers or use the existing staff?

ORANGE DOT MACHINE

PRODUCT: machining services for the seller's railroad product line

OWNERS: Jack Reich and Tom Wallis, both of whom want to retire

LOCATION: Western Connecticut. The building's landlord is Reich Holdings, LLC (see Appendix Section 9, "Business Location")

LEGAL STATUS: S Corporation registered in Connecticut

HISTORY: Started in 1982 as a division of a larger corporation.

CLIENTS: 200 companies in Connecticut and southern New England. (Commercial companies: 60%; military-related: 25%; railroad: 15%)

SALES: $1.4 million in sales last year — a 30% increase over the previous fiscal year, due to an expanded product line and aggressive marketing. The quality of the equipment and caliber of the staff present an excellent growth opportunity.

MARKETING: The redesign of the company website, along with a formal marketing program, is expected to increase the customer base and expand the service area.

PURCHASE PRICE: $500,000 includes $475,000 in assets (see appraisals in the Appendix) and $25,000 in good will. An additional $50,000 is needed for working capital. Refer to our Loan Request and Cash Flow Analysis.

TRANSFER TERMS: As of the closing, all Accounts Receivable and Payable will be the current owners' responsibility. Work-in-progress inventory will be consigned to the buyer, then completed on a labor-only basis. When the product is completed, future revenue will be kept by the new owners.

LIABILITIES: The assumption of capital lease obligations (see Appendix)

CHECKLIST
for buying a business

To Do / Done
- ☐ ☐ Talk to the business' customers and suppliers.
- ☐ ☐ Review financial statements and tax returns from the last 3 years.
- ☐ ☐ Develop a purchase and sale agreement which shows:
  - › the purchase price components - down payment, allocation of the price, and how it will be financed
  - › how the business will be conducted until purchased
  - › the liabilities you are assuming including accounts payable, loans, leases, contracts, taxes, and legal
  - › the value of the assets you are buying including Accounts Receivable (quality and the age of the invoices), inventory (value and age), machinery/equipment/furniture/fixtures (age, condition, and value), patents/trademarks, and real estate.
  - › that the purchase and sale agreement is subject to financing and inspections
- ☐ ☐ Know how you will finance the business. Is the seller willing to finance all or any of the business (especially the goodwill - the difference between the value of hard assets and the business' purchase price)? What are the terms, rates, and conditions? Develop a Loan Request (see page 18).
- ☐ ☐ Determine who will pay for closing costs including legal services, points, appraisals and environmental inspections.

In your **APPENDIX**, include pictures of the business location, a detailed description and appraised value of the building, inventory and equipment, assets and liabilities, inspection reports, and any patents/trademarks. Also include the purchase-and-sale agreement and any legal documents.

BUYING A FRANCHISE

BUYER, BE AWARE

A franchise is a legal business relationship between a franchiser (Burger King, for example) and the franchisee (you). The franchiser owns the right to the business name, and sells that right to you. In return, you sell products and services supplied by the franchiser.

The advantages of buying a franchise can be appealing. You get an established business presence. And since many of the decisions and products come from the franchiser, your risks are reduced. You are also provided with a range of support services, such as site selection, training, supplies and advertising/marketing plans.

THE DISCLOSURE DOCUMENT: READ IT CAREFULLY

The Federal Trade Commission (FTC) requires sellers of franchises and other business-opportunity ventures to provide a Disclosure Document to prospective buyers. In it, you should find detailed information that explains how business between you and the franchiser will be conducted.

It is crucial that you read this document very carefully, as many times as you need to, because it contains important information — audited financial statements, your start-up and ongoing costs, and locations of other franchises. It will clearly explain the responsibilities of the buyer and the seller. Have your attorney read through it as well.

The Disclosure Document must be given to you in advance so you can gather and consider any and all information you need to be sure your decision is an informed one.

Top Ten Questions To Ask Before Buying a Franchise

1. How many franchises are there and how many in your area? Don’t be afraid to ask for a list, then to visit as many as you can. If possible, speak with the owner(s) about some of the real-world realities of running the business.
2. How long has the franchiser been in the industry? Ask how long they have been selling franchises.
3. How financially healthy is the franchiser? You have a right to see their financial statements, which should be included in the Disclosure Document. Make sure you are comfortable with all the numbers.
4. What does your initial cost cover? Discuss things like the licensing fee, training, equipment, starting inventory and promotional fees. Find out if the land will be purchased or leased, and whether the building will be constructed or renovated.
5. Will the franchiser help finance the business? If so, you still need to develop a business plan with financial projections.
6. What ongoing costs will you pay the franchiser? Discuss royalties, training, insurance and advertising.
7. Will you be required to buy supplies from the franchiser or their designated suppliers? Will prices be competitive?
8. Do any restrictions apply when competing with the competition?
9. What is the length of the partnership? Be clear about the terms covering renewal rights.
10. Do you have the right to resell the franchise?

LOAN REQUEST

HOW MUCH WILL YOU NEED?
You must invest 25% - 50% of your own money. Show how much and where your money will come from. Also provide information about money coming from investors. Show how much money you are requesting from the lender.

HOW WILL THE MONEY BE USED?
Uses include inventory, furniture, fixtures, equipment, machines, repairs and improvements, and working capital (money for the business' day-to-day activities). Your business' income (and other money) must cover your expenses. You need more money if your expenses are more than your income. Use of funds must be fully documented with quotes in the **APPENDIX** (include a breakdown of machinery, equipment, fixtures and furniture).

