

# Business Plan Development

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# What is a Business Plan

## Definition:

A business plan is a formal statement of a set of business goals, the reasons they are believed attainable, and the plan for reaching those goals. It also contains background information about the organization and the team attempting to reach those goals.

## Reality:

A business plan can be anything between a cocktail napkin and a formal document of hundred pages (but both extremes are not recommended).

# Do I really need a Business Plan?

Did Steve Jobs and Steve Wozniak, Bill Gates and Mark Zuckerberg have a business plan when they started their activities?

They probably did not.

So why do I need one?

Because you are no Steve Jobs, Steve Wozniak, Bill Gates, or Mark Zuckerberg and you may not have a ...

# Garage



367 Addison Avenue, Palo Alto: Garage of William Hewlett and David Packard

# Purposes of a Business Plan?

There can be several reasons for writing a business plan

- Get loans
- Get government support (financial or other)
- Persuade investors (venture capitalists)
- Win team members
- Participate in a contest
- **Create a transparent and realistic road map towards your goals**

# Possible Structure of a Business Plan

1. Executive Summary
2. Company Overview
3. Industry and Marketplace Analysis
4. Marketing Plan
5. Management and Organization
6. Operations Plan
7. Development Plan
8. Financial Plan
9. Funding
10. Appendices

# Executive Summary

- Write this section last.
- Make it two pages or fewer.
- Include everything that you would cover in a five-minute interview (or an elevator pitch).
- Explain the fundamentals of the proposed business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?
- Make it enthusiastic, professional, complete, and concise.
- If applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment.



# Company Overview

**Product/Service Description:** Which products or services will you offer?

**Mission Statement:** Very brief mission statement explaining the reason for being and the guiding principles.

**Goals and Objectives:** Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. E.g., a goal might be to become a leader in a niche market. Objectives might be annual market shares.

**Customers:** To whom will you market your products? (only briefly, more details under Target Customers in the Marketing Plan).

**Company strengths and core competencies:** What factors will make the company succeed? (only briefly, more details under Competitive Strategy in the Marketing Plan).

**Legal form of ownership:** Sole proprietor, Partnership, Corporation? Why?



## Product/Service Description

- Description
  - What is your product or service? Describe carefully (but technical specifications, drawings, or photos, belong in appendices).
- Market comparison
  - Why is your product or service unique or better (examples include level of quality or unique features)?
  - What problems does it solve for customers?
- Proprietary rights (if any)
- Stage of development (brief)

Use this section to sell your concept

# Mission Statement

## *What is a mission statement?*

A mission statement is a statement of the purpose of a company or organization, its reason for existing.

## *What makes a good mission statement?*

- Compelling
- Inspiring
- Clear (measurable) objectives
- Concise

## Mission Statement Examples

The mission of *Website Traffic Analyzers* is to help businesses engaging in e-commerce achieve their sales and customer service objectives by enabling a better understanding of Web site visitors' behavior.

*Website Traffic Analyzers*

To satisfy the world's appetite for good food, well served, at a price people can afford.

*McDonald's*

# Legal Form of Ownership

## Critical Issues

- Liability
- Taxes
- Transparency
- Financing

# Industry and Marketplace Analysis

- Overview of industry and marketplace
  - Trends, dynamics, problems, opportunities
  - Demonstrate need or hole in marketplace
  - Show how trends lead inevitably to your concept
- Dispassionate analysis
  - Arms-length viewpoint, outsider looking in

Not the place to describe your concept or firm

# **Organization of Analysis Section**

- Industry Analysis
- Marketplace Analysis
- Customer Analysis
- Competitor Analysis

## **Industry Analysis**

- Overview of industry organization
  - Pure competition, oligopoly, ...
- Focus on major and important trends
- Identify disruptive technologies (if any)
- Use Michael Porter's (Harvard) analysis



## Industry Questions

- How do we define our industry?
- What is the total size of the market?
- How is the industry segmented?
- What are current trends and important developments?
- Who are the largest and most important players?
- What problems is the industry experiencing?
- What national and int'l events influence our industry?
- What are growth forecasts?

# Marketplace Analysis

- Define and describe **your** marketplace
  - Niche, geographic area, subset of larger industry
- What's happening in your market?
- Get information from
  - Customers, competitors, vendors, suppliers, salespeople, ...
  - Chambers of commerce
  - Industry trade groups

## **Marketplace Questions**

- How do we define our marketplace?
- How large is it and how fast is it growing?
- How is our marketplace segmented?
- What companies currently service this market?
- What trends are important in our marketplace?

## **Customer Analysis**

- Identify current buyers in your marketplace
  - Segment these customers
  - What “problems” are not being solved?
  - What needs are not being met?
  - Which customer segments are currently ignored?
- Talk with current buyers!

