Handbook of Business Planning

Build Your Business…

Make a Difference!

BizPlanBuilder® v11

Handbook of Business Planning

To do great important tasks, two things are necessary...
A plan and not quite enough time!
~ Anonymous

JIAN Business Power Tools LLC
104 Estates Drive :: Chico, CA 95928
www.jian.com

ISBN: 1-56811-036-7

Trademarks

BizPlanBuilder and the JIAN logo are registered trademarks of JIAN Tools For Sales, Inc. All other brand and product names are trademarks or registered trademarks of their respective holders.

Important Notice to All Users of JIAN Products

JIAN Tools For Sales, Inc. (the Publisher) has prepared this handbook and software for use by JIAN employees and customers according to the Software License Agreement found on the envelope containing the floppy disks. BizPlanBuilder has been carefully checked for technical accuracy, and we feel that the information presented in the manual and contained in the floppy disks (collectively BizPlanBuilder) is accurate, reliable and useful. However, everything is subject to change and JIAN reserves the right to make changes and improvements in BizPlanBuilder without prior notice. Please contact JIAN regarding questions, omissions or any recommendations for changes and improvements. The materials contained in BizPlanBuilder are intended to provide guidelines and a foundation for further planning, editing, and customizing by users to fit their specific requirements.

Publisher's Disclaimer of Warranty:

JIAN MAKES NO WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO BIZPLANBUILDER OR ITS QUALITY, PERFORMANCE, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE. BIZPLANBUILDER IS LICENSED AND DELIVERED AS IS. USERS OF BIZPLANBUILDER MAINTAIN COMPLETE RESPONSIBILITY FOR THE ACCURACY AND APPROPRIATE APPLICATION OF BIZPLANBUILDER FOR THEIR INTENDED PURPOSE(S).

Limitation of Liability:

IN NO EVENT SHALL JIAN BE HELD RESPONSIBLE NOR LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OR COSTS WHATSOEVER RESULTING FROM OR RELATED TO THE USE OR MISUSE OF BIZPLANBUILDER EVEN IF JIAN HAS BEEN ADVISED, KNOWS OR SHOULD BE AWARE OF THE POSSIBILITY OF SUCH DAMAGES AND WHETHER OR NOT SUCH DAMAGES ARE FORESEEABLE. IN PARTICULAR, JIAN SHALL HAVE NO LIABILITY FOR ANY TEXT OR DATA STORED IN OR USED WITH BIZPLANBUILDER, INCLUDING THE COST OF RECOVERING OR REPRODUCING SUCH TEXT OR DATA. (SOME STATES DO NOT ALLOW THE EXCLUSION OR LIMITATION OF IMPLIED WARRANTIES, SO THE ABOVE LIMITATION MAY NOT APPLY TO YOU.) JIAN EMPHASIZES THE IMPORTANCE OF CONSULTING EXPERIENCED AND QUALIFIED BUSINESS PROFESSIONALS TO ASSURE THE BEST RESULTS FOR ORGANIZING AND BUILDING YOUR BUSINESS.

You’re About to *Blow the Socks Off* Your Bankers, Investors, and Everyone Else!

Welcome to BizPlanBuilder,

We first developed BizPlanBuilder in 1988—yes, that was a long, long ago in the digital universe… since, then we’ve used it ourselves to borrow money from banks, get an SBA loan, and raise capital from professional investors. All along we have added refinements and new ideas so we could build a successful business as well as pass them along to you.

Simplifying business

Our purpose at JIAN is to simplify business with tools to help you run with your ideas and build better companies—faster, easier and more economically. We started out with many combined skills that evolved into a business software developer. Over the past 20 years, we’ve learned a lot through our own hard-won experience what it takes to organize, build and promote a successful company. BizPlanBuilder is more than an organization tool—it’s a collaboration workspace, a business education, a financial workhorse and a lot more. The final result is a printed “brochure” that you can use to promote your business as a money-making machine worthy as a viable investment.

We’ve deliberately made BizPlanBuilder *overkill* for most businesses. That’s good because you have plenty to work with—you’ll think through many different possibilities for building your business. There’s nothing “cutesy” or “full-of-fluff,” and no blank pages leaving you to agonize over what to say. There is a series of practical business texts and financial worksheets to assist you in quickly producing a plan of action—from a brief 10-page proposal to a comprehensive 50-page operating plan.

Optimized to make it easy and *fast*

Since BizPlanBuilder was first introduced, many competitors have tried to imitate it. The only angle they’ve claimed is their “Windows interface” or quantity of sample plans. No one can compete with the quality of our content. Now, with our new high-performance Multi-user Interactive Document Assembly System (MIDAS), you have the latest content, and you have the finest user interface. Plus, you can now collaborate over the Internet! Watch for our entire product suite to be integrated with this technology.

Be sure to read the first few chapters of this handbook before starting your plan. They’re a brief reality check on writing business plans—years of wisdom crammed into a few pages. Remember, the narrative is what builds your case for your financial assumptions and hence your financial projections. You’ll become a smarter, more effective business person as you successfully complete this important project.

Thank you very much for doing business with us.

Burke Franklin, *Founder & CEO*

P.S. If you have friends and associates who would also benefit by having and using BizPlanBuilder, please suggest they purchase a copy. They’ll appreciate your support and we will even pay you (when you become a JIAN Affiliate)! For more JIAN wisdom, please check out my book, *Business Black Belt*.

About BizPlanBuilder®

Entrepreneur; n. A person who organizes, operates, and assumes the risk for a business venture. A risk-taker who has the skills and initiative to establish a business. [French, from Old French, from entreprendre, to undertake.]

This business planning system is designed to get you and your management team past writer's block and keep this important project moving. To make it easy for you to incorporate this product into your business, we've designed it with a number of built-in features to assist you. By using BizPlanBuilder you will complete a more thorough and effective business plan in a lot less time. Please keep in mind that BizPlanBuilder is deliberately designed to cover a variety of businesses, giving you the benefit of "cross-pollination" from many industries. As you progress you will naturally edit, update and refine the text. If a particular passage or section doesn't make sense or doesn't seem to apply to your business, simply deselect or delete it.

Investors Will *Grill* You on Everything

Remember, some day you will probably need to explain your business plan to an investor, banker or customer, and you must be comfortable discussing every aspect of it. By creating your plan with BizPlanBuilder, you'll be able to generate a unique plan and be comfortable discussing anything about your business.

The Speed Planning System

We've invested more than $1 million in developing BizPlanBuilder, and we've incorporated the requests and suggestions of thousands of customers. BizPlanBuilder includes a powerful high-performance interactive document assembly engine that takes you through the entire plan, prompting you along the way for all the important variables. Choose the purpose and level of detail for your plan, and BizPlanBuilder automatically assembles and organizes the components needed. Our unique PowerPrompt® is filled with tips and examples that guide you to completion. It even steers you through the financials to fine-tune your presentation; and it gives you the "big picture" as you create your plan.

JIAN®

What's a JIAN?

You might think of it this way: while a Black Belt is a master of the martial arts, a "Jian" (pronounced: jee'on) is a master of every art—the ultimate human with extraordinary acumen, power and resourcefulness. The name was first introduced to us in an excellent novel by Eric Lustbader... it seemed appropriate to nurture this concept in Western civilization. It's also a worthy goal for ourselves and our customers.

JIAN, the company, is a contemporary American software publisher providing project-specific, expert knowledge in time-saving flexible packages that work easily with most popular word processing and spreadsheet programs. (We've done the long hours of research and the leg work for you. You simply select the content that applies to your company and edit.)

This is All We Do

For more than 20 years, we've focused only on developing time-saving software tools for important business projects. We've engineered valuable inside information and the best materials from a variety of sources into our software for building a business quickly and efficiently.

We address projects that are not usually within the scope of most business people's expertise-these projects can be distracting and time-consuming. We provide a complete solution to management problems. Each JIAN package is an expert information kit that includes all of the needed forms and documents on floppy disks or CD, along with simple step-by-step instructions.

All JIAN packages are developed and refined by experts with successful, real-world business experience. We've gathered input from these specialists as well as commissioned accountants, consultants, lawyers and other experts for further guidance. Most of the people at JIAN as well as the consultants and independent contractors who work for JIAN are, or have been, owners of small companies. And, we've incorporated feedback from customers into our products. Together, we engineered these materials, insights and experience into tools you can use.

More than Electronic Versions of the Same Old Thing

In the process of converting these materials into software, we added state-of-the-art methods to harness the power of the computer. As entrepreneurs ourselves, we appreciate the blend of art and science needed to give you just the right amount of information in just the right for-mat to get the job done—without burying you in details.

We're using our products to build our own company and we're succeeding because of it. It's gratifying to hear that our customers are succeeding too. More than 2,000,000 business owners, managers and consultants have used and trust JIAN products. Current titles include: AgreementBuilder, EmployeeManualMaker, LivingTrustBuilder, MarketingBuilder, PublicityBuilder, *LoanBuilder* and SafetyPlanBuilder. For more information, check out our Website at www.jianusa.com.

Please Tell Us About Your Results!

And tell us what you're doing-maybe we can help! It's important to us that you are successful with your business. We're always interested in what you have to say about our products-good or bad. While we enjoy the good, it's more important that we're made aware of any problems you may have encountered. If you have a suggestion, idea, complaint, comment, or success story—anything we can do to improve our products, services, or better run our company, we'd like your input.

Please feel free to call us at 530-267-6293.

Or, visit our website and give us your suggestion or share your success story.

Thank you very much!

Table of Contents

A friend is one to whom one may pour out all the contents of one's heart, chaff and grain together, knowing that the gentlest of hands will take and sift it, keep what is worth keeping and, with the breath of kindness, blow the rest away.

~ Arabian Proverb

Contents of BizPlanBuilder

- Core Practices
- Core Values
- Executive Responsibilities
- Executive Resume
- Partnership Contract
- Investor Tracking
- Manager’s Notebook TOC
- Personal Financial Stmnt
- Press Release
- Stock Options Tracking

Presenting Your Plan

- Plan Distribution
- Cover Letter Banker
- Cover Letter Leasing Agent
- Cover Letter Loan Summary
- Cover Letter VC
- Deal Summary
- Elevator Pitch
- Email Introduction
- Non-Disclosure Banker
- Non-Disclosure Investor
- Non-Disclosure Lease Agent
- PowerPoint® Show

Supporting Documents

- Application For Credit
- Startup Checklist
- Commercial Lease
- Due Diligence Checklist
- Following up Referrals
- Free Publicity
- Independent Contractor
- Investor Game Plan
- Invite: Board of Advisors
- Invite: Board of Directors
- Lehman Formula Calculator
- LLC Op Agreement
- Management Notebook
- Offering Disclaimer
- Sale of Business
- Prod. Feedback Survey
- Service Feedback Survey
- Space Requirements
- Trademark Overview
- Trademark Instructions

Acknowledgments

All that is necessary for evil to triumph is for good men to do nothing.

~ Edmund Burke

We are deeply indebted to our many customers, business associates, friends and colleagues for their contributions to BizPlanBuilder Interactive.

Thanks to Burke Franklin, Neal Novotny, and Jeff Stockdale for their ideas and expertise.

Special thanks to Fruede Bartlett, Pete Harbeson, Carl Lipton, Denise Qualls, Kristin Weiderholt, Karin Weir, and to all the folks at JIAN who contributed to the success of this product.