AMOUNT NEEDED	
• Amount Requested	$ ________
• Owner's Investment	$ ________
• Other Investors	$ ________
Total	$ ________
USE OF FUNDS	
• Inventory	$ ________
• Working Capital	$ ________
• Equipment, Machinery, Computers	$ ________
• Furniture & Fixtures	$ ________
• Other	$ ________
• Real Estate	$ ________
Total	$ ________
Repayment	
• Period: ________ years	
• Source: Business Cash Flow	
• Collateral:	
- Accounts Receivable	$ ________
- Inventory	$ ________
- Equipment & Machinery	$ ________
- Furniture & Fixtures	$ ________
- Equity in Real Estate	$ ________
- Other	$ ________
Total	$ ________

HOW WILL THE LOAN BE REPAID?
The lender wants to see the loan repaid from the business' income. If necessary, the lender needs to know that the loan could also be repaid by selling an asset or by a cash infusion from an investor.

IF YOUR LOAN REQUEST IS REJECTED, ASK:
- Why it was rejected.
- If you can correct the problems and re-submit the request.
- If you should go to another lender or seek alternative financing.

WHAT COLLATERAL ARE YOU OFFERING?
Collateral is assets the bank has a lien on and will take if you can't repay the loan. Collateral can be personal *(savings, stocks and/or equity in personally owned real estate)* or business (*receivables, inventory, equipment)*.

HOW LONG ARE YOU ASKING FOR REPAYMENT?
- **Short Term** *(less than a year):* Short-term loans are called Lines of Credit (LOC) or Revolvers and work like a credit card, with a pre-determined amount. Lines of credit are primarily used for working capital and must be paid in full within that year.
- **Intermediate Term** *(1-10 years):* Like a car loan, payments are monthly. Use for buying the business, equipment, or for long-term working capital.
- **Long Term** *(10 years or more):* Like a mortgage, used to buy commercial real estate, commercial vehicles, and heavy equipment.

Loan Decisions
The "1-2-3 Method" on page 30 helps you calculate your maximum loan amount.

Lenders require appraisals of your collateral and they discount the value of your assets. The total *discounted* collateral amount must equal the total loan amount requested. Typical discounts include: saleable inventory at 50% or lower, fixed assets at 50% or lower, collectable accounts receivable at 25% or lower, and furniture/fixtures/machinery/equipment at fair market value of book value. In the **APPENDEX** include the, model, year, serial number and fair market value.

EXAMPLE:	*Market Value*	*Discount Percentage*	*Discounted Value*
• Inventory	$100,000	50%	$50,000
• Fixed Assets	$50,000	50%	$25,000
• Accounts Receivable	$80,000	25%	$60,000
Total	**$230,000**		**$135,000**

A maximum loan request of $135,000 is based on the collateral value of their assets.

FINANCIALS

FOUR FINANCIAL STATEMENTS ARE INCLUDED IN THIS SECTION:

1

Personal Financial Statement
Your own personal financial health will be carefully examined by the lender. See page 20.

2

Balance Sheet
This is a snapshot of your business. A moment frozen in time. See page 22.

3

Income Statement
Think of this as your business' "report card" over a period of time. See page 24.

4

Cash Flow Statement
This will show how much money comes in and how much goes out. See page 26.

HINTS FOR DEVELOPING FINANCIALS:

- Make realistic assumptions. Lenders know there are risks, so explain how they will be handled. They like to see business owners who recognize and solve them. Make a record of your assumptions so you can prove to the lender that your projections are realistic.
- Show reasonable links between past (if buying a business), actual, and future projections.

WATCH FOR THESE COMMON FINANCIAL PROBLEMS:

- **Limited capital**
  Capital is just another word for money, and if there's not enough of it, it can lead to insufficient working capital (money for day-to-day activities). Don't try to make money stretch too far. Ask for more loan money, or cut down on liabilities and expenses.
- **Little or no record keeping**
  You must keep meticulous records for yourself, the IRS, and your lender.
- **Failure to seek outside help**
  Consult an accountant, gain business advisors, contact the Small Business Administration/SBA (www.sba.gov) or your state's Department of Economic Development (a quick google search will locate them). Your advisors' input is valuable but don't be totally dependent on them. Educate yourself. You should have a basic understanding of your company's finances. Know how to read your own financial statements and reports.
- **Poor management**
  A business needs a good financial manager (within the company or an outside advisor). It's your money, so be very self-disciplined.
- **Reluctance to invest in the business**
  Why should the lender stand behind you if you won't invest any of your own money? You must put a percentage of *your own money* into the company (usually 25% to 50%).
- **Failure to personally guarantee the loan repayment**
  If the business fails for any reason, the owners must repay the loan. Lenders need to be assured of your total commitment.

ACCOUNTING METHODS

Accrual

vs.

Cash

THERE ARE TWO WAYS TO HANDLE YOUR ACCOUNTING **ACCRUAL** OR **CASH**.

1. The **CASH** method means you don't record a sale until you collect money, and you don't record an expense until you pay for it.

2. The **ACCRUAL** method, means:

- Sales are made but payments are not immediately collected. Your customers pay later, which creates "accounts receivable."
- Business purchases are made, but paid for later, creating "accounts payable."
- Assets (like equipment) are depreciated over their lifetime. This is tax deductible.
- Net Income does not always mean cash, since money is tied up in accounts receivable and inventory.