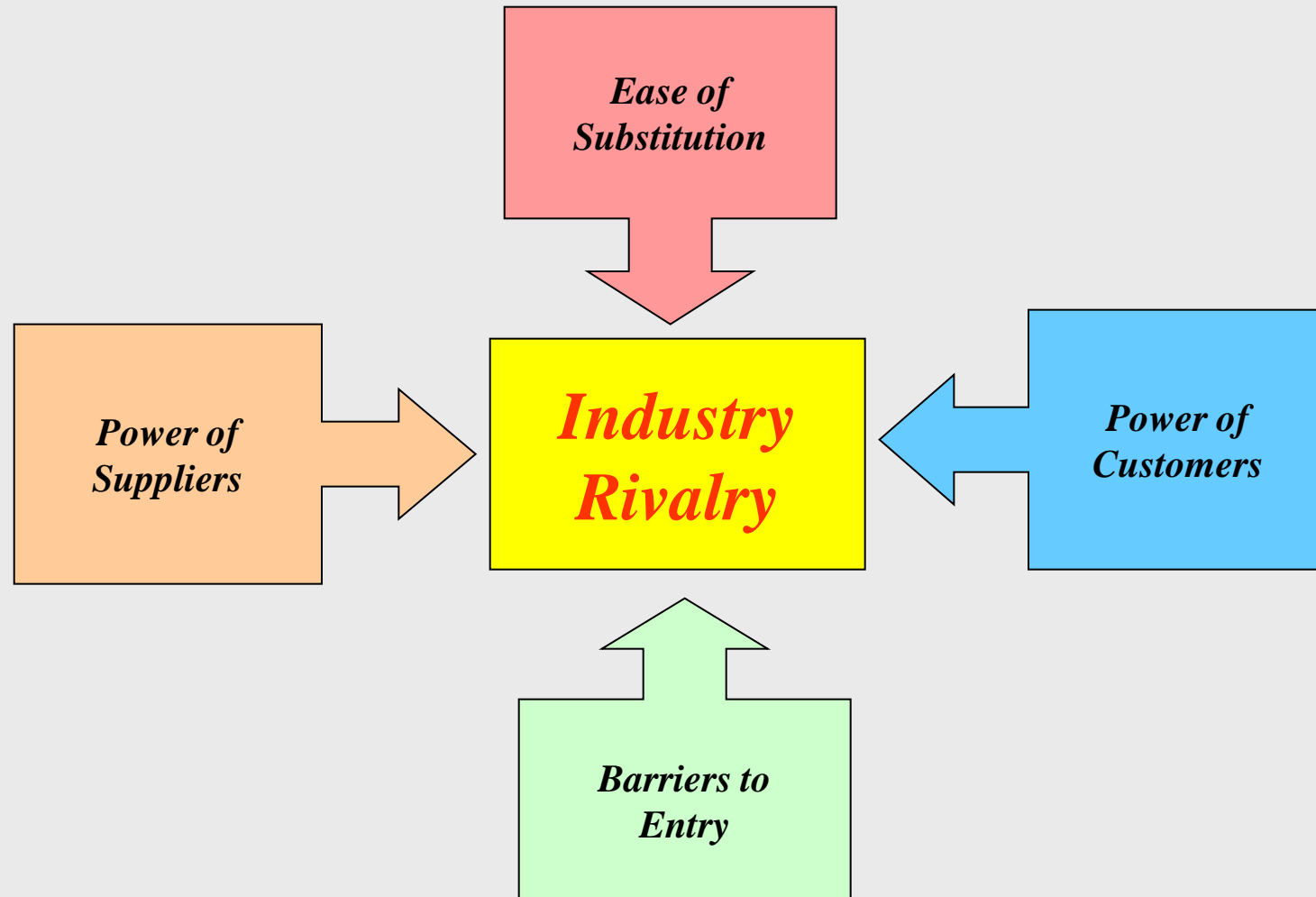
## **Customer Questions**

- Who are the traditional customers in this market?
- How is the market segmented?
- What motivates buying decisions?
- What channels of distribution are used? What channels are being ignored?
- In what ways are customers dissatisfied with current offerings in the marketplace?
- What customer needs are currently unmet by the market?
- What emerging customer groups are being ignored?

## Competitor Analysis

- Identify current sellers in your marketplace
  - Niche and focus
  - Target customers
  - Strengths and weaknesses
- Talk with current marketplace sellers!
  - Sellers themselves
  - Vendors
  - Customers
- Competitive Matrix Comparison (see slide 38)

## Competition Analysis (M. Porter Model)





## **Competitor Questions**

- Who are current sellers in the marketplace?
- What are the attributes and characteristics of these sellers and their products/services?
- What is their size, location, target market, and other important characteristics?
- For their products or services, identify price, quality, features, distribution, and other important attributes.
- What problems and concerns do customers have with these sellers?

# Marketing Plan

- Most important piece of your plan
- Build on industry and marketplace analysis – *define your niche*
- Identify *your* customers
- Demonstrate how *you* will solve problems for customers
- Describe how *you* will reach customers – *advertising, sales*

**Convince reader that there is an eager market for your product or service**

# Marketing Plan Outline

- Introduction
- Target Market
- Product/Service Strategy
- Pricing Strategy
- Distribution Strategy
- Advertising and Promotion
- Sales Strategy
- Sales and Marketing Forecasts

# Marketing Research

There are two kinds of market research: primary and secondary.

**Secondary research** means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available in public libraries, industry associations, chambers of commerce, from vendors who sell to your industry, and from government agencies.

**Primary research** means gathering your own data. For example, you could do your own traffic count at a proposed location and do surveys or focus-group interviews to learn about consumer preferences. Professional market research can be very costly, but small business owners can do effective research themselves.

## Target Market Strategy

- Identify the market niche you will serve
- Be as specific as possible
  - Better to be too specific
- Benefits to target market
  - What problems do you solve?
  - What needs do you fulfill?

## Two Types of Benefits

- Emotional
  - Hope, fear, love, guilt, greed, convenience
- Financial
  - Increased profit, value pricing, save money, payback period

## Target Market Questions

- What do you buy now? How do you receive service?
- Would you be interested in ...?
- Demographics
- Newspapers, magazines, TV
- Would you buy?
- Where would you expect us to advertise?
- Who do you consider our competition?
- Other comments?



## Target Customers

If you sell a consumer product through a channel of distributors, wholesalers, and retailers, you must carefully analyze both the end consumer and the middleman businesses to which you sell.