- Vijay Shah, Uddesh Kondekkar, Akanxa Desai and everyone else of **V2 Solutions** in Mumbai, India for their software engineering expertise. www.v2solutions.com
- Steve Mezak of **Accelerance** in Palo Alto, CA www.Accelerance.com – "Risk Free Outsourcing" for software and other engineering projects
- Daniel Duerr of **Emerald City Entertainment Group**, www.emeraldcityeg.com
- **IBI**, www.ibiglobal.com, for their 8-day entrepreneurial "Free Enterprise Forum"
- Robert Johnson, **BizGrowth Masters**, www.bizgrowthmasters.com
- Thanks, too, to the thousands of customers who have given us valuable feedback over the years. Your input and responses made this product possible.
- We also would like to credit the many books, magazines, and other publications that were used to compile the information found in BizPlanBuilder, including:
- Money Sources for Small Businesses
- *High-Tech Ventures*, The Guide for Entrepreneurial Success
- SBA Hotline Answer Book Leadership
- *One-Minute Manager*: Increasing Effectiveness through Situational Leadership
- The Complete Guide to Getting a Grant and Free Money for Small Businesses and Entrepreneurs
- Entrepreneuring, The Ten Commandments for Building a Growth Company
- The Portable MBA in Entrepreneurship
- Handbook for Raising Capital.
- Financing Alternatives for Emerging and Growing Businesses
- The Virtual Corporation
- Take Your Company Public. The Entrepreneur's Guide to Alternative Capital Sources
- Nobody Gets Rich Working for Somebody Else, An Entrepreneurs Guide
- How to Prepare a Bank Financing Proposal For Your
- Business (The Way a Banker Would)

- Finding Private Venture Capital for Your Firm: A Complete Guide
- How to Master the Art of Selling – Tom Hopkins
- Talking Straight – Lee Iacocca
- The Coopers & Lybrand Guide to Growing Your Business
- How to Start, Run, and Stay in Business
- The Leadership Challenge! How to Get Extraordinary Things Done in Organizations
- Strategic Planning Workbook
- The Greatest Management Principle in the World
- All-In-One Business Planning Guide
- Business Plans to Manage Day-to-Day Operations
- How to Start, Finance and Manage Your Own Small Business
- What They Don't Teach You at Harvard Business School
- The New Venture Handbook
- Ogilvy on Advertising
- The Field Guide to Starting a Business
- Marketing Warfare and Positioning-The Battle for Your Mind
- The Investor's Dictionary
- The Entrepreneur's Guide to Preparing a Winning Business Plan and Raising Capital
- One Step Ahead, the Legal Aspects of Business Growth

Magazines

- Advertising Age
- Advertising and Sales Promotion
- Business Age
- Business Horizons
- Business Start-Ups
- Business Week
- CFO
- Entrepreneur
- Fortune
- Inc.
- Journal of Advertising Research
- Journal of Business
- Journal of Marketing Research
- Harvard Business Review
- Industrial Marketing
- Red Herring
- Success
- Upside
- Wall Street journal.

Your Step x Step to Financing System

"The world makes way for the [person] who knows where s/he is going."
~ Ralph Waldo Emerson

There is a lot included with BizPlanBuilder. We help you line everything up so you can proceed with your business, building value at every step, inspiring investors to invest sooner than later, and being mentally prepared with the materials you need to get the funding that you want. Remember, the world is set-up to help you – it's all around – this can be easy. Maybe even fun!

Business Organization & Financing Checklist:

1) Install the software (it's all automatic, but we must start here!)
2) Put your shared files on a drive/server where you can access them from every computer you want.
3) Add other users (as desired) and provide access to your shared files.
4) Choose your foundation business plan.
5) Check [the boxes for] all of the sections you want to start with.
6) Choose and add your financial model and fill in your numbers.
7) Open each Word document and edit to suit your business.
8) Review this handbook.
9) Watch the video: "The Thinking Behind Your Business Plan"
10) Build your team: Management, Consultants, Contractors, Vendors, Partners, Customers
11) Solicit input for your plan and business.
12) Open the Due-Diligence Checklist (purchase a 3-ring binder and tabs as directed)
13) Complete the Articles of Incorporation and By-Laws or LLC Operating Agreement
14) File all local, state and federal forms.
15) Fictitious Business name statement (county clerk's office)
16) State dept of Corporations
17) File for Federal Employer ID Number (IRS: EIN)
18) Open a bank account!
19) Apply to accept Visa, MasterCard, American Express, Discover and PayPal
20) Complete and send the Invite Letters to Board and Advisor members
21) Complete your PowerPoint slideshow presentation.
22) Visit www.jian.com and review the Knowledge Base

23) Review the Elevator Pitch and prepare your own.
24) Review the Financing Plan and Investor Tracking.
25) Review other available documents and use as needed.
26) Prepare a Press Release (see Press Release)
27) Email friends and associates (see Email Friends)
28) Research potential investors, angel organizations… contact them… (see also JIAN)
29) Contact JIAN and we will help put your plan in front of the right people.

For Investors & Lenders

30) Look for and talk to other entrepreneurs – ask for personal introductions to investors.
31) Research investors or lenders – background, objectives, team, etc.
32) Give Elevator Pitch (to get a meeting).
33) Prepare Cover Letter for plan.
34) Fine-tune PowerPoint presentation
35) Remember, they are in business to invest in deals like yours – they need you as much as you need them!
36) Meeting: Provide 2-page Deal Summary sheet or Executive Summary
37) Give PowerPoint presentation
38) Leave behind: Business Plan, brochures, etc.
39) Gather copies of all documents into Due-Diligence binder

Getting-Started Guide: Windows

You couldn't get a conversation started...
everybody was talking to each other.
~ Yogi Berra

System Requirements

Windows

BizPlanBuilder is a Windows® Vista / XP compatible software application

You will need:

- PC-Compatible Computer
- Windows Vista / XP Operating System (With all the latest Service Packs from Microsoft installed)
- 256MB RAM
- 60MB Free hard disk space (About 200MB if you download the video)
- CD-ROM Drive
- MS Mouse or compatible pointing device

BizPlanBuilder requires / works with:

- Microsoft® Word 2007 / XP / 2003 / 2000
- Microsoft Excel 2007 / XP / 2003 / 2000
- Or… Microsoft Office 2007 / XP / 2003 / 2000

Headings in bold…
in these instructions (like the heading above), match screen headings in BizPlanBuilder.

Downloading Instructions

This presumes that you only have this manual so far and not the software!

- Click the link in the email sent to you.
  (If the link is inactive, copy the link into your browser address window.)
- On the next page, click on just the 'filename' link…
- In the top "Save In:" window, select your desktop.
- When prompted to Open or Save, click Save.
- Please be patient for a few moments while the system downloads the software (it's about 13MB)
- Then double-click to install.
- The program will automatically replace any previous application, but leave your working files in place.

Online QuickTour / Tutorial

Please click here to enjoy our self-paced online tour that will quickly show you how to use BizPlanBuilder most effectively. (It takes about 7-minutes.)

Installing From a CD

Before You Begin

- Install the latest Windows and Office updates.
- Click your START button (on your desktop)
- Click “Windows Updates” (or visit www.microsoft.com – look for 'downloads') Follow the Microsoft instructions.
- Turn off all other programs before installing BizPlanBuilder.
- Place the BizPlanBuilder CD-ROM in your CD-ROM drive.

Installation Screens

Follow the on-screen installation instructions.

You can register electronically from within the program, on our website, or you can save the registration as a **`.txt`** file, then print and fax it to JIAN at: 530-267-6293.

Read the **License Agreement**. You must agree to the terms of the license agreement to complete the installation.

- Click “I Agree;” then click “Next.”

Choose Destination Location

We strongly recommend that you allow BizPlanBuilder to place your program files in the preset default locations. If you should need technical support, our support staff will be able to help you locate your files more readily. If you choose a different destination, please note it in your in the “NOTES” section of these instructions on the last page of this booklet.

Access your plan from various locations – Share Your Plan or Keep Local?

The default setting is for sharing your plan. No one can access your projects unless you give them a username and a password. The BizPlanBuilder license enables you to install the application on three machines for yourself – we presume: work, laptop and home.

We recommend keeping the shared mode to enable you to store your documents in a separate folder on a server (or a web-based server) – anywhere you want to put your files to enable yourself to work on them from different locations. If you want to enable collaborators, they will need their own copies of BizPlanBuilder (we offer package deals on www.jian.com). You will find that it is very easy to add more users and tightly control their access. We tell you all of this here to enable you to better choose how to configure the system.

- Click “Next”

This will take you to the Start Installation screen. To install BizPlanBuilder:

- Click “Next.”

Installation time will vary with the speed of your processor, and your system configuration. An average installation takes about 6 minutes.

The next screen will tell you that your installation has been successful.

How To… Use the Software

It's easy to sit up and take notice.
What is difficult is getting up and taking action.
~ Al Batt, Humorist

We use the same MIDAS (Multi-user Interactive Document Assembly System) to manage all of our products. This way, all of our products work the same way, plus you can share sections between them.

Log In

The first time you log in, make up a 6+ character alphanumeric username and a 6+ character alphanumeric Password (use just letters and numbers – no other punctuation characters). The system will open the "Add User" for you to verify your password with a duplicate entry.

(Although it usually goes without saying… make up something that will be easy for you to remember!)

When you are done entering your log-in information, you will return to this screen where you must re-enter your Log-in Name and Password to get started for the first time.

☑ Remember my Password – To support your sanity, from here on, the system will remember your Log-in Name and Password when you access it from the same PC.

If you want to **add more users**, you can click the 'Add User' button and insert them here. Learn more about adding users under "User Permissions" below.

File Location

The system automatically creates a new folder within your "Shared Documents" folder called "JIAN Documents." The default path puts the plans you create into this folder. (Please do not delete this folder!)

This folder also includes some Microsoft Access database files. If/when you want to move your project/plan to a thumb drive, server, or web-based folder, you must drag/copy the entire "JIAN Documents" folder to the new location. If you have moved the "JIAN Documents" folder, then click the Change button to browse to the new folder location – this points BizPlanBuilder to the proper data files.

☑ Make Default Path to make your selected folder the new default folder for your plans / projects.

When you login from other PCs, be sure that the Shared Path from each one points to exactly the "JIAN Documents" folder in the same network/server location.

Your Plans are Secure

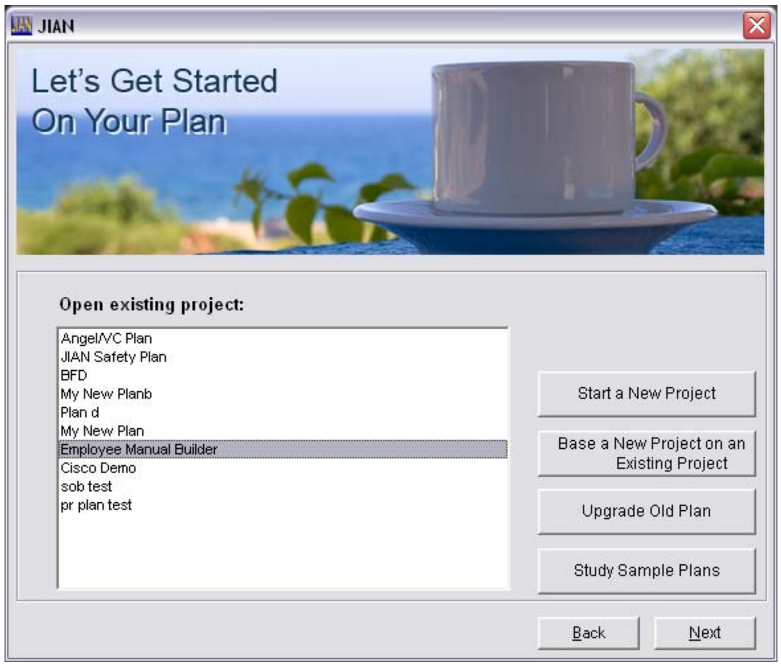
No one can access your projects unless you give them a Login Name and a Password. You can store your documents in a separate folder on a server (or a web-based server) – anywhere you want to put your files to enable yourself to work on them from different locations. If you want to enable collaborators, they will need their own copies of BizPlanBuilder (we offer package deals on www.jian.com). You will find that it is very easy to add more users and securely control their access.