1 PERSONAL FINANCIAL STATEMENT

Personal financial health is carefully examined by the lender or investor. Complete a Personal Financial Statement for each person listed in the business plan who will be guaranteeing the loan (partners, officers, stockholders). It's a good idea to order your credit report from the three credit bureaus and review it because lenders will scrutinize it. Be prepared to explain any negative reports.

Most lenders will supply you with their own Personal Financial Statement form, but the information they usually request is shown in this sample.

PERSONAL FINANCIAL STATEMENT

Date ____________________
Your Name and Address ____________________
Business Name and Address ____________________
Social Security __________ Date of Birth: __________
Phone: ________ Fax: ________ E-mail: ________

ASSETS & LIABILITIES

ASSETS (what you own)	
Cash	$ ________
Savings Accounts	$ ________
Retirement Accounts	$ ________
Accounts & Notes Receivable	$ ________
Life Insurance, cash surrender value	$ ________
Stocks & Bonds (market value)	$ ________
Real Estate (market value)	$ ________
Automobiles (market value)	$ ________
Other Property	$ ________
Other Assets	$ ________
TOTAL ASSETS	$ ________
LIABILITIES (what you owe)	
Accounts Payable	$ ________
Notes Payable	$ ________
Residential Mortgage, balance	$ ________
Investment Mortgage, balance	$ ________
Installment Loan Balance, auto	$ ________
Installment Loan Balance, other	$ ________
Unpaid taxes	$ ________
Other liabilities	$ ________
TOTAL LIABILITIES	$ ________
NET WORTH (assets less liabilities)	$ ________
TOTAL LIABILITIES + NET WORTH	$ ________

Life Insurance: In the **APPENDIX**, provide face amount and cash surrender value of policies, name of insurance companies and beneficiaries.

Other Property: Describe in the **APPENDIX**. If any is pledged as security/collateral, include name and address of lien holder, lien amount, and payment terms.

Notes Payable: In the **APPENDIX**, include the name and address of the noteholder, original loan balance, current balance, payment amount, and what collateral is used for security.

Stocks & Bonds: The total is included here. In the **APPENDIX**, include the number of shares, name of securities, cost, market value with date.

Real Estate: The total is included here. In the **APPENDIX**, include type of property, date purchased, original cost, and the present market value. Also include the mortgage account number, balance, and monthly payment.

Unpaid taxes: The total is included here. In the **APPENDIX**, specify the type of tax, who it's owed to, when it's due and whether there is a lien on any property

YOUR PERSONAL FINANCIAL STATEMENT

Annual Expenses:
Multiply your monthly expenses by 12.

Contingent liabilities:
Are you an endorser, co-maker or guarantor of other loans? If so, are there any legal actions or contested taxes?

INCOME & EXPENSES

ANNUAL INCOME:

Salary, Bonuses, and Commissions	$ ________
Dividends, Interest, Investment income	$ ________
Real Estate Income	$ ________
Other Income	$ ________
TOTAL ANNUAL INCOME	$ ________

ANNUAL EXPENSES:

Mortgage/Rental payments	$ ________
Loans and notes payable	$ ________
Taxes: Federal, State, Local, Property	$ ________
Insurance premiums	$ ________
Alimony and child support	$ ________
Tuition	$ ________
Medical Exp./Insurance	$ ________
Contingent liabilities	$ ________
Other Debt or Liabilities	$ ________
TOTAL ANNUAL EXPENSES	$ ________

This statement is true and accurate.
I authorize any inquiries necessary to verify its accuracy.

(your signature and date) ____________________

In the **APPENDIX**, include copies of:

- Assets: life insurance statements, stocks and bonds, real estate, and personal property.
- Liabilities: notes payable, mortgages on real estate and unpaid taxes.
- Loans/mortgages: monthly payment amount and a copy of the last statement.
- Three years of tax returns for each owner.
- Copies of credit reports for each owner.

2 BALANCE SHEET

The **Balance Sheet** is like a picture of your business, frozen for a second. The numbers change every day.

In the **APPENDIX**, include fiscal year-end statements for the last three years, and an interim statement not more than three months old. Start-up companies: Include an opening Balance Sheet (what the balance sheet will look like the day after the loan closes).

YOUR BALANCE SHEET INCLUDES THE FOLLOWING:

ASSETS
What the company owns

Current Assets
Can be converted into cash in one year

Accounts Receivable
Sales made but not collected

Inventory
Inventory on hand, waiting to be sold

Total Current Assets
Add up all of the Current Assets

Non-Current Assets
Takes one year or more to turn into cash

Fixed Assets
This includes property, plant, and equipment

Less Depreciation
Subtract Accumulated Depreciation

Fixed Assets (net)
Fixed Assets minus Accumulated Depreciation

Advances to Owners
Money that owners take out of the business in the form of a loan to be repaid

Total Non-Current Assets
Add up all the Non-Current Assets

Total Assets
Add Current Assets and Non-Current Assets

LIABILITIES
How much the company owes

Current Liabilities
Liabilities due within one year

Current Portion of Long-Term Debt
One year's worth of loan payments

Note Payable
Due within one year

Accounts Payable (A/P)
Purchases not paid for

Total Current Liabilities
Total all the Short-Term Liabilities

Long-Term Liabilities
Due for more than one year

Loan Payable
Due after one year's worth of payments

Total Long-Term Liabilities
Total all the Long-Term Liabilities

Total Liabilities
Add the Current and Long-Term Liabilities

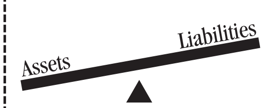
CAPITAL OR NET WORTH
The business' equity

Owners Investment
Amount of money owners have invested

Retained Earnings
Income earned and kept in the business

Total Capital
Add Owners Investment and Retained Earnings

Total Liabilities & Capital
Add Liabilities and Capital. Equal to Total Assets



Think of the balance sheet as a seesaw. The assets and liabilities alone are out of balance. Capital, the last weight you put on the scale, makes a perfect balance.