For each customer group, construct a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class and occupation
- Education
- Other (specific to your industry)

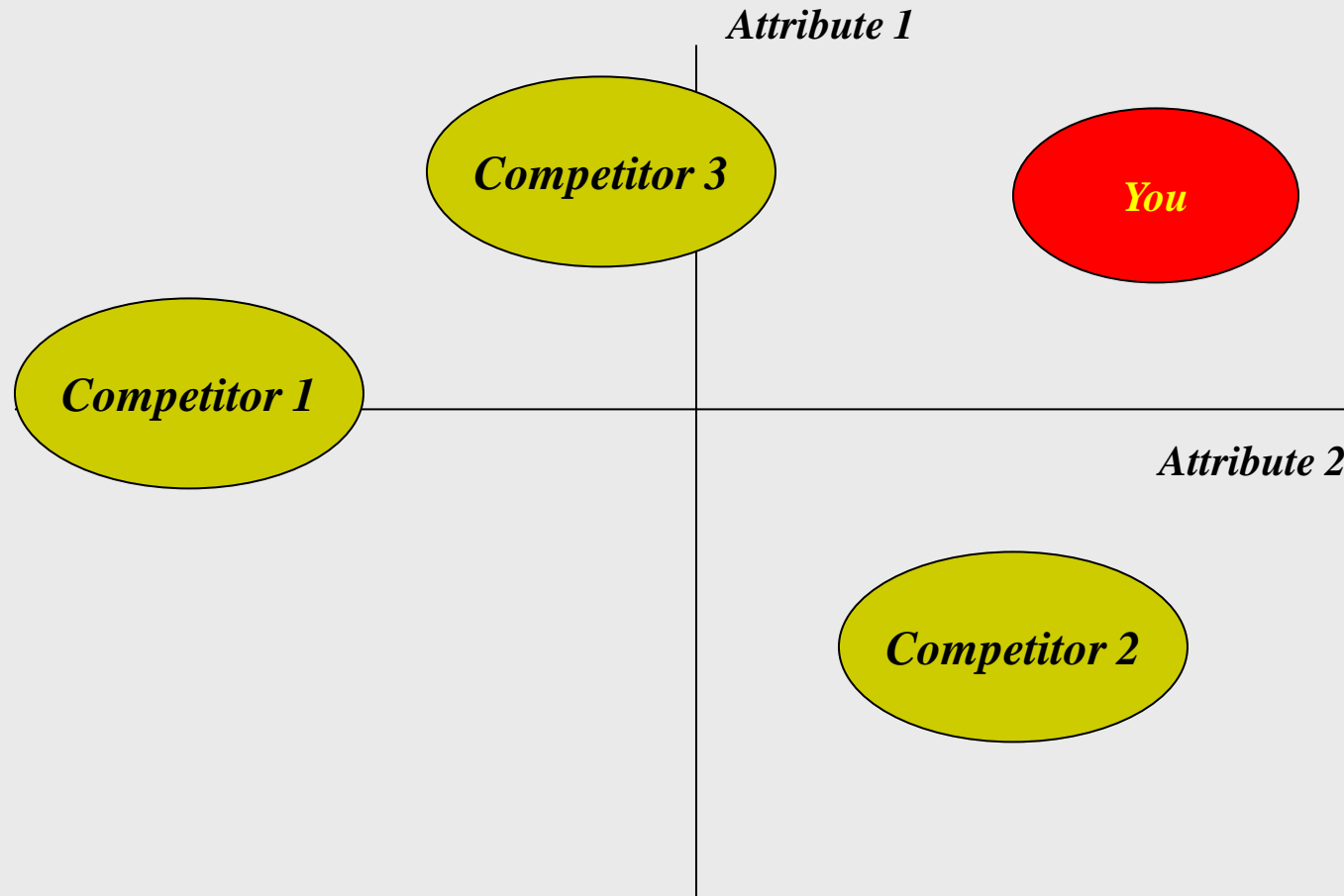
For business customers, the demographic factors might be:

- Industry (or portion of an industry)
- Location
- Size of firm
- Quality, technology, and price preferences
- Other (specific to your industry)

## Product/ Service Strategy

- Describe how the design of your product/service fulfills unmet marketplace needs
- Differentiate your product/service from the competition
- Explain why and how customers will switch to your product or service
- Describe how you will defend your product or service from competition
- Which after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

# Product Attribute Map



## Pricing Strategy

- Describe and justify your pricing strategy
- Provide evidence that your target market will accept your price
- Position your strategy relative to current and potential competition

Low price is usually **NOT** a good strategy for a startup!

## Advertising/ Promotion

- Describe how you will communicate with current and potential customers
  - Advertising
  - Public relations
  - Personal selling
  - Printed materials
  - Other means of promotion
- Explain why this strategy is most effective in reaching your target market

## Distribution Strategy

- Explain how you will deliver your product or service to your customers
- Describe and justify the distribution channels you will use
- Describe how you will gain access to your planned distribution channels

## Sales Strategy

- Describe to whom you want to sell your product or service
- Explain how you will “sell”
  - An internal sales force
  - Manufacturer's representatives
  - Telephone solicitors
- Describe how you will support your sales effort
  - internal staff
  - service operations



## Competitive Strategy

What products and companies will compete with you? List your major competitors:

Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?

Will you have important indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)

How will your products or services compare with the competition?

Use the competitive analysis table below to compare your company with your most important competitors.