Document Management System

As you continue building your business and add more projects, like your marketing plan, PR campaign, employee policy manual, etc. they will appear in this window.

To Start a New Plan

If this is your first time using BizPlanBuilder, click the "Start a New Project" button on the right. Below, under "Choosing the right JIAN product and its components," we describe in detail, each of the business plan prototypes which will appear on the next screen.



To Open a Current Plan

To get back to a plan you are currently working on, just click on the title of your project in the **Open existing project:** window.

The projects/plans listed will be for all of your current projects in the folder selected under the username and password when you logged in.

Click the plan/project you want, then click the Next button.

Study Some Sample Plans

The link at the very bottom left will take you to a few sample plans.

One very important thing we have discovered from many customers is that our process of researching business planning, investor and lender response, as well as the entrepreneurs who came before you and successfully used BizPlanBuilder is that it is much easier to edit the text and multiple-choice variables than to try to undo, then redo an industry-specific plan.

The reason is that most so-called industry specific plans start with a generic template and change enough to lead you to believe that your industry is properly addressed. Customers who have converted to BizPlanBuilder tell us otherwise. Investors and lenders are less interested in your industry specifically than they are in your business as a money-making machine – our cross-pollination from many industries gives you a ton of ideas to incorporate into your unique plan.

Take a look at a few of our complete business plans to see for yourself. You can edit them and use them as they are, but I would use the automated BizPlanBuilder system for more control and to make it easier.

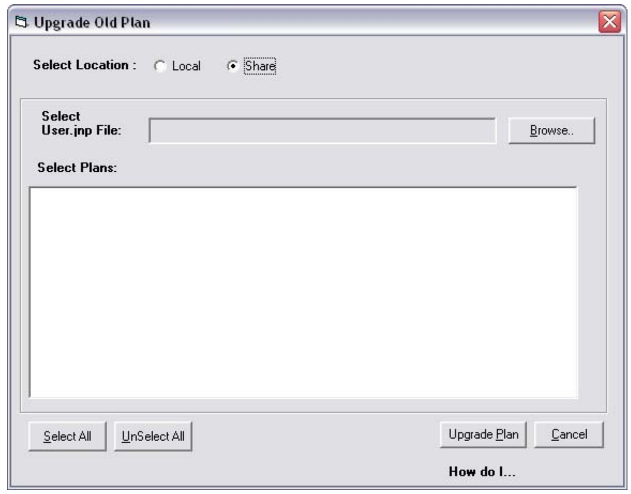
To Create a New Plan Using a Previous Plan as a Template

If you have developed a business plan and want to use it as a template for a new plan, first click on the plan title you want to use, then click the “Base a New Project on an Existing Project” button on the right.

The system makes a copy of the previous plan and will enable you to save your new plan under a new name (it will not overwrite the previous plan).

To Upgrade Your Plan(s) – Made From BizPlanBuilder v8/9:

(Plans created from earlier versions of BizPlanBuilder or other business plan software can easily be pasted into a new plan, section by section.)



Version 11 will automatically update version 10 / 2008; however no text changes are made to any of your working documents or plans. If you write a new plan, you will benefit since the Word, Excel and PowerPoint files have all been updated.

Pull down under File to Upgrade Old Plan.

You will get this screen:

First, be sure that Share is selected at the top of this screen.

- click Browse and go to your C: drive,
- look in Program Files,
- look in the JIAN folder,
- you are looking for User.jnp files in the User folder(s)

Check the appropriate plan(s) that you want to upgrade and click Upgrade Plan

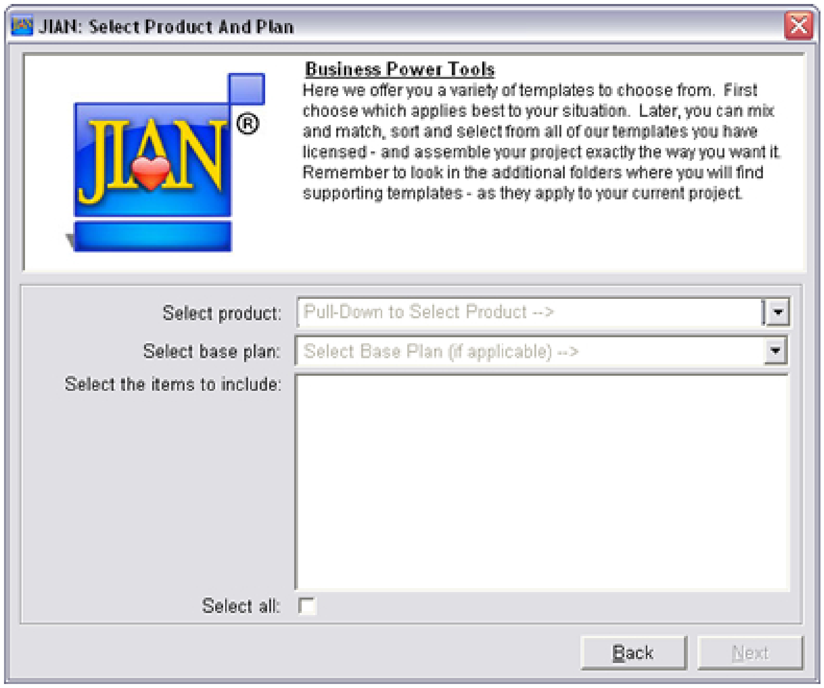
Now, when you pull-down under File to Other Projects…, your previously created plan(s) will be available.

Choosing the right JIAN product and its components

We use the same MIDAS system to manage all of our Business Power Tools products.

Select BizPlanBuilder:

First, select BizPlanBuilder from the top “Select product:” pull-down menu.

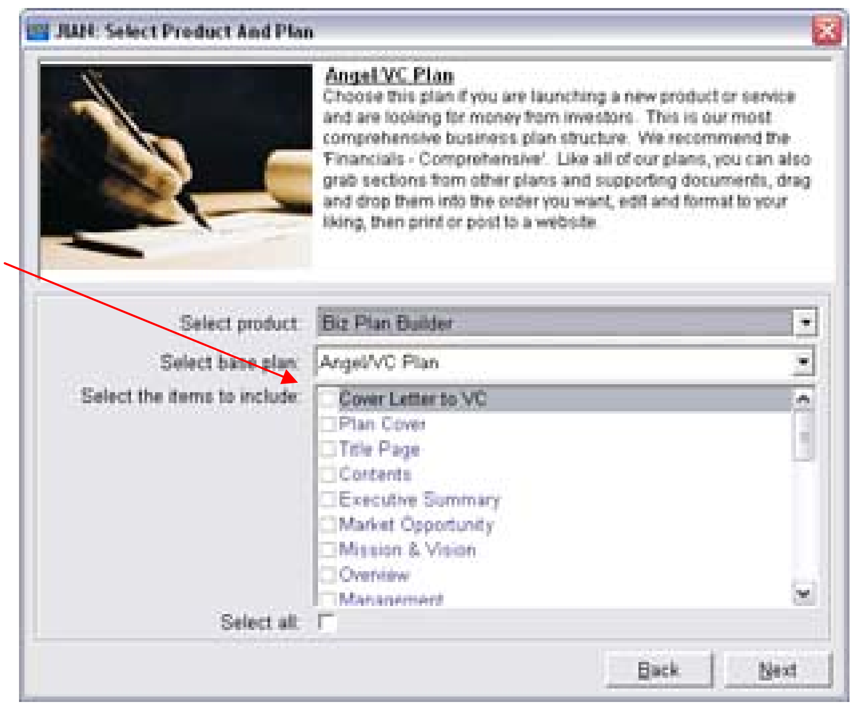


Select Your Base Plan

BizPlanBuilder offers several plans to start with based upon the type of business you have as well as the point of view of potential investors and/or lenders.

In the second pull-down window you can choose which business plan system you want to start with.

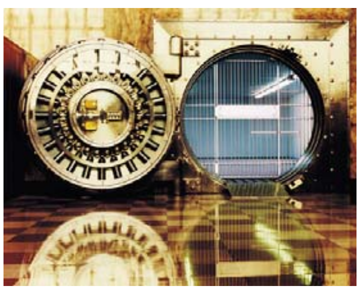
Below are brief descriptions of each plan type to help you make your selection.



Angel/VC Plan

The 'Angel/VC' plan is the most recent revision of BizPlanBuilder 'Classic' and is the best choice for presenting to Venture Capital and Angel investors. Choose this plan type if you are launching a new product or service and are looking for money from investors. (We will give you an earful about these people in the "Targeting Your Audience" section.) This is our most comprehensive business plan structure. We recommend the "Financials – Comprehensive" especially if your idea is unusual and requires a full, methodical build-up to be convincing for financing. Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website. The final length should be edited to no longer than about 30 pages, but you can attach important additional diagrams, pictures and other documents as addendums. (Many investors claim that they won't read a long plan, but we believe that you'll find that they ask an awful lot of questions before writing you a check. – better to be ahead of them with answers already thought through – much of this process is to be sure that *you* are ready with answers.

Service / Bank Plan

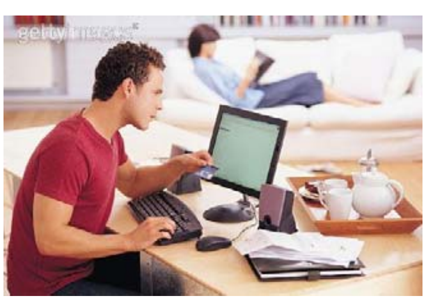


Choose this plan type if you are starting or building a small/personal service business and/or want a bank loan. The Service/Bank plan is ideal for seeking a bank loan. You can always add elements from the other plan models as well as supporting documents in the folders below. We recommend the 'Financial Model – Intermediate.' Remember to click on Resources – Finance for more insights. Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

Retail Plan

If you are starting or developing a retail store, we recommend the Retail Plan. Choose this plan type if you are opening any kind of retail store. We recommend the 'Financials – Comprehensive.' Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

Internet Plan



Use the Internet Plan if your business is predominantly on the web. Choose this plan type if you are starting any kind of internet-based business. If the internet is part of a larger business better suited to one of our other plan types, you can still cut and paste sections from this plan type into your main business plan later. We recommend the 'Financials – Comprehensive.' Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

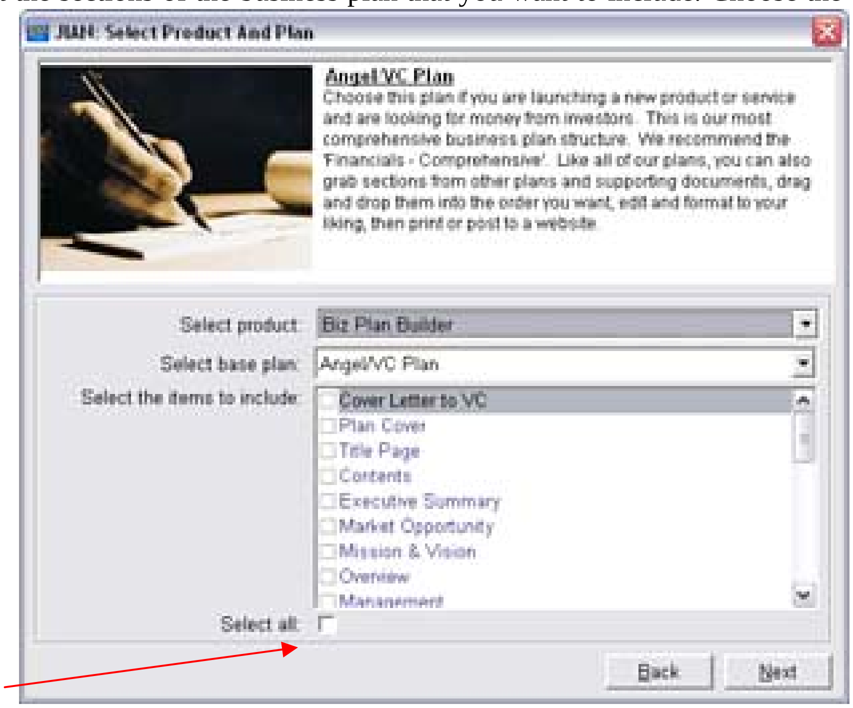
Concept Plan

The Concept Plan is good for a quick overview of your business idea–it is the same as the Executive Summary in the Angel Plan, but can be added later as the intro to any of the plans types. Choose this plan type if you want a very simplified outline to create just a starting point to talk about. You can save text from here and paste it into your real plan when you are ready. Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

Click Next.