Max Computer Company

BALANCE SHEET

ASSETS		
Current Assets:		
Cash	10,000	
Accounts Receivable	75,000	
Inventory (ending)	85,000	
Total Current Assets		170,000
Non-Current Assets		
Fixed Assets	140,000	
Less Accumulated Depreciation	(25,000)	
Fixed Assets (net)	115,000	
Advances to Owners	6,000	
Total Non-Current Assets		121,000
Total Assets (170 + 121)		291,000
LIABILITIES		
Current Liabilities		
Current Portion of Long-Term Debt	6,000	
Note Payable	100,000	
Accrued Taxes	3,000	
Accounts Payable(A/P)	41,000	
Total Current Liabilities		150,000
Long-Term Liabilities		
Loan Payable	54,000	
Total Long-Term Liabilities		54,000
Total Liabilities (150 + 54)		204,000
CAPITAL OR NET WORTH		
Owners Investment	20,000	
Retained Earnings	67,000	
Total Capital		87,000
Total Liabilities & Capital (204 + 87)		291,000

These numbers should be the same.

Depreciation: Except for land, assets wear out. The value goes down and can be deducted. Values for assets are presented via a reserve for depreciation. Market value the price you could sell it for will differ from this figure.

Owners Investment: Also called capital or common stock in a corporation

Total Capital: Also called net worth

YOUR BALANCE SHEET

Your Company Name

BALANCE SHEET

Date of Statement ____________________

ASSETS		
Current Assets		
Cash	$ ____________	
Accounts Receivable	$ ____________	
Inventory (ending)	$ ____________	
Other Current Assets	$ ____________	
Total Current Assets		$ ____________
Non-Current Assets		
Fixed Assets	$ ____________	
Less Depreciation	$ ____________	
Fixed Assets (net)	$ ____________	
Advances to Owners	$ ____________	
Other Non-Current Assets	$ ____________	
Total Non-Current Assets	$	____________
Total Assets		$ ____________
LIABILITIES		
Current Liabilities		
Current Portion of Long-Term Debt	$ ____________	
Note Payable	$ ____________	
Accrued Taxes	$ ____________	
Accounts Payable(A/P)	$ ____________	
Total Current Liabilities		$ ____________
Long-Term Liabilities		
Loan & Notes Payable	$ ____________	
Total Long-Term Liabilities	$ ____________	
Total Liabilities		$ ____________
CAPITAL OR NET WORTH		
Owners Investment	$ ____________	
Retained Earnings	$ ____________	
Total Capital		$ ____________
Total Liabilities & Capital		$ ____________

These numbers should be the same.

3 INCOME STATEMENT

The **Income Statement** is your company's report card. Expenses are subtracted from income, which gives you the business' financial performance or net profit (or loss). Other names for the Income Statement are Operating Statement, Earnings Statement, or Profit and Loss Statement.

YOUR INCOME STATEMENT INCLUDES THE FOLLOWING:

SALES

Net Sales
Revenue or income. Gross sales is before returns and allowances. Net sales is after returns and allowances.

Less Cost of Goods Sold
Cost to make products including materials and labor.

Beginning Inventory
Comes from the Ending Inventory of the previous year.

Purchases
Used to make product.

Labor
Used to make product only. Other labor-related expenses are included in the Operating Expenses section.

Less: Ending Inventory
This number becomes the beginning inventory for the next year's Income Statement.

Total Cost of Goods Sold
Compute the Cost of Goods Sold.

Gross Profit
Sales less cost of goods sold. This is your profit margin.

EXPENSES

Selling Expenses
Salaries and expenses related to sales only.

General and Administrative
All other expenses used to run the company.

Operating Income (or Loss)
Shows how the business performed.

Interest Expense
Subtract interest expense.

PROFIT

Net Profit before taxes

Less: Income Taxes
Tax rates depend on your business' legal status.

Net Profit
Profit left after all expenses (including taxes) have been paid.

Net vs. Gross Sales
Gross sales is the amount before adjustments like returns and allowances. After these adjustments you have Net Sales.

Operating Income:
Gross Profit less Selling Expenses and General/Administrative Expenses.

In the **APPENDIX**, include three years' fiscal year end statements plus an interim statement (not more than three months old).

Start-up companies: Project month by month for the first year, quarterly for the second year and one whole year for the third year.

Max Computer Company

INCOME STATEMENT

SALES		
Net Sales		900,000
Less Cost of Goods Sold:		
Beginning Inventory	75,000	
Purchases	350,000	
Labor	200,000	
Total	625,000	
Less: Ending Inventory	(85,000)	
Cost of Goods Sold (625 less 85)		540,000
GROSS PROFIT (900 less 540)		360,000
EXPENSES		
Operating Expenses:		
Selling Expenses	90,000	
General & Administrative	170,000	
Total Expenses		260,000
Operating Income (360 less 260)		100,000
Interest Expense		20,000
PROFIT		
Net Profit before taxes (100 less 20)		80,000
Less: All Income Taxes		27,000
Net Profit (80 less 27)		53,000

$75,000 was the ending inventory for the previous year and became the beginning inventory for the next year.