# Competition Matrix

| Competitive Matrix Chart |                    |                      |                 |                     |                         |                     |                       |              |
|--------------------------|--------------------|----------------------|-----------------|---------------------|-------------------------|---------------------|-----------------------|--------------|
|                          | Product or Service | Production / Quality | Unique Features | Distribution System | Marketing / Advertising | Geographic Location | Strengths & Weaknesse | Market Share |
| Competitor A             |                    |                      |                 |                     |                         |                     |                       |              |
| Competitor B             |                    |                      |                 |                     |                         |                     |                       |              |
| Competitor C             |                    |                      |                 |                     |                         |                     |                       |              |
| You                      |                    |                      |                 |                     |                         |                     |                       |              |
|                          |                    |                      |                 |                     |                         |                     |                       |              |
|                          |                    |                      |                 |                     |                         |                     |                       |              |
|                          |                    |                      |                 |                     |                         |                     |                       |              |

# Sales Forecast

- State your assumptions (e.g., target population size, percent buyers, product usage)
- Create scenarios and/or parameterize

## Sales Forecast (12 months)

Fiscal Year Begins

Jun 11

### 12-month Sales Forecast

|                    | Jun-11 | Jul-11 | Aug-11 | Sep-11 | Oct-11 | Nov-11 | Dec-11 | Jan-12 | Feb-12 | Mar-12 | Apr-12 | May-12 | Annual Totals |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| Target pop.        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| % buyers           |        |        |        |        |        |        |        |        |        |        |        |        |               |
| Cat 1 units sold   |        |        |        |        |        |        |        |        |        |        |        |        | 0             |
| Sale price @ unit  |        |        |        |        |        |        |        |        |        |        |        |        |               |
| <b>Cat 1 TOTAL</b> | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0             |
| Target pop.        |        |        |        |        |        |        |        |        |        |        |        |        |               |
| % buyers           |        |        |        |        |        |        |        |        |        |        |        |        |               |
| Cat 2 units sold   |        |        |        |        |        |        |        |        |        |        |        |        | 0             |
| Sale price @ unit  |        |        |        |        |        |        |        |        |        |        |        |        |               |
| <b>Cat 2 TOTAL</b> | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0             |
| <b>GRAND TOTAL</b> | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0             |

## Famous Forecasts

I think there is a world market for maybe five computers.

Thomas Watson, chairman of IBM, 1943

There is no reason anyone would want a computer in their home.

Ken Olson, president, chairman and founder of Digital Equipment Corp., 1977

640K ought to be enough for anybody.

Bill Gates, 1981

Forecasts are difficult, especially for the future.

# Management

- **Company Organization**
  - Organizational structure
  - Ownership structure
  - Board of directors
- **Management Team**
  - Key managers?
  - Duties and responsibilities
  - Unique skills, competencies, and experiences
  - Compensation
  - Planned additions to the team
  - Is there a plan for continuation of the business if a key person is lost or incapacitated?
  - Include resumes in the appendix

## **Professional and Advisory Support**

- Management advisory board
- Attorney
- Accountant
- Insurance agent
- Banker
- Consultants
- Mentors and key advisors

# Operations Plan

- Introduction
- Operations Strategy
- Scope of Operations
- Ongoing Operations

## Operations Plan - Strategy

- Added Value
  - How will we use operations to add value for customers in our target market?
- Operations Emphasis
  - How will we win in the marketplace on the dimensions of cost, quality, timeliness, and flexibility?
  - Which dimensions will we stress and which will we de-emphasize?
- What comparative advantages do we have with our operational design?



## Operations Plan - Scope

- Make vs. Buy
  - What will we do in-house and what will we purchase (make vs. buy?) Why does this make sense for our business?
- Partnerships
  - What will be our relationship with vendors, suppliers, partners, and associates?
- Personnel
  - What kind of people will we need to hire?

## Operations Plan - Ongoing Operations

- Execution
  - Describe ongoing operations specific to your business
  - What will you be doing on a day-to-day basis?
- Critical success factors
  - Key performance indicators
- Include detail in an appendix, if necessary.

## Development Plan

- What must be done between now and when you open your doors for business (or collect your first dollar in revenue)
- Development plan may include
  - Product / service development
  - Organizational development
  - Successive products / services
  - Roll-out strategies