Choose the Sections to Include

In the third window you can select the sections of the business plan that you want to include. Choose the sections you want to include initially, or choose all of them. Later you can always add more sections, start from a blank section, add documents from your own files, as well as choose from the many supplementary documents we have included.



As you can see from the sections shown, we have designed BizPlanBuilder to enable you to jump right to a section you may feel most compelled to work on at any time.

Likewise, your audience will be able to jump right to the parts they most want to see.

To include them all, simply check the box.

(Rather than forcing you to write a business plan in a lock-step sequence, we have turned the process inside-out and constructed it to enable you to work on your plan any way you like. The modularity will also appeal to your audience who likely jump around looking for what they want to read.)

Click Next.

User Information Form

What you enter here will be used throughout your plan documents to replace recurring variables.

Be sure that [Company Legal Name] (eg. JIAN Tools for Sales, Inc.) and [Company] (an acronym or shorter name like: JIAN) are correct for your business.

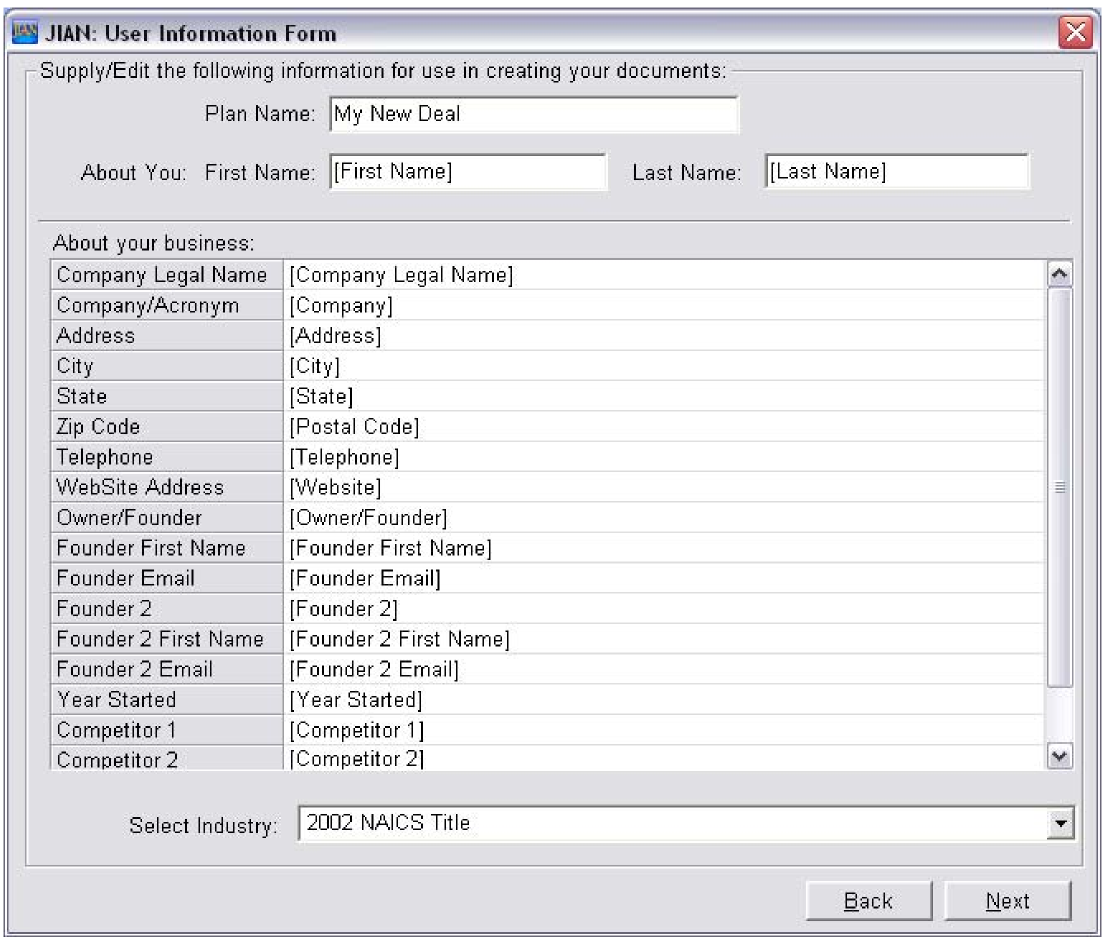
If you do not change/fill in the variable(s), then your plan will include the variable(s) as shown below.

Variables are tied to specific plans

Each set of variables is connected to a specific business plan. In the event that you are writing multiple plans, you will likely want each plan to use a different set of variables. If you have already started a plan, then start another/new plan, the variables will initially show what you had in the previous plan – when you change them, they will remain specific to the new plan.

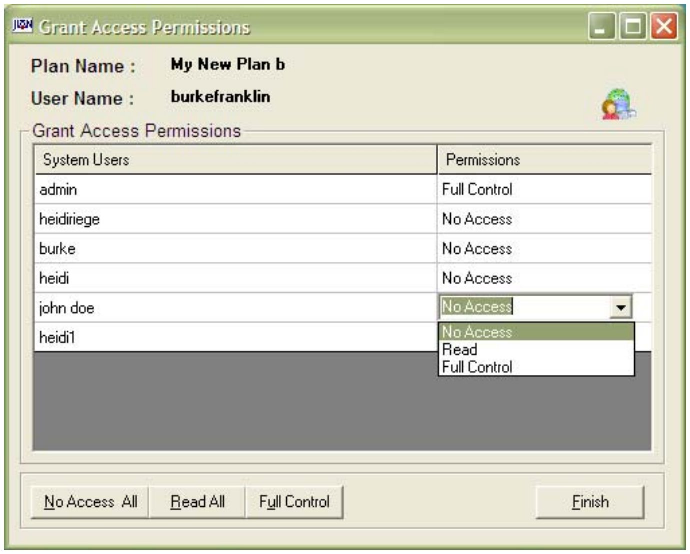
Change Variables

If you pull-down under Options to Edit Variables while you are editing your plan, you can change these variables on-the-fly. (You will need to close and reopen the current section for the variable change to take effect.)



User Permissions

When you are starting your first plan, this screen will appear after the User Information Form. **You are "Admin"** – Click on the down arrow and give yourself, "Full Control" (Full control… yes!) This means that you (and anyone else given full control) can access, read and change the documents.

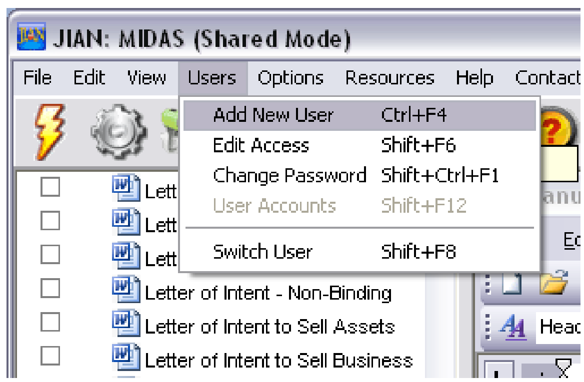


Permissions for Each Plan

You can add an unlimited number of users to your BizPlanBuilder system. For each plan you are working on, you must grant access to each user respectively. This way you can add all of the people you want to work with to the system (see Add Users below), but selectively grant access levels per each plan you are working on…

- *No Access* means that the user cannot even see a listing of a plan.
- *Read* means they can look but not touch (or tweak).

Add Users



You may add as many additional users as you like. (They will each require their own licensed copy of BizPlanBuilder.) When you add a user, s/he can be given access to all plans, local or shared. You'll need to enter them once while you are logged in the local mode + once while you are logged in the shared mode.

When a user is added in the local mode, they'll get access to local files only (no access to the shared area). Log-in to BizPlanBuilder in 'Local' mode, click on "New User" on the log-in screen (or pull-down under Users to Add New User) and add their name and password.

For adding a user in the shared mode you must log yourself in Shared mode, then click on "New User" on the log-in screen (or pull-down under Users to Add New User) and add their name and password.

To share plans

Others must log-in to their copies of BizPlanBuilder using exactly the same login name and password as you have given them.

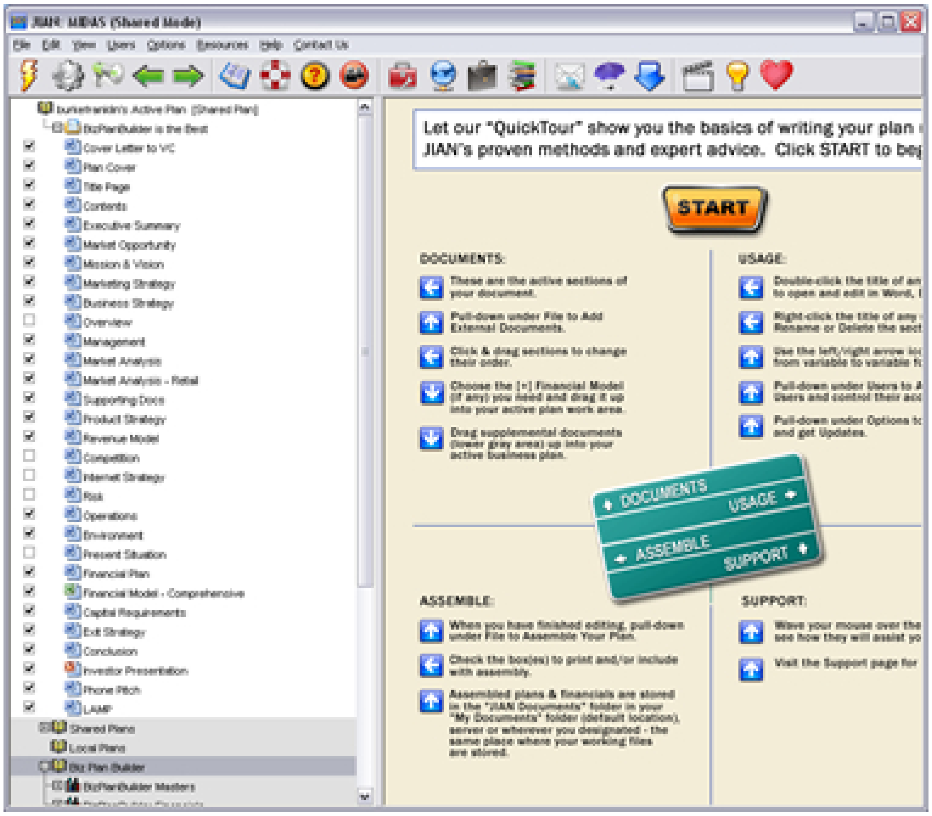
When you are finished adding users, open the plan you wish to share. Then, pull-down under 'Users' to 'Edit Permissions.' There, you can control other users' access privileges for this project.