This number is pulled from the Balance Sheet on page 22.

Important Note: Compare numbers in the current year's Income Statement with the previous year. You should know whether income/profits and expenses are going up or down.

YOUR INCOME STATEMENT

Your Company Name

INCOME STATEMENT

Date of Statement ____________________

SALES

Net Sales		$
Less Cost of Goods Sold:		
Beginning Inventory	$	
Purchases	$	
Labor	$	
Total	$	
Less: Ending Inventory	- $	
Cost of Goods Sold		$
GROSS PROFIT (sales less cost of goods sold)		$

EXPENSES

Operating Expenses:		
Selling Expenses	$	
General and Administrative	$	
Total Expenses		$
Operating Income		$
Interest Expense		$

PROFIT

Net Profit before taxes		$
Less: All Income Taxes		$
Net Profit		$

4 CASH FLOW STATEMENT

WHAT'S THE BIG IDEA?

The Cash Flow Statement is your cash "register." It shows money that comes into the business and what goes out. Profits do not guarantee positive cash flow. You need to know or estimate income and expenses based on the direct and variable costs of your products or services. Cash must be available to pay bills on time and for day-to-day activities. This statement will also show an important figure, the breakeven point, when cash income equals the cash outflow (see page 30).

Tips for preparing Cash Flow Statements:

Numbers in the Cash Flow Statement will also appear in the Income Statement. However, the Cash Flow Statement differs because it records when cash is received, when cash is paid, and how much cash you have reserved.

- Begin with income at the top, followed by expenses and repayment of the loan.
- Show realistic assumptions. If sales increase 80% every year, this may seem unrealistic. Prove assumptions and include them in the **APPENDIX**.
- Cash jumps up from year one to two, because start-up costs are large in the first year.
- Negative balances are common in the first year. They must be covered by providing more cash (loans or owners' investments), or by reducing expenses.
- Increased sales can cause a cash drain (due to increased costs or labor). Show how you will overcome this.
- Show monthly figures in the first year, quarterly figures in the second year, and a lump sum in the third year.

Name of Business	Start-Up Costs	Month 1 FIRST MONTH'S REVENUE	Month 2	Month 3	Month 4
A. CASH ON HAND (Beginning of month)					
B. CASH RECEIPTS 1. Cash Sales					
2. Collections from Credit Accounts					
3. Loan or Other Cash injection (Specify)					
C. TOTAL CASH RECEIPTS (B1+B2+B3)					
D. TOTAL CASH AVAILABLE (A + C, before cash paid out)					
E. CASH PAID OUT: 1. Purchases (Merchandise)					
2. Gross Wages					
3. Payroll Expenses (Taxes, vacations, etc.)					
4. Outside Services (Outside labor)					
5. Supplies (Office & operating, not for re-sale)					
6. Repairs and maintenance					
7. Advertising					
8. Car, Delivery and Travel					
9. Professional Services (Accounting, legal, etc.)					
10. Rent (real estate only)					
11. Telephone					
12. Utilities (Water, heat, electricity, etc.)					
13. Insurance (on business property & products)					
14. Taxes (Real estate, sales, inventory, etc.)					
15. Interest (on loans)					
16. Other Expenses (Specify each)					
17. Miscellaneous (small expenses)					
18. Subtotal					
F. OTHER OPERATING COSTS:					
1. Loan Principal Payment (include equipment)					
2. Capital Purchases (Specify)					
3. Other Start-up Costs					
4. Reserve and/or Escrow (Insurance, tax, etc.)					
5. Owner's Withdrawal (income tax, etc.)					
G. TOTAL CASH PAID OUT (E18 + F1 through F5)					
H. CASH POSITION (End of month, D minus G. Becomes cash on hand for next month)					
ESSENTIAL OPERATING DATA (Items explained on page 27)					
1. Accounts Receivable (End of month)					
2. Bad Debt (End of month)					
3. Inventory on Hand (End of month)					
4. Accounts Payable (End of month)					
5. Monthly Depreciation					

Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total START-UP COSTS - *PLUS* - COLUMNS 1-12

ESSENTIAL OPERATING DATA

The five items shown at the bottom of the Cash Flow Statement can be kept separately and included at the bottom of your monthly cash flow projections. They are important planning and cash flow projection tools.

1. Accounts Receivable
Previous unpaid credit sales, plus current month's unpaid credit sales.

2. Bad Debt
Should be deducted from the month. This figure is based on past history or industry standards.

3. Inventory on Hand
Any products available for sale at the end of the month.

4. Accounts Payable
Any accounts due at the end of the month.

5. Depreciation
Assets wear out and lose value. The monthly depreciation value is established by your accountant (as allowed by the IRS).

RATIOS

Ratios are your business' scores. Even though ratios are not included in your business plan, they will be calculated by lenders to make decisions.

Lenders and investors compare your ratios to:

- acceptable bank ranges
- a company's prior years
- your business' history
- other companies in your industry

Industry averages are found in the RMA Annual Statement Studies, your industry's associations, trade magazines and Small Business Adminstration/SBA.

1 ASSET MANAGEMENT RATIOS

Accounts Receivable Turnover

Number Source: Balance Sheet (pg. 22)
& Income Statement (pg. 24)

Accounts Receivable ($75,000 on pg. 22) **X** 365 days

FORMULA

$$\frac{\$27{,}375{,}000}{\$900{,}000} = 30.4$$

It takes 30 days to collect bills

Net Sales Figure (pg. 24)

NOTE: Shows how many days it takes to collect money owed to you. Lower answers are better.