## Development Questions

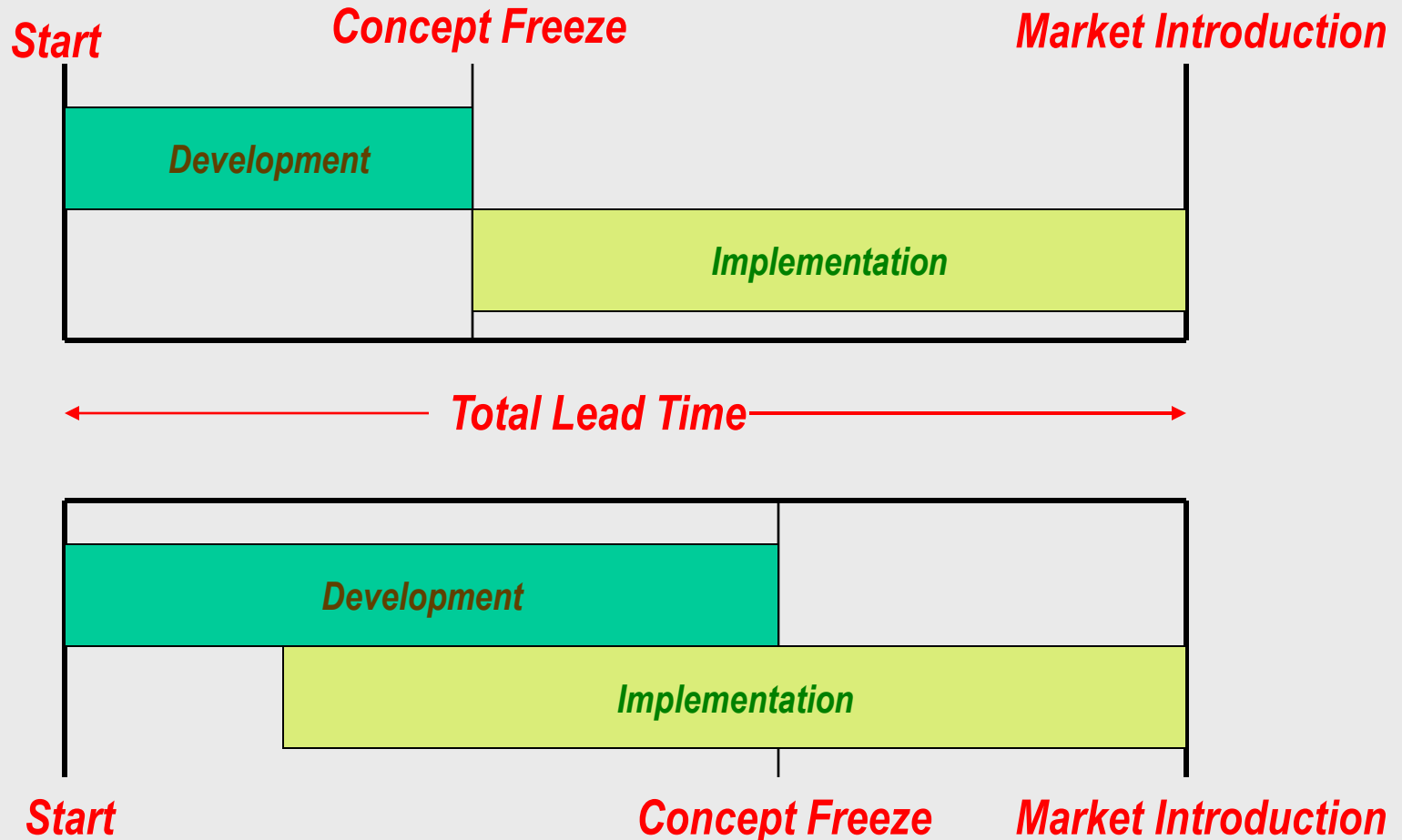
- What work remains to be done?
- What factors must come together?
- What are we doing to bring them together?
- What are the risks of our development?
  - Are there technological risks?
  - Cost risks?
  - Competitive risks?
- How will we mitigate these risks?

## Entry Barriers

**What barriers to entry do you face with your new company?**

- High capital costs
- High production costs
- High marketing costs
- Consumer acceptance and brand recognition
- Training and skills
- Unique technology and patents
- Unions
- Shipping costs
- Tariff barriers and quotas
- How will you overcome the barriers?