Access to each plan is controlled separately.

Even though many users may be added to your system, you must first login using the login name and password used to create a specific plan/project. Open that specific Plan/Project. Then, pull-down under Users to Edit Permissions – these permissions will apply only to that specific plan/project.

Starting a New Plan

Once you've selected your plan and confirmed your recurring variables, your plan window will look something like this (below). Be sure to add your financial model or statements.



Screen Sections

The Index or Item List on the left side of your screen includes:

- White *Current Plan* Area—the elements you've already selected
- Dark Gray *Masters* Area—additional plan elements, tools and files.

As you can see from the sections shown, we have designed BizPlanBuilder to enable you to jump right to a section you may feel most compelled to work on. Likewise, your audience can jump right to the parts they most want to see. (Rather than forcing you to write a business plan in a lock-step sequence, we have turned the process inside out and constructed it to enable you to work on your plan any way you like. The modularity will also appeal to your audience who will also likely jump around looking for what they want to read.)

Renaming a Section

Just right click any of the section titles and you will be given options to rename, delete, set as active/inactive (same as checkbox), and add another element.

Increasing Your Work Area

BizPlanBuilder uses the commands and functions you already know from using Word and Excel. You can enlarge the window for working on your plan several ways:

- **Maximize** — use the Maximize button in the far upper right corner of the BizPlanBuilder program window (not the Word or Excel window, please.)
- **Hide Item List** — Pull down under View to "Hide Item List." The item list disappears, and the working area fills the space.
- **Partially Hide Item List** — Click on the vertical separator bar between the Item List and the working area to the right. A double arrow will appear. Drag it into place.

Print a Preview

If you want to print a hard copy to review, there are several options.

1) To print just the active section you are working on, in the Word window, either click the printer icon or pull-down under File to print and you will print just the section you have open.

2) To print the entire plan, first notice which sections have a ☑. Make sure that all sections that you want to print have a ☑ next to them, then pull-down under File at the upper left of your screen (just under the JIAN logo) and click on Assemble Plan Preview. In the Word window, either click the printer icon or pull-down under File to print and you will print the entire plan.

Note: While you can turn the expert comments off/on with the above 'bullhorn' button, they will not print unless you click '☑ Hidden text" (pull-down under Tools to Options, then click the Print tab).

Do not edit the preview – A Plan Preview actually exports all of the business plan sections, assembles them and creates a new Word document that is now outside of the BizPlanBuilder application. Keep your hard copy, but close this preview and proceed to edit by double-clicking section by section. You can print again and again, and again finally when you want to save a final copy (which will be editable using Word, but outside of BizPlanBuilder).

Writing Your Plan

Using BizPlanBuilder to write your plan is very easy – as you will see, much has already been written for you. In fact, we have written too much! In doing so; however, we have provided a number of ideas to help you build your business with or without outside financing, as well as create a first-rate brochure to attract any kind of financing. As you work through BizPlanBuilder, your challenge will be to complete the sections applicable to your business, consider new ideas and how they might apply and add value to your business, and delete sections that do not apply.

Also, to make this process easy, we use native Microsoft Word (In fact it is your own copy!)—hopefully, you are familiar with this application. From here, there are three things to do next:

- Open
- Edit
- Assemble & Print

1. Open

Just double-click any of the titles of documents on the left and they will open in MS Word on the right.

For the narrative portion of your plan, this opens Word in the right-side window, with the document in Word. As the document opens, the screen may flash very briefly. This is the system replacing variables with the information you entered previously for your business.

We use Microsoft Word's built-in "Styles & Formatting"

Every line of text is governed by a Style (pull-down under Format to Styles and Formatting…). The nice thing about Styles is that you can change the format of the text in one place and it changes to match everywhere else—wherever that style is used. In the word documents you will see several kinds of text:

Quotes appear in blue,
and are printing characters intended for you to insert a quote of your own
– usually some kind of relevant statistic to build your case.

Headings & Body text appear as black text.

The headings are different styles, depending on the section's level within the plan. Until you have saved your final version, the styles applied to the different types of text are protected, as they are necessary to assemble and paginate your final plan. You can make formatting and style changes in your final "assembled and saved" document.

Paragraph text is named 'Body.' We recommend using at least 11 point type (most investors are almost 50 and need reading glasses!) You can change text within a paragraph like underline, **bold** or *italics* without affecting the entire Body style. Highlight the entire paragraph, change its formatting, and Body text throughout changes to match your formatting changes.

CAUTION: The Table of Contents uses Heading1 and Heading2—the big section heading and the blue subheadings (like "Writing Your Plan" and "1. Open" above respectively). While you may change the formatting of these heading styles, be careful when you add another heading or change one of these, you may inadvertently alter the way your Table of Contents is compiled.

2. Editing the Narrative

To customize your plan for your business, you'll need to open each plan element and edit it to suit your particular business situation.

Variables that you will need to customize for your business are inside [square brackets]. You can read and edit as you go, or you can move directly from variable to variable by clicking the forward and back buttons in the toolbar (inside red box).

Jump from variable to variable 

Using the forward/back buttons will highlight the entire variable with all its options. To keep a portion of the variable options: click once in the document to deselect the text, then click and drag across portions you want to delete, and

Press "Backspace," leaving words or phrases you want to use.

To completely replace the options provided with your own words: while the variable is still highlighted, simply start typing. The entire variable, including brackets will be replaced with what you type.

Save Your Work as You Go! (Please!)

When you have been working in a plan element or any of the supplementary tools, be sure to click "Yes" to save your work. Even if you have only opened an element to review it, the variables that have been replaced will be retained. (The only place this does not apply is just after you "Save Assembled Plan As…")

When you finish editing a plan element, click the blue diskette icon in the Word toolbar or pull-down under file to Save.

Warning: Use only Save to save your work. The system will automatically manage the filing of your documents. If you "Save As" and save a page somewhere else in your computer or network, the BizPlanBuilder system will not know where to look for it in the future.

When you double-click on another section to edit, the system will automatically save your edits, put away the file, then open the new section.

Click "Yes" when it asks if you want to save your work.

Otherwise, the element will revert to the original version and all your work will be gone. Ugh!

Edit each plan element and each supplementary tool you're including in your plan.

Be sure to save your changes.

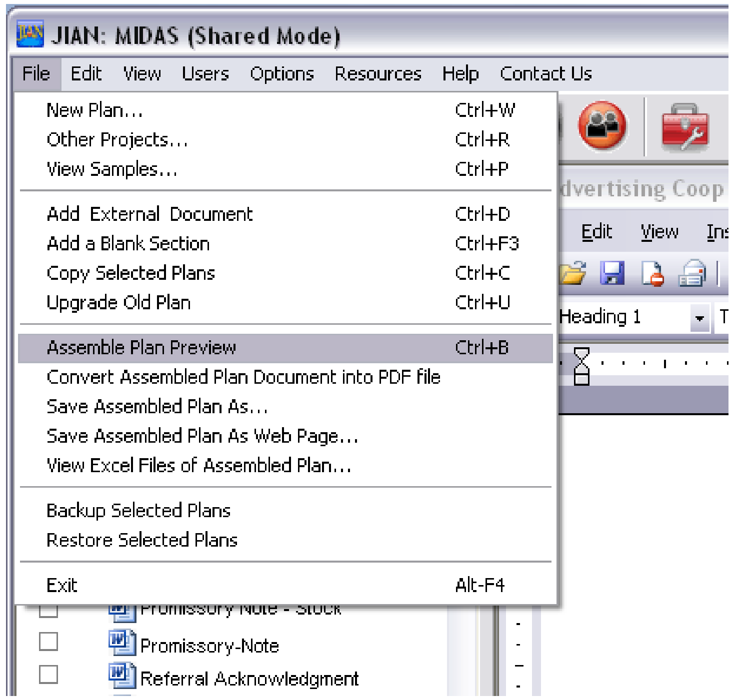
3. Assemble & Print

After you've edited and customized all the elements of your plan, you're ready to assemble a preview of your entire narrative. Once you have completed your plan and performed a file "Save Assembled Plan As…" saving the document with a new name, these functions become accessible again.

Review the order of your plan – does the sequence best build your case?

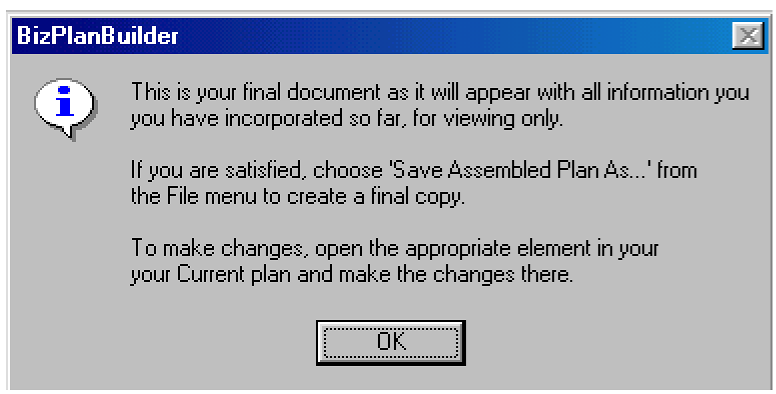
Review the check boxes – which sections do you need right now for this purpose?

Either click this icon:



Or Pull down under 'File' to "Assemble Plan Preview."

This dialog box will appear:



Your plan then assembles for your final review. If you want to change the order of some of the elements, or modify some of the text, be sure you close the assembled preview (without saving changes) and go into the elements themselves to revise. This way, your changes are stored permanently in your plan. Once you've made all your changes, reassemble the Plan Preview and make your final review.

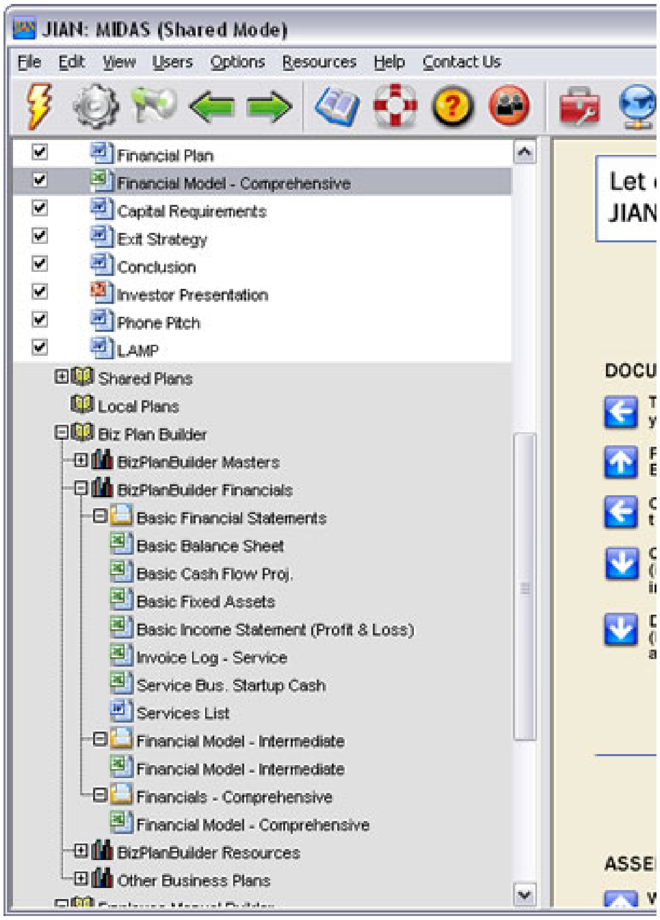
NOTE: It takes a while for the larger plan narratives to assemble due to the length of these plans. If you have selected a large number of supplementary tools, the process may take a little longer as well.