Inventory Turnover

Number Source: Balance Sheet (pg. 22)
& Income Statement (pg. 24)

Inventory Figure ($85,000 on pg. 22) **X** 365 days

FORMULA

$$\frac{\$31{,}025{,}000}{\$540{,}000} = 57.4$$

57 days to turnover or sell the inventory

Cost of Goods Sold (pg. 24)

NOTE: Shows how many days it takes you to turnover (or sell) your inventory. Lower answers are better.

2 LIQUIDITY RATIOS

Working Capital

Number Source: Balance Sheet (pg. 22)

Current Assets (pg. 22)

Subtract Current Liabilities (pg. 22)

FORMULA

$$\$170{,}000 - \$150{,}000 = \$20{,}000$$

Working Capital

NOTE: Shows if a company has enough cash to pay bills. This example shows an excess amount after paying all current liabilities. The answer must be positive. More money is needed to meet expenses if the answer is negative.

Quick or Acid Test

Number Source: Balance Sheet (pg. 22)

Total Current Assets of $170,000 (pg. 22) less Inventory of $85,000 (pg. 22)

FORMULA

$$\frac{\$85{,}000}{\$150{,}000} = .56$$

Total Current Liabilities (pg. 22)

The answer should be 1 or more. In this example, the answer, $0.56, is less than 1. The company could not pay all its current liabilities without selling some inventory.

NOTE: Shows current assets and cash after inventory is eliminated. (Inventory can become obsolete.) It's called "quick" because it includes items that can be turned into cash.

Current

Number Source: Balance Sheet (pg. 22)

Total Current Assets (pg. 22)

FORMULA

$$\frac{\$170{,}000}{\$150{,}000} = 1.13$$

Number of times you can pay current liabilities

Total Current Liabilities (pg. 22)

NOTE: Shows a company's short-term debt paying ability. This means there is $1.13 in cash and current assets available to pay every $1 of current liabilities.

RATIOS

3 DEBT MANAGEMENT RATIOS

Leverage (or Debt-to-Worth)

VIR Very Important Ratio

Number Source: Balance Sheet (pg. 22)

FORMULA

Total Liabilities (pg. 22)

Total Capital (pg. 22)

$$\frac{\$204{,}000}{\$87{,}000} = 2.34$$

The company is leveraged 2.34 times

NOTE: Shows whether or not a company has enough equity. Lower answers are better. Lenders prefer this ratio to be 3 or lower.

Accounts Payable Turnover

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

FORMULA

Accounts Payable at \$41,000 (pg. 22) **X** 365 days

Purchases (pg. 24)

$$\frac{\$14{,}965{,}000}{\$350{,}000} = 42.75$$

Accounts Payable are paid every 43 days

NOTE: Shows how quickly a company pays its suppliers. Lower numbers are better.

4 PROFITABILITY RATIOS

Profit Margin on Sales

Number Source: Income Statement (pg. 24)

FORMULA

Net Profit (pg. 24)

Net Sales (pg. 24)

$$\frac{\$53{,}000}{\$900{,}000} = .0588$$

The profit margin is 5.9%

NOTE: Shows the percentage of net profit for every dollar of sales. If the profit margin is too low, the prices are too low, the cost of goods is too high, or expenses are too high. Compare the profit margin to previous years (if the business is over three years old). New businesses may compare the profit margin to those published in RMA studies or by trade associations.

Cash Flow to Current Maturities (Debt Service)

VIR Very Important Ratio

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

FORMULA

Net Profit of \$53,000 (pg. 24) + Depreciation of \$10,000 (amount created for this example).

$$\frac{\$63{,}000}{\$6{,}000} = 10.5$$

For every dollar of debt, \$10.50 is available to pay it

Current Portion of Long-Term Debt (pg. 22). For new businesses, use one year's worth of loan payments.

NOTE: Shows your ability to pay term debts after owners' withdrawals. Lenders prefer 2 or better.

YOUR BUSINESS: RATIO ANALYSIS

			YOUR ANSWER
Assets	1	Accounts Receivable Turnover	=
		Inventory Turnover	=
Liquidity	2	Working Capital	=
		Quick or Acid Test	=
		Current	=
Debt	3	Leverage (or Debt-to-Worth)	=
		Accounts Payable Turnover	=
Profit	4	Profit Margin on Sales	=
		Cash Flow to Current Maturities (Debt Service)	=

FORMULAS

BREAKEVEN POINT

When a company has neither a profit nor a loss, it is the breakeven point. It is important to determine your breakeven point so you know the sales needed for your business to be profitable. The numbers for this formula come from your Income Statement (see page 24).

1 Determine your **Net Sales**

$900,000	NET SALES	100%

2 Total your **Variable Expenses** and divide them by the Net Sales to calculate the percentages they represent

$540,000	COST OF GOODS SOLD	60% (540K/900K)
+$90,000	SELLING EXPENSES	+ 10% (90K/900K)
$630,000	TOTAL VARIABLE EXPENSE	70% (630K/900K)

3 Subtract your Total Variable Expenses from your Net Sales to calculate the **Margin.**

$900,000	NET SALES	100%
-$630,000	TOTAL VARIABLE EXPENSE	- 70%
$270,000	MARGIN	30% or .30

4 Divide your Fixed Expenses by the Margin and the answer is your **Breakeven Point**

$170,000	FIXED EXPENSES (this number comes from page 24 General & Administrative)
÷ .30	MARGIN
$566,667	BREAKEVEN AMOUNT

This company needs sales of $566,667 to break even. One dollar more and the business is profitable. One dollar less and the business shows a loss.