# Flexible Product Development

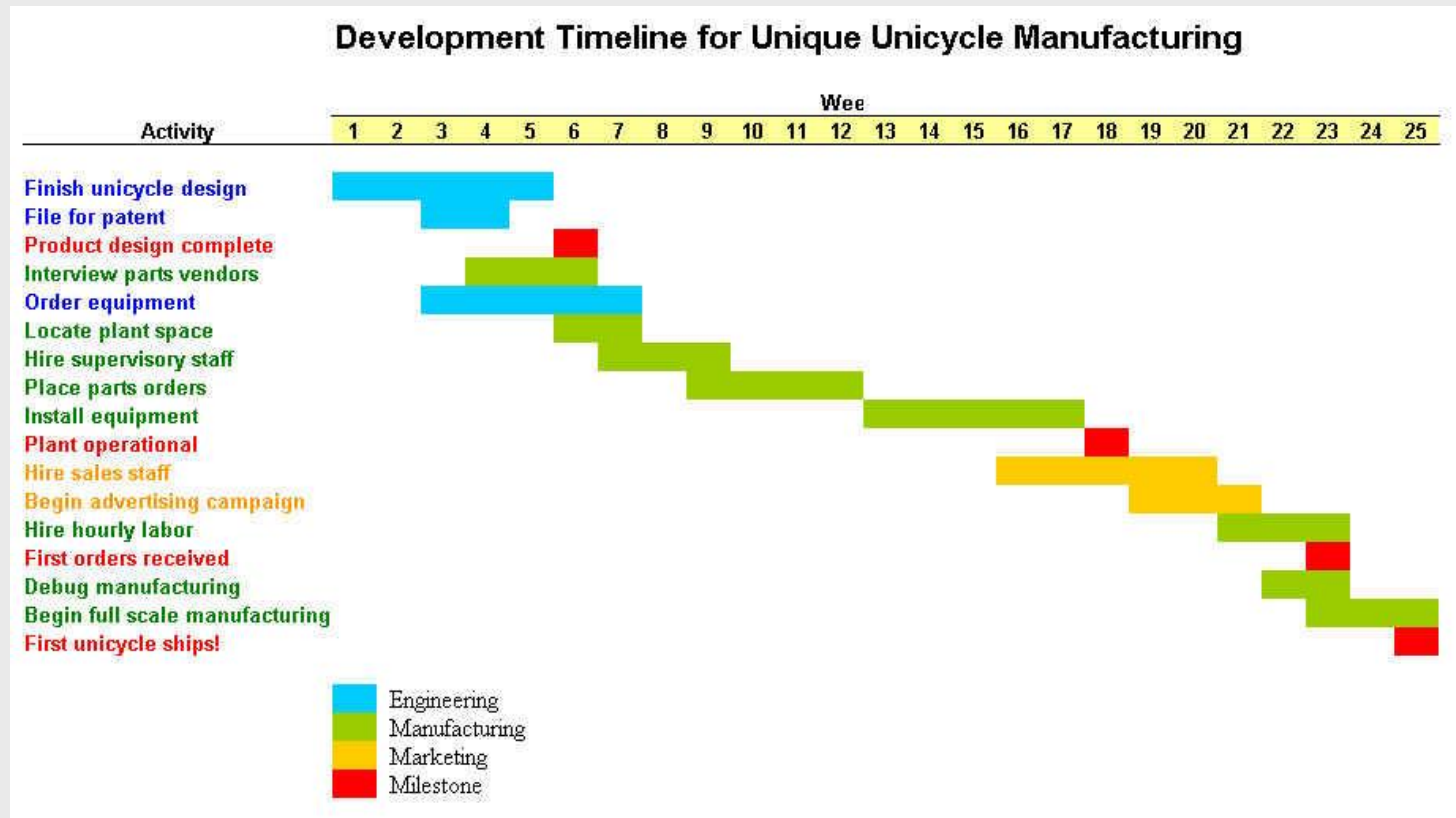


## **Development Timeline**

- Schedule for development
- Major milestones
- Tie-in with marketing plans
- Major obstacles and mitigation plans

# Development Timeline

- Tool for illustrating timeline...





## Development Risks

**How could the following affect your company?**

- Change in technology
- Change in government regulations
- Change on the supply side
- Change in your industry

# Financial Plan

- Startup Costs
- Income Statement
- Balance Sheet
- Cash Flow
- Break-Even Analysis
- Personal Finances

## Revenue Drivers

- Number of customers, transactions or units
- Price per customer, transaction or unit
- Average revenue per customer or transaction
- Distribution channel discount
- Market penetration
- Response rate
- Churn rate
- Growth rate
- New services or product

## Cost of Revenue Drivers

- Personnel costs (labor and/or salary)
- Materials costs
- Yields
- Website operating costs
- Systems costs
- Warehouse and shipping expenses
- Returns
- Outsourcing expenses
- Lease and/or rental expenses
- Cost reductions
- Depreciation of large capital expenditures

## Operating Expense Drivers

- Sales & Marketing
  - Customer acquisition cost
  - Personnel expenses
  - Sales commissions
  - Exhibitions
  - Brand building
  - Tech support
  - Customer service

## Operating Expense Drivers (cont.)

- Research and Development
  - Personnel expenses
  - Beta testing
  - Time to market
  - Patent and copyright application
  - Prototyping
  - Subcontracting
- General and Administration
  - Personnel expenses
  - Recruiting expenses
  - MIS expenses
  - Office rent and utilities

# 12-Month Profit and Loss Projection

|                                 | Jan-11 | % B/A | Feb-11 | %   | Mar-11 | %   | ... | Dec-11 | %   | YEARLY | %   |
|---------------------------------|--------|-------|--------|-----|--------|-----|-----|--------|-----|--------|-----|
| <b>Revenue (Sales)</b>          |        |       |        |     |        |     |     |        |     |        |     |
| Category 1                      |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| ...                             |        |       |        |     |        |     | ... |        |     |        |     |
| Category n                      |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| <b>Total Revenue (Sales)</b>    | 0      | 0,0   | 0      | 0,0 | 0      | 0,0 | ... | 0      | 0,0 | 0      | 0,0 |
| <b>Cost of Sales</b>            |        |       |        |     |        |     |     |        |     |        |     |
| Category 1                      |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| ...                             |        |       |        |     |        |     | ... |        |     |        |     |
| Category n                      |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| <b>Total Cost of Sales</b>      | 0      | -     | 0      | -   | 0      | -   | ... | 0      | -   | 0      | 0,0 |
| <b>Gross Profit</b>             | 0      | -     | 0      | -   | 0      | -   | ... | 0      | -   | 0      | -   |
| <b>Expenses</b>                 |        |       |        |     |        |     |     |        |     |        |     |
| Salary expenses                 |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Payroll expenses                |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Outside services                |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Supplies (office and operating) |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Advertising                     |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Car, delivery and travel        |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Accounting and legal            |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Rent                            |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Telephone                       |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Utilities                       |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Insurance                       |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Taxes (real estate, etc.)       |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Interest                        |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Depreciation                    |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| Other expenses (specify)        |        | -     |        | -   |        | -   | ... |        | -   | 0      | -   |
| <b>Total Expenses</b>           | 0      | -     | 0      | -   | 0      | -   | ... | 0      | -   | 0      | -   |
| <b>Net Profit</b>               | 0      | -     | 0      | -   | 0      | -   | ... | 0      | -   | 0      | -   |