Printing Your Plan & Supporting Materials

Print your business plan narrative from your Saved Assembled Plan.

For all other elements, when you have the file you want to print open in your program window, use the File > Print command in the menu bar for Word or Excel within the BizPlanBuilder program window. This will be the lower menu bar that you see just to the right of the Index/Item List area.

Adding a Financial Model



Usually, you will require just one financial model. Depending upon the foundation business plan you've chosen, we have already inserted the recommended financial model for you to use. However, if you want to insert another, you can find it in the lower gray menu on the left.

We offer a Basic, Service/Bank (Intermediate) and Comprehensive options.

All financial models are developed in native Excel and can easily be modified.

In the lower, gray area on the left, click on the '+' symbol to open the various folders. You may click on any of them and simply drag them up into your active plan. To look at them first, just double-click the title (with the yellow cube icon in front of it). The model will open in Excel, but will be read-only. You must first add the model to your active plan for you to be able to open it for editing.

Basic

These are very simple place holders for your financial data – intended to enable you to present good-looking statements.

Intermediate

This model offers a linked set of basic financial statements useful for a going business to show the bank. You fill in your costs as a percentage of revenue, enter your expected revenue and balance sheet numbers, etc.

Comprehensive

This is our most comprehensive financial model enabling you to calculate everything from the ground up.

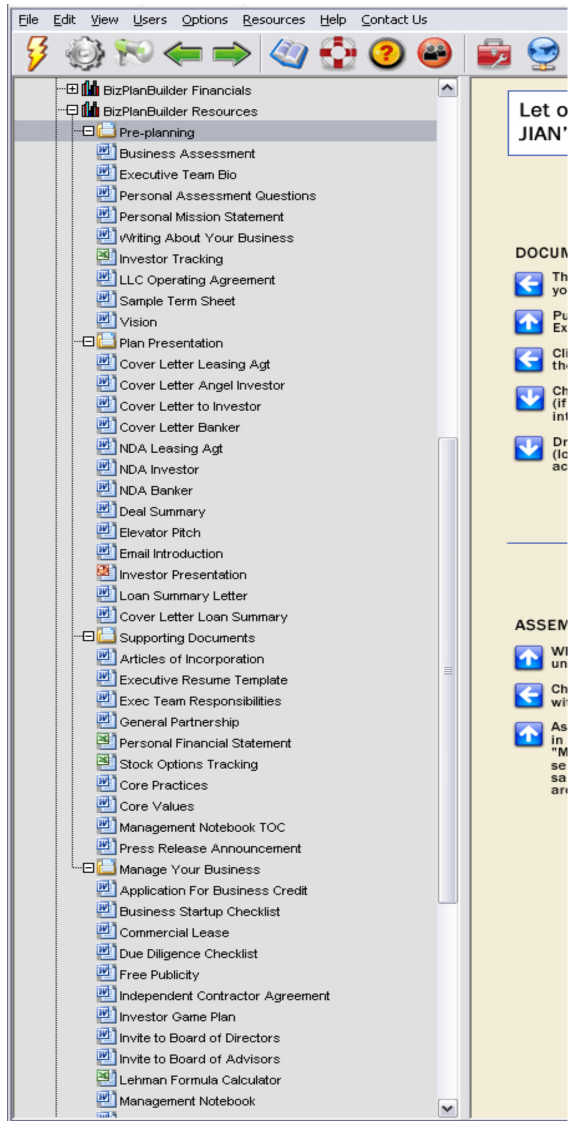
Editing the Financial Models

All JIAN financial models are native Excel worksheets. You are working in your copy of Excel.

In some cases, you may have to unprotect a sheet, for instance, if you have some reason to modify a formula in a financial model. We suggest that in most cases, you should avoid changing formulas, as they have a ripple effect throughout the two standalone models.

Adding Other Business Planning / Supporting Documents

We have added many supporting documents that you can use with your business plan. In the lower, gray area on the left, click on the '+' symbol to open the various folders. You may click on any of them and simply drag them up into your active plan, into the order that you want them.



You can add a copy of any element from the Masters area to your Current Plan. Plan elements from other plans will go into the white area, and will be included in your assembled plan (as long as their checkboxes just to the right are checked). Example: You might want to add Vision and Mission statements from the Product Plan to your Service Plan. Once you've added a plan element, you can move it anywhere you like in the Current Plan. If you decide you don't want to use it in your final plan, simply uncheck the box to the right of the element name.

Add any supplementary tools and documents you want to work with to your Current Plan, and they will be saved and stored as part of that project.

To see contents of the various Masters folders, expand folders (click the box with the minus sign to the left of the folder name). Click on the item you want, and hold for a second, then drag to the Current Plan area. As you drag, a gray bar will appear in the Item List. Drag it above the dark gray area into the Current Plan area; or right-click on the item, and select "Add to Current Plan" from the pop-up menu that appears (this is the fastest, easiest way to add elements.)

Save Your Work as You Go

When you finish editing a plan element, click the blue diskette icon in the Word toolbar or pull-down under file to Save.

Warning: Use only Save to save your work. The system will automatically manage the filing of your documents. If you Save As and save a page somewhere else in your computer or network, the system will not know where to look for it in the future.

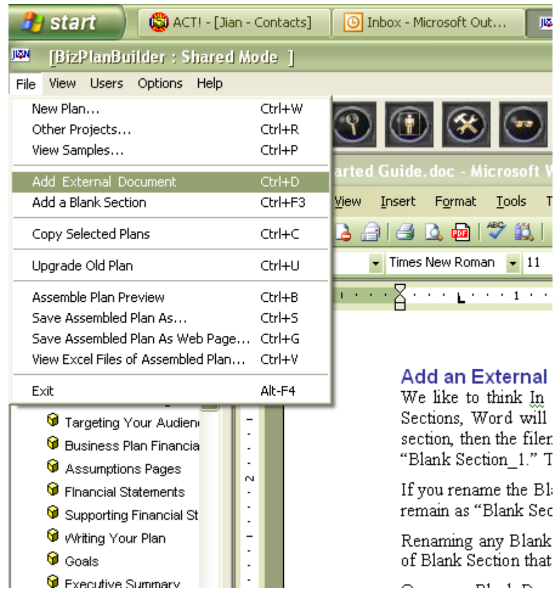
When you click on another section to edit, the system will automatically save your edits, put away the file, then open the new section.

Click "YES."

Otherwise, the element will revert to the original version and all your work will be gone.

Edit each plan element and each supplementary tool you're including in your plan. Be sure to save your changes.

Add an External Document



If you have other documents that you want to include with your business plan, it is easy to click and browse for the file you want to include. Just pull-down under 'File' to "Add External Document." A familiar Windows browser window will open enabling you to look through your system (and network) for a document to add to your plan. When you find it, click on it, then click on 'Open.'

Initially, it will be added to the bottom of the white navigation tree on the left. Use drag & drop to move it into the sequence where you want it in your plan.

Add a Blank Section

You can add an unlimited number of Blank Sections. (One more step down in the above menu.) As you add Blank Sections, Word will give each one an incremental filename name. For example, if you add one blank section, then the filename will be "Blank Section." If you add another blank section, the filename will be "Blank Section_1." The next will be "Blank Section_2."

If you rename the Blank Section or any other document (Right-click --> Rename), it will appear to you in the menu as your renamed document; however, the computer filename within the system will remain as "Blank Section_1."

Note:

When you rename a document, the system does not change the internal filename of any document.

Check-Out & Check-In

Ordinarily, while you are working on a section of your plan, if another user opens that section, they will be notified that they can Read-Only until you have completed your editing [for the moment] and closed that section.

Now, let's say that you want to take a section (or several sections) with you for editing elsewhere or later for private editing – for example, on your laptop on a business trip...

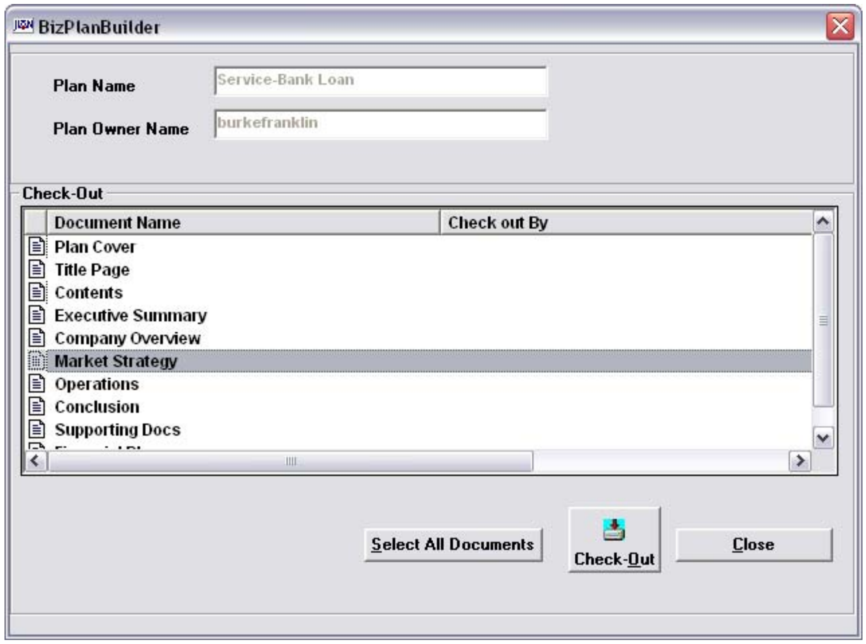
We recommend backing up your files first.

Pull-down under Options to Check-Out documents to temporarily remove them from the system.

(The documents will appear as Read-Only to other authorized users until you check them back in.)

Check-In returns the files to the active, shared project file.

It will overwrite the existing file.



To retrieve your Checked-Out file(s) for private editing

The checked-out file(s) go into a local folder with the same title on the same PC.

(For example, if you have "Plan A" created by UserA on your shared server, the checked out files will appear in "Plan A" under UserA in your local folder.)

Make sure you have a copy of BizPlanBuilder installed on your laptop or other PC.

Add your *same* Login name and password to your copy of BizPlanBuilder installed on your laptop or other PC.

Copy the file(s) in your local folder under your Login Name to your laptop or other PC.

If there is no user by name UserA in your local PC the system will give error "No User Found."

To Check-In your previously checked-out file(s)

Be sure to first copy the revised file(s) from your laptop or other PC back to the local folder on the original PC.

(You can use Back-Up to browse for the local folder.)

To check in the file back to the server, you must first open "Plan A" on the original server, then the Check-In option will be enabled, and you can simply click Check-In to copy the revised file(s) back into the master plan.

Saving Your Final Plan Narrative

When you are satisfied with your changes, in the File menu, select "Save Assembled plan As…" Or click this icon… When you assemble your business plan, it is *exported* and saved in a folder called 'JIAN Documents' on your desktop.