THE 1-2-3 METHOD FOR LOAN DECISIONS

Use the 1-2-3 method to pre-qualify and calculate your maximum loan amount.

	EXPLANATION	EXAMPLE: **ABC Company**	ANSWER
1 DISCOUNTED COLLATERAL Also called COLLATERAL COVERAGE	Every $1 borrowed must be covered by $1 in collateral. Lenders discount the value of assets (collateral) so the *discounted* value must equal the loan amount. This covers the lender in case of foreclosure. See page 18.	See table below	Maximum loan based on discounted collateral is **$55K**
2 THE ABILITY TO REPAY Also called DEBT SERVICE COVERAGE	For every $2 a business has in annual cash flow, the bank will allow $1 in loan payments.	The ABC Company needs to calculate how much they can borrow and afford to re-pay for a seven-year loan: • $12K net profit + 3K in depreciation = $15K annual cash flow • $15K x 50% = $7.5K the maximum lenders usually allow in annual payments is half of the annual cash flow • $7.5K/12 months = $625 maximum monthly payment • $625/$17.13* = $36.48K rounded to $36.5K *Monthly payment on a $1000, seven-year loan with an interest rate of 11% is $17.13	Maximum loan based on the ability to repay is **$36.5K**
3 EQUITY Also called DEBT-TO-WORTH or LEVERAGE	A business can borrow $3 for every $1 invested.	Assume ABC Company wants to refinance a $75K loan. The business has assets of $100K, liabilities of $75K, and Net Worth or Equity of $25K.	Maximum loan based on equity is $75K ($25K in equity x 3) **$75K**

This is a common discount formula used with collateral:

EXAMPLE:	*Market Value*	*Discount Percentage*	*Discounted Value*
• Inventory	$30,000	50%	$15,000
• Fixed Assets	$50,000	50%	$25,000
• Accounts Receivable	$20,000	25%	$15,000
Total	**$100,000**		**$55,000**

THE LOAN DECISION

The lowest of the three answers calculated here is the maximum loan size. The maximum loan size for **ABC Company** is $36.5K.

APPENDIX Items Checklist

The **APPENDIX** comes at the end of your business plan. It includes all the details and documents that support your business plan.

The first page of your Appendix should be a listing of its contents. Organize the documents in the order they are referred to in your business plan. The Appendix grows so it's a good idea to use a 3-ring binder with tabs or an expandable file.

In general, your Appendix should include:
a) estimates for anything being purchased
b) estimates on any work to be done
c) copies of documents related to loans, mortgages, and accounts payable to be refinanced

To Do Done

Page 8 > BUSINESS DESCRIPTION
- Legal documents filed with your state or municipality

To Do Done

Page 9 > BUSINESS DESCRIPTION, EXPLAINED
- Detailed industry information including economic trends, growth patterns and forecasts.

To Do Done

Page 10 > MANAGERS & EMPLOYEES
- Managers' job descriptions, salaries and benefits.
- Monthly cost and explanation of outsourced services or functions.
- Managers and employees résumés

To Do Done

Page 11 > OPERATIONS & LOCATION
- Include proposed rentals, leases or purchases of furniture, fixtures, equipment and machinery.
- Suppliers names, addresses, products or services supplied, costs/quotes, delivery/shipping fees, turnaround, terms of sales, contracts, and a purchasing plan.
- Details about assistance from your suppliers.
- Provide a copy of the deed if you own the business location. If buying the location, include a purchase-and-sale agreement and related legal documents. An appraisal of the building, the assets and liabilities along with an environmental inspection, will be done by the lender.
- If your location is leased, include a copy of the lease (or proposed lease) with terms, conditions, and cost.
- Show quotes for improvements and renovations.
- Traffic patterns if you own a retail business.
- Zoning statement from local government.
- Approval letters from local and state inspectors (building, fire, health, environmental, and occupational safety).
- Photos of your location, inside and outside. Include a floor plan, blueprint or plot plan (if constructing location).

To Do Done

Pages 12-15 > MARKETING
- Detailed plans and costs for research and development.
- Advertising and promotional ideas, schedules and budgets.
- Compensation (salary, commission, or both) details for sales staff, reps, agents, brokers or wholesalers.
- Product and price comparisons of competitors.

To Do Done

Page 16 > BUYING A BUSINESS
- Pictures of the business location
- Detailed description of the building.
- Appraised value of the building, inventory and equipment.
- A current Balance Sheet, a year-to-date Income Statement, and copies of the seller's tax returns for the last 3 years.
- Inspection reports, if available. If not, let the lender order them.
- Patents and trademarks.
- Purchase-and-sale agreement and/or an offer to buy and any legal documents that apply to the purchase

To Do Done

Page 18 > LOAN REQUEST
- The use of loan proceeds: Include quotes and a break-down of
  furniture, fixtures, equipment and machinery.
- Collateral: Make, model, year, serial number, and fair market value of furniture, fixtures, equipment and machinery.
- Cash Flow analysis to prove working capital needs.