# Three-Year Profit Projection

|                                  | 2011        | %        | 2012        | %        | 2013        | %        |
|----------------------------------|-------------|----------|-------------|----------|-------------|----------|
| <b>Sales</b>                     | \$ -        | 100,00%  | \$ -        | 100,00%  | \$ -        | 100,00%  |
| Cost/ Goods Sold (COGS)          | -           | -        | -           | -        | -           | -        |
| <b>Gross Profit</b>              | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> |
| <b>Operating Expenses</b>        |             |          |             |          |             |          |
| Salary (Office & Overhead)       | \$ -        | -        | \$ -        | -        | \$ -        | -        |
| Payroll (taxes etc.)             | -           | -        | -           | -        | -           | -        |
| Outside Services                 | -           | -        | -           | -        | -           | -        |
| Supplies (off and operation)     | -           | -        | -           | -        | -           | -        |
| Repairs/ Maintenance             | -           | -        | -           | -        | -           | -        |
| Advertising                      | -           | -        | -           | -        | -           | -        |
| Car, Delivery and Travel         | -           | -        | -           | -        | -           | -        |
| Accounting and Legal             | -           | -        | -           | -        | -           | -        |
| Rent                             | -           | -        | -           | -        | -           | -        |
| Telephone                        | -           | -        | -           | -        | -           | -        |
| Utilities                        | -           | -        | -           | -        | -           | -        |
| Insurance                        | -           | -        | -           | -        | -           | -        |
| Taxes (real estate etc.)         | -           | -        | -           | -        | -           | -        |
| Interest                         | -           | -        | -           | -        | -           | -        |
| Depreciation                     | -           | -        | -           | -        | -           | -        |
| Other expense (specify)          | -           | -        | -           | -        | -           | -        |
| <b>Total Expenses</b>            | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> |
| <b>Net Profit Before Tax</b>     | -           | -        | -           | -        | -           | -        |
| <b>Income Taxes</b>              | -           | -        | -           | -        | -           | -        |
| <b>Net Profit After Tax</b>      | -           | -        | -           | -        | -           | -        |
| <b>Owner Draw/ Dividends</b>     | -           | -        | -           | -        | -           | -        |
| <b>Adj. to Retained Earnings</b> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> |



# Accounts receivables and payables

Pay suppliers as late as possible, but make sure customers pay quickly.

|                           | Total | Current | 30 Days | 60 Days | 90 Days | Over 90 Days |
|---------------------------|-------|---------|---------|---------|---------|--------------|
| Accounts Receivable Aging |       |         |         |         |         |              |
|                           |       |         |         |         |         |              |

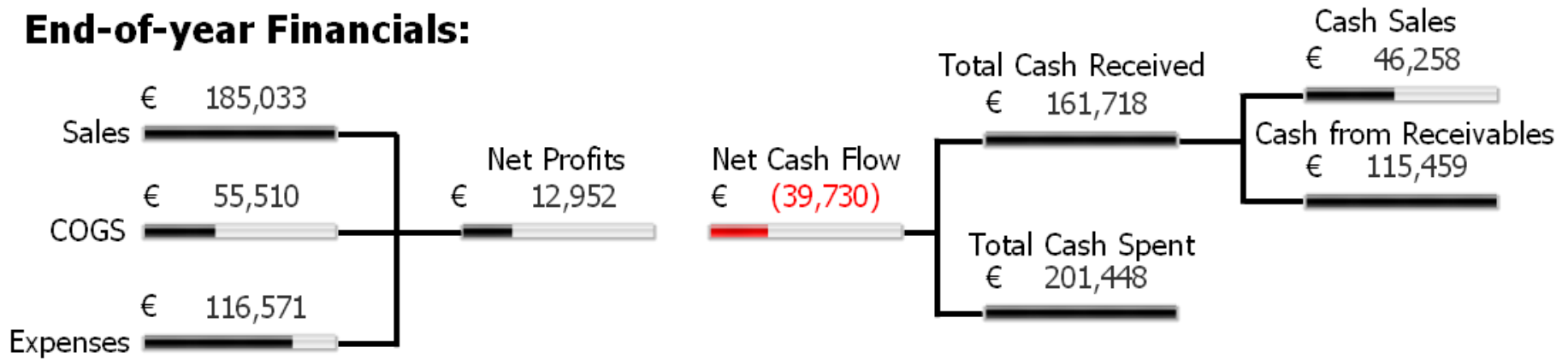
|                        | Total | Current | 30 Days | 60 Days | 90 Days | Over 90 Days |
|------------------------|-------|---------|---------|---------|---------|--------------|
| Accounts Payable Aging |       |         |         |         |         |              |
|                        |       |         |         |         |         |              |

# Projected Cash Flow

|   | Pre-Startup EST | Jan 11 | Feb 11 | Mar 11 | ... | Dec 11 | Total Item EST |
|---|-----------------|--------|--------|--------|-----|--------|----------------|
| <b>Cash on Hand</b> (beginning of month)      |                 | 0      | 0      | 0...   |     | 0      | 0              |
| <b>CASH RECEIPTS</b>                          |                 |        |        |        |     |        |                |
| Cash Sales                                    |                 |        |        |        |     |        |                |
| Collections fm CR accounts                    |                 |        |        |        |     |        |                |
| Loan/ other cash inj.                         |                 |        |        |        |     |        |                |
| <b>TOTAL CASH RECEIPTS</b>                    | 0               | 0      | 0      | 0...   |     | 0      | 0              |
| <b>Total Cash Available</b> (before cash out) | 0               | 0      | 0      | 0...   |     | 0      | 0              |
| <b>CASH PAID OUT</b>                          |                 |        |        |        |     |        |                |
| Purchases (merchandise)                       |                 |        |        |        |     |        |                |
| Purchases (specify)                           |                 |        |        |        |     |        |                |
| Gross wages (exact withdrawal)                |                 |        |        |        |     |        |                |
| Utilities                                     |                 |        |        |        |     |        |                |
| Insurance                                     |                 |        |        |        |     |        |                |
| Taxes (real estate, etc.)                     |                 |        |        |        |     |        |                |
| Interest                                      |                 |        |        |        |     |        |                |
| Miscellaneous                                 |                 |        |        |        |     |        |                |
| <b>SUBTOTAL</b>                               | 0               | 0      | 0      | 0...   |     | 0      | 0              |
| Loan principal payment                        |                 |        |        |        |     |        |                |
| Capital purchase (specify)                    |                 |        |        |        |     |        |                |
| Other startup costs                           |                 |        |        |        |     |        |                |
| Reserve and/or Escrow                         |                 |        |        |        |     |        |                |
| Owners' Withdrawal                            |                 |        |        |        |     |        |                |
| <b>TOTAL CASH PAID OUT</b>                    | 0               | 0      | 0      | 0...   |     | 0      | 0              |
| <b>Cash Position</b> (end of month)           | 0               | 0      | 0      | 0...   |     | 0      | 0              |