This is an active Word document which you can edit with Word; however....

Once you have saved your plan in this manner, any changes you make in this exported version WILL NOT BE REFLECTED IN YOUR PLAN ELEMENTS. This is now a static plan that you would use to print copies for distribution; save to media for someone to review; send to an investor or consultant, etc. When you want to make subsequent changes, it is best to do so in the original plan elements, then reassemble the next iteration of your plan.

NOTE: A business plan is a dynamic entity, and you will probably change it quite often, especially as you talk with potential lenders and investors. You will want to incorporate their suggestions; make changes based on what you've learned; and potentially rethink your direction—which would require some changes in your plan.

Back-Up Your Files

Losing your work sucks. Period. Part of our BS minimization philosophy includes helping you to make sure that you do your work only once. To make a back-up copy of your business plan, either pull-down under the File menu and let go on Back-Up or click the icon (left) at the top of your screen.

The best way to move a plan from one PC/server to another is to use Copy/Move. The Backup/Restore is built to make a backup (then restore) on the *same* PC in case the current plan is corrupted or is to be rolled back to the previous saved version.

Another method is to simply copy the entire 'JIAN Documents' folder on your desktop to another disk/server or burn it to a CD. You can then simply replace it, in its entirety in its original location or onto your desktop.

Troubleshooting

Update Windows & Office

Please be sure you have all of the latest Windows and Office Service Packs installed... this makes a world of difference! They are available *FREE* from Microsoft.

- Click your START button (on your desktop)
- Click "Windows Updates" (or visit www.microsoft.com – look for 'downloads')
- Follow the Microsoft instructions.

If you are using **Vista** and **Office 2007**...

- Please check to see that you have the Vista Service pack 1 (SP1) loaded...
- Office 2007 Service Pack 1 (SP1)...
- Office Compatibility Pack installed...

Norton Utilities / Anti-Virus | McAfee

You may need to disable Norton and/or McAfee before installing BizPlanBuilder. (Best to remove BizPlanBuilder, temporarily deactivate Norton and/or McAfee... Reinstall BizPlanBuilder.)

Online Technical Support FAQs

For late-breaking technical support tips and trick, please refer to www.jian.com.

Look for "Support" in the menu, then select BizPlanBuilder v11.

User Notes & Reminders

As you open elements, you may notice a slight screen flash. This is the engine locating and replacing recurring variables with the information you entered as you were installing BizPlanBuilder. In some files, you may be able to watch as, for instance JIAN or JIAN Tools For Sales Inc. are replaced by the short company name and the legal name, respectively, that you provided.

When You Finish:

After you have "Save Assembled Plan As…" if you are finished working with BizPlanBuilder for the time being, be sure you click the BizPlanBuilder program close box in the far upper right corner of the program window (DO NOT click the close box for Word or Excel at this stage).

CAUTION:

If you mistakenly close Word instead, and it asks if you want to save changes at this point, click "Yes." You have already saved your plan to the new folder, along with any other elements and tools you selected for your plan.

Getting-Started Guide

The great thing is that Apple's DNA hasn't changed.
~ Steve Jobs

Templates Only — Edit & Print

The Mac version is a collection of Word and Excel templates that contain the very same content as the PC program. Unlike the Windows-based program with its document assembly system, we have taken the content and formatted it directly into complete word-processing and spreadsheet templates for you—documents that you can easily edit using Word & Excel. Your download will include a folder containing the documents neatly organized within sub-folders, with an “About” page to introduce the JIAN business tool you have chosen.

Visit the online QuickTour for the Macintosh Version of BizPlanBuilder

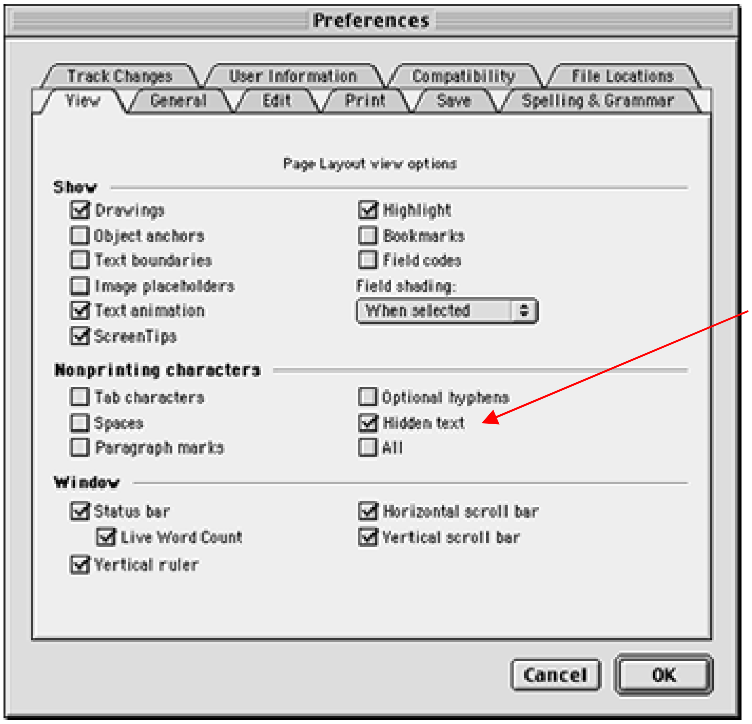
No Windows-like Application

Although the Windows "wizard" is not there, the financials calculate just the same way as the PC financials. The text is fully editable—we have already assembled the documents for you for editing in Word. We wanted to offer a version of BizPlanBuilder for Mac customers, but R&D on Apple products is astronomical and is not in our current budget based upon the percentage of customers we have that use the Mac platform. We hope to have a cross-platform product out within the next 6 months that is collaborative for all of our users. We will honor our 6 month free upgrade to you at the time that product becomes available... Please send us a copy of your email receipt (or just email us and we will look you up) when you see a newer version of the product on this site. Thank you for understanding.

Macintosh OS

- Macintosh OS 9 or later, including OS/X & Leopard, Jaguar, Tiger
- Power PC® processor
- 32MB RAM, 200MB or more recommended if you want to download the video)
- 24MB hard disk space
- CD-ROM drive, 4x or faster
- Macintosh Microsoft Office 2004 / 2008 OR Mac MS Excel & Word 2004 / 2008 or newer
- Requires full Office installation, and may not offer full functionality in some system configurations.

Expert Comments Throughout



We have added expert comments to help you understand what to do and why. These appear as green text between the paragraphs that you will edit.

If you cannot see them, please pull-down under Edit to Preferences.

Click on the View tab (as shown).

Click on the Hidden text box.

Click on the Print tab, repeat this procedure if you [don’t] want to print the expert comments as well.

Click OK.

A good plan today is better than a perfect plan tomorrow.
~ Patton’s Law

The way to really succeed in your business is to do it better than anyone else, and do it at least a little bit differently. Here we offer you several fundamental business plans to choose from. Rather than be limited by any specifics of an industry, how about using the best ideas cultivated from many industries over many years, and cross-pollinate them into your business to get the best for yourself? Now you can. First, choose which applies best to your situation. Relax, later you can mix and match, sort and select from all of our plans—and put your plan together exactly the way you want it.

Be sure to look in the addition folders where you will find Plan Presentation materials, Pre-Planning ideas, Supporting Documents, Manage Your Business, and other Resources

Choosing Your Plan Prototype

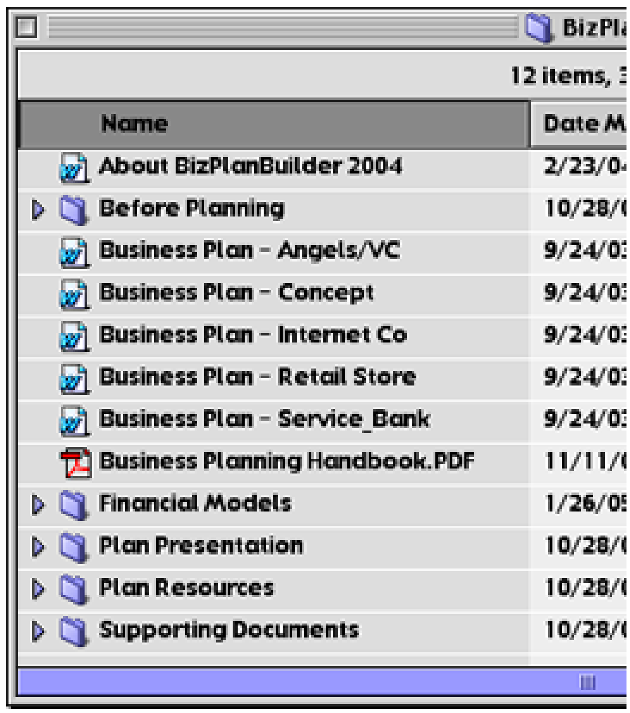
The main part of your business plan will consist of the narrative text – choose one of these Word templates to get started. (Rename it as you like.)

Angel/VC

The 'Angel/VC' plan is the most recent revision of BizPlanBuilder 'Classic' and is the best choice for presenting to Venture Capital and Angel investors. Choose this plan type if you are launching a new product or service and are looking for money from investors. This is our most comprehensive business plan structure. We recommend the 'Financials – Comprehensive.' Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

Service/Bank

Choose this plan type if you are starting or building a small/personal service business and/or want a bank loan. The Service/Bank plan is ideal for seeking a bank loan. You can always add elements from the other plan models as well as supporting documents in the folders below. We recommend the 'Financial Model – Intermediate.' Remember to click on Resources – Finance for more insights. Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.



Retail Plan

If you are starting or developing a retail store, we recommend the Retail Plan. Choose this plan type if you are opening any kind of retail store. We recommend the 'Financials – Comprehensive.' Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

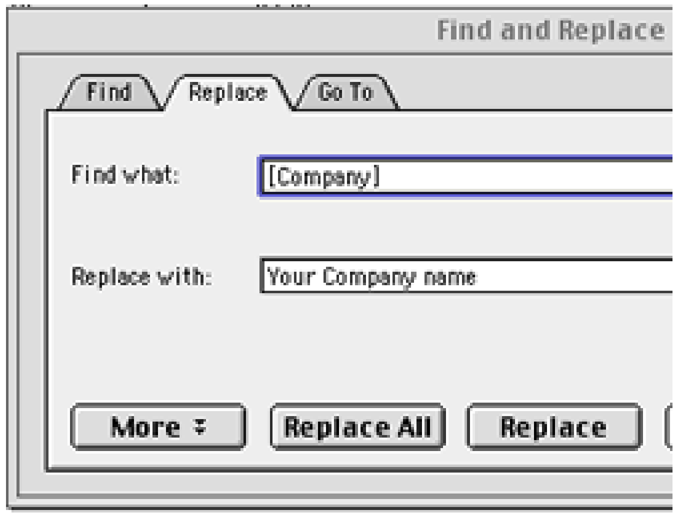
Internet Plan

Use the Internet Plan if your business is predominantly on the web. Choose this plan type if you are starting any kind of internet-based business. If the internet is part of a larger business better suited to one of our other plan types, you can still cut and paste sections from this plan type into your main business plan later. We recommend the 'Financials – Comprehensive.' Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

Concept Plan

The Concept Plan is good for a quick overview of your business idea–it is the same as the Executive Summary in the Angel Plan, but can be added later as the intro to any of the plans types. Choose this plan type if you want a very simplified outline to create just a starting point to talk about. You can save text from here and paste it into your real plan when you are ready. Like all of our plans, you can also grab sections from other plans and supporting documents, drag & drop them into the order you want, edit and format to your liking, then print or post to a website.