To Do Done

Pages 20 & 21> PERSONAL FINANCIAL STATEMENT
- Stocks & Bonds: The number of shares, name of securities, cost, market value with the date.
- Life Insurance policies: Provide the face amount and cash surrender value, name of insurance companies and beneficiaries.
- Real Estate: List each property and include the date purchased, its original cost, and the present market value. Also include the mortgage account number, loan balance, and the monthly payment.
- Other property: Any pledged as security/collateral. Include the name and address of lien holder, lien amount, and payment terms.
- Notes Payable: Include the name and address of the noteholder, original loan balance, current loan balance, payment amount, and what collateral is used for security.
- Unpaid taxes: Describe the type of unpaid tax, who taxes are owed to, the amount, when paymentt is due, and whether there is a lien on any property.

To Do Done

Page 21 > PERSONAL FINANCIAL STATEMENT
- Copies of life insurance statements, stocks and bonds certificates, and real estate deeds.
- Copies of notes payable, real estate statements with monthly payment amounts, and unpaid tax bills.
- Copies of signed tax returns (past three years) for each owner.

To Do Done

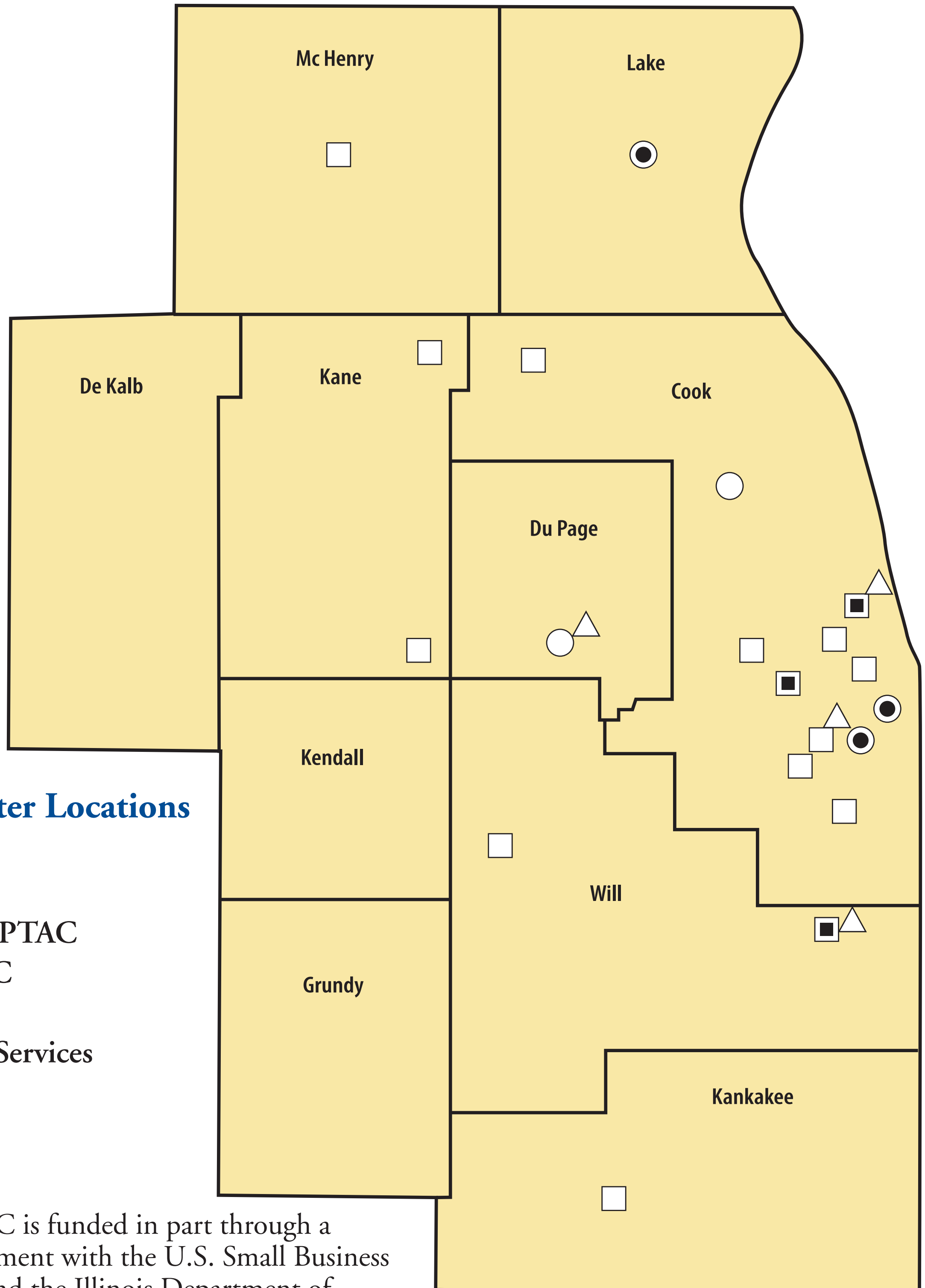
Page 22 > BALANCE SHEET
- Existing businesses: Last three years' fiscal year-end statements and an interim statement (not more than two months old).
- Start-up companies: Include an opening Balance Sheet (balance sheet the *day after* the loan closes).

To Do Done

Page 24 > INCOME & EXPENSE STATEMENT (or P&L)
- Existing businesses: Three years' fiscal year end statements, plus an interim statement (not more than two months old).
- Provide projections month by month for the first year, quarterly for the second year and lump sum for the third year.

Northeast Region

"Chicagoland"



Business Center Locations

- ☐ SBDC
- ▣ SBDC/ITC
- ○ SBDC/ITC/PTAC
- ◉ SBDC/PTAC
- ◇ PTAC
- △ Technology Services

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