# Income vs. Cash-Flow

## End-of-year Financials:



|                 | Cash Balance   | Ending Payables Balance | Ending Receivables Balance | Inventory |
|-----------------|--|-------------------------|----------------------------|-----------|
| <b>Critical</b> | € <span style="background-color: red; color: black;">                    </span> | € 14,321                | € \$23,316                 | € 47,538  |

*Cash Flow Calculator*

# Break-Even Analysis

| Cost Description                      | Fixed Costs (\$) | Variable Costs (%) |
|---------------------------------------|------------------|--------------------|
| <b>Variable Costs</b>                 |                  |                    |
| Cost of Goods Sold                    |                  | 0,0%               |
| Inventory                             |                  | 0,0%               |
| Raw Materials                         |                  | 0,0%               |
| Direct Labor (Includes Payroll Taxes) |                  | 0,0%               |
| <b>Fixed Costs</b>                    |                  |                    |
| Salaries (includes payroll taxes)     | \$ -             |                    |
| Supplies                              | \$ -             |                    |
| Repairs & maintenance                 | \$ -             |                    |
| Advertising                           | \$ -             |                    |
| Car, delivery and travel              | \$ -             |                    |
| Accounting and legal                  | \$ -             |                    |
| Rent                                  | \$ -             |                    |
| Telephone                             | \$ -             |                    |
| Utilities                             | \$ -             |                    |
| Insurance                             | \$ -             |                    |
| Taxes (Real estate, etc.)             | \$ -             |                    |
| Interest                              | \$ -             |                    |
| Depreciation                          | \$ -             |                    |
| Other (specify)                       | \$ -             |                    |
| Other (specify)                       | \$ -             |                    |
| Miscellaneous expenses                | \$ -             |                    |
| Principal portion of debt payment     | \$ -             |                    |
| Owner's draw                          | \$ -             |                    |
| <b>Total Fixed Costs</b>              | <b>\$ -</b>      |                    |
| <b>Total Variable Costs</b>           |                  | <b>0%</b>          |
| <b>Breakeven Sales level =</b>        | <b>0</b>         |                    |

# Personal Financial Statement

| <u>Assets</u>                              | <u>Amount in Dollars</u> | <u>Liabilities</u>                    | <u>Amount in Dollars</u> |
|--|--------------------------|---------------------------------------|--------------------------|
| Cash - checking accounts                   | \$ -                     | Current Debt (Credit cards, Accounts) | \$ -                     |
| Cash - savings accounts                    | -                        | Notes payable (describe below)        | -                        |
| Certificates of deposit                    | -                        | Taxes payable                         | -                        |
| Securities - stocks / bonds / mutual funds | -                        | Real estate mortgages (describe)      | -                        |
| Notes & contracts receivable               | -                        | Other liabilities (specify)           | -                        |
| Life insurance (cash surrender value)      | -                        |                                       |                          |
| Personal property (autos, jewelry, etc.)   | -                        |                                       |                          |
| Retirement Funds (eg. IRAs, 401k)          | -                        |                                       |                          |
| Real estate (market value)                 | -                        |                                       |                          |
| Other assets (specify)                     | -                        |                                       |                          |
| <b>Total Assets</b>                        | <b>\$ -</b>              | <b>Total Liabilities</b>              | <b>\$ -</b>              |
|  |                          | <b>Net Worth</b>                      | <b>\$ -</b>              |

# Funding

- Review cash flow statements
- Find periods with negative cash balances
- Schedule cash infusion(s) to eliminate negative balances
- Add safety cushion (~10-25%)
- Develop funding strategy
  - E.g., staged funding “tranches”

## **Sources of Funds**

- Equity funding
- Debt
- Non-traditional

## Equity Funding

- Private Placement
  - Friends, family, and fools
  - Well to-do investors
- Business Angels
  - “Professional” investors working alone
- Venture Capitalists

Most “expensive” form of financing



## Debt

- Credit cards
- Bank loans
  - Typically want to make secured loans
  - Second mortgage on house or property
  - Can use equipment & facilities to secure loan
  - Revolving lines of credit
- Investment banks

Less “expensive” than equity

# Nontraditional Funding Sources

## Customers and Suppliers

- Development
- Prepay
- Co-invest

## Leasing

## Factor receivables

## Ratio Analysis

- Compare to your industry
  - Financial ratios
  - Profitability
  - Returns
- Understand differences
- Adjust financials as necessary

# Appendices

Include details and studies used in your business plan; for example:

- Brochures and advertising materials
- Industry studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan

# Variations

The plan should be adjusted to its purposes and addressees:

- Personal finance statements are mainly needed for bank loans, in other cases, they can be shortened significantly or omitted completely
- For venture capitalists, a section on possible exit strategies can be added

*If you cannot persuade people immediately, do not despair. It happened to others also:*

So we went to Atari and said, 'Hey, we've got this amazing thing, even built with some of your parts, and what do you think about funding us? Or we'll give it to you. We just want to do it. Pay our salary, we'll come work for you.' And they said, 'No.' So then we went to Hewlett-Packard, and they said, 'Hey, we don't need you. You haven't got through college yet.'

Apple Computer Inc. founder Steve Jobs on attempts to get Atari and H-P interested in his and Steve Wozniak's personal computer.