Customizing/Editing Your Plan



You can customize your plan for your industry in just a few seconds.

The first thing you likely will want to do is insert your company name throughout your plan.

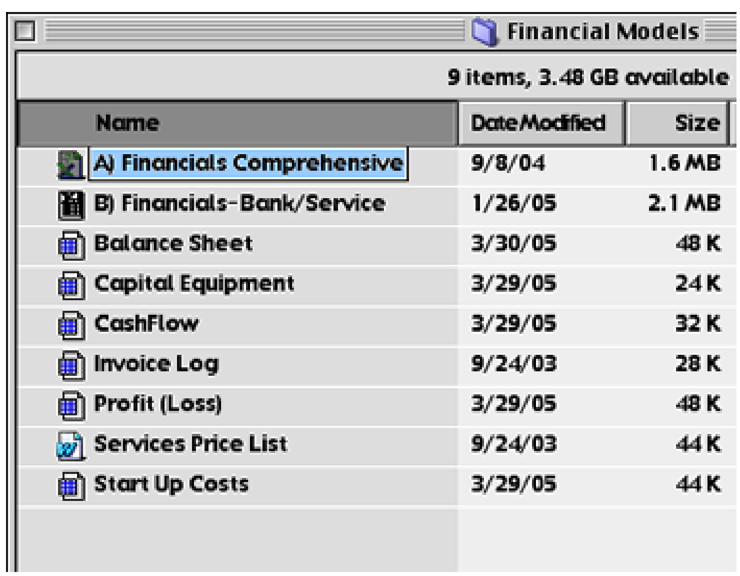
In Word, pull-down under Edit to Replace.

Type in '[Company]' in the upper box, then type in your company name as you want it to appear throughout your plan. (Although our company is officially 'JIAN Tools For Sales, Inc.,' we would use just 'JIAN' here.

When you click OK, your company name will automatically replace '[Company]' throughout your plan.

Go ahead and edit the business plan template to suit your business.

Financial Models



All JIAN spreadsheets use an Excel workbooks—they behave the same as in the Windows-based system with the document assembly system. Click them open, then click along the tabs at the bottom to access each page... You'll see, it's very comprehensive, straight-forward and credible.

Comprehensive

The Comprehensive Financial model is likely your best bet for a complete budget and/or forecast. Especially if your company or product is new.

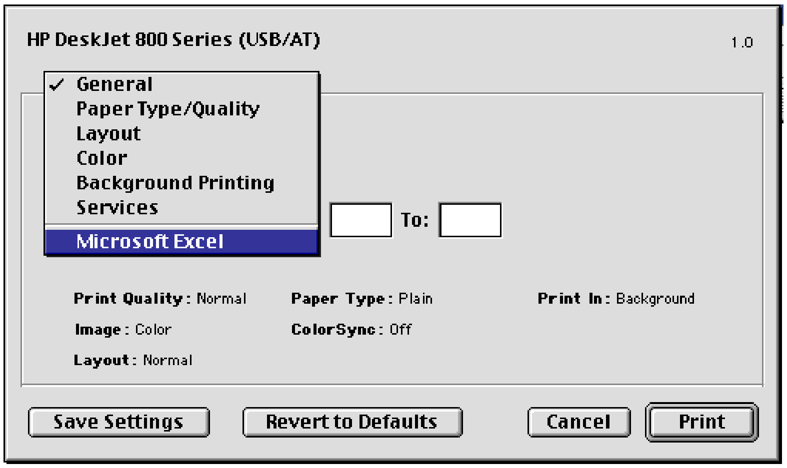
Bank/Service

Use the Bank/Service model to calculate costs for a service business as well as to present your numbers to a bank for a loan.

Basic

The additional (basic financials) pages will suffice if you just need a good-looking financial statement to fill-in for a presentation.

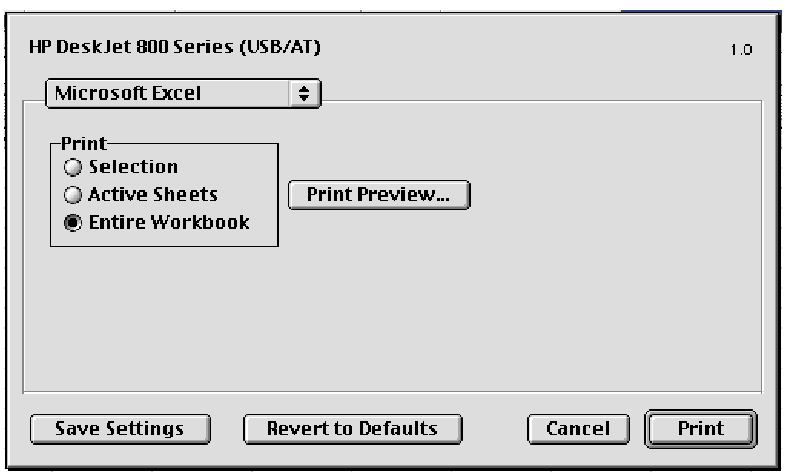
Printing Your Financial Statements



At the top of the Excel screen, pull-down under File to Print.

Click the arrows in the upper dialog box and pull-down to Microsoft Excel

Here you can choose to print the Entire Workbook



Collaborating Over a Server

Mindfulness is sexy, it is touchy-feely.
As an art, it is the ability to consciously navigate yourself through life,
around or through any experience elegantly and safely.
~ Debbie & Carlos Rosas

BizPlanBuilder incorporates a multi-user capability enabling you to share your active working files with others on your management team or workgroup. Even if you want to share files with yourself (say, between your office, laptop and home computers), this is an excellent feature.

JIAN Software License:

You may install a JIAN software program on up to 3 computers for your own use. Other users will require their own copies with serial numbers.

One benefit is that you can control specific access to each of your projects. Another benefit is that each user can check out a section of your business plan and the system prevents another user from opening, editing and overwriting the first user's work – until the first user finishes their editing and closes the document.

Here are the steps setting up file-sharing:

- Establish a Network folder or Server
- Drag the "JIAN Documents" data files folder to the new server location
- Add Users (Collaborators)
- Point the app to the new data files folder location
- Share Files!

Sharing a Folder on your PC or Network

Select the folder in where you want to store your plan to share.

Next, make sure that your Windows File-Sharing is enabled. If you are keeping it in your "Shared Documents" folder, the sharing should already enabled.

However, to be sure, right-click the folder. (Make sure File-Sharing is active with the boxes checked like in the image to the right.)

Move the "JIAN Documents" folder

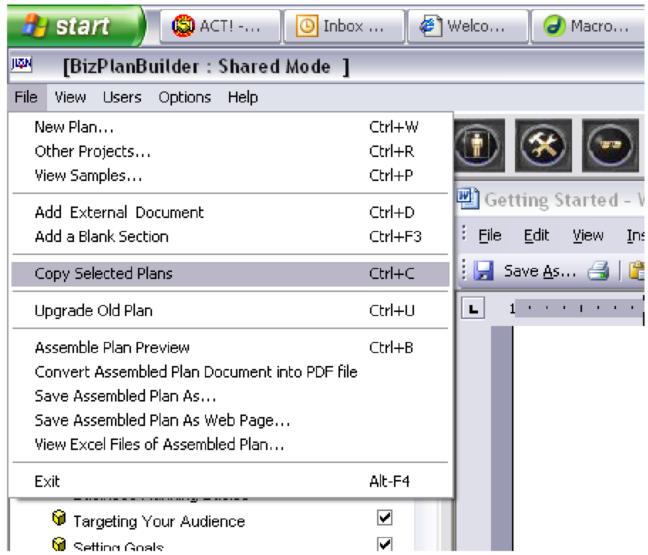
This is easy because you can simply drag & drop the entire folder to wherever you want to keep it.

Since we include the database records for your business plan variables, other users, their permissions, etc., you must move the entire "JIAN Documents" folder – not just extract a single business plan file.

Another way to do this…

You may also move the folder using the JIAN MIDAS system to help you… First, login with the path pointing to the default folder (or possibly the 'JIAN Documents' folder).

- Pull-down under File to Copy Selected Plans.
- You will see a list of plans/projects in the currently active folder. (The one you logged into when you started this session.)
- Check the boxes for the projects you want to copy, then browse for the folder location to where you want to move your project(s)/plan(s).
- Click Copy.

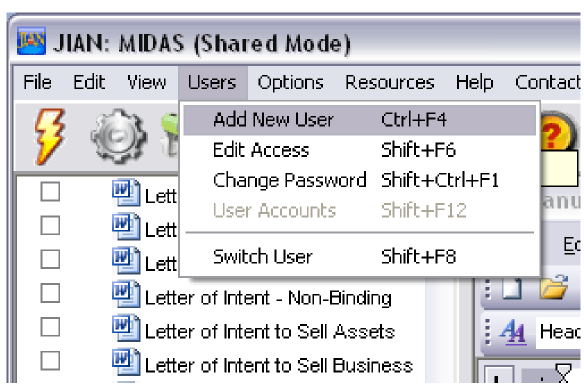


Your project(s), plus the necessary system files will all be copied and moved together to the new location. Before you delete the 'JIAN Documents' folder, first complete these instructions, then test by connecting to the new folder location by logging in again with the path set to the new folder location. If you are able to log in successfully, then the 'JIAN Documents' folder in its original location can be safely removed.

Add Users / Collaborators

Each project (Business Plan, Marketing Plan, Safety Plan, etc.) requires its own list of approved collaborators.

You may add as many additional users as you like. (They will each require their own licensed copy of BizPlanBuilder.) When you add a user, s/he can be given access to all plans, local or shared. You'll need to enter them once while you are logged in the local mode + once while you are logged in the shared mode.



You can add these additional users in either of two places. On the log-in screen, click 'Add User' or on the workspace screen (right), pull-down under 'Users.'

When a user is added in the local mode, they'll get access to local files only (no access to the shared area). Log-in to BizPlanBuilder in 'Local' mode, click on "New User" on the log-in screen (or pull-down under Users to Add New User) and add their name and password.

For adding a user in the shared mode you must log yourself in Shared mode, then click on "New User" on the log-in screen (or pull-down under Users to Add New User) and add their name and password.

Access to each plan is controlled separately

When you are finished adding users, open the plan you wish to share. Even though many users may be added to your system, you must first login using the login name and password used to create a specific plan/project. Open that specific Plan/Project. Then, pull-down under Users to Edit Permissions – There, you can control other users' access privileges for this project.

These permissions will apply only to that specific plan/project.

Point BizPlanBuilder to the new file location:

All you need to do next is to point BizPlanBuilder to the new data file location.

When you log in to your plan, you can tell the JIAN system where the data files are located.

In the File Location window, you will see the address of your JIAN Data files – the documents that compose your business plan. These will be in your 'Shared Documents' folder under 'JIAN Documents' (If you have installed them elsewhere during installation – browse for them there.)

Click the Change button to browse your system (or network) for the new folder where 'JIAN Documents' are now stored. Click just on the 'JIAN Documents' folder – not anything within the folder.

'☑ Make Default Path' to set the JIAN system to automatically return to this same folder location the next time you login.

To Share plans & files

Communicate to your collaborators their designated usernames and passwords, as well as the path to the "JIAN Documents" data files.

Others must log-in to their copies of BizPlanBuilder using exactly the same login name and password as you have given them.

They will click on the Change button when they log in to the JIAN system and point their copy of BizPlanBuilder to the shared folder containing the active data files you established when you created your plan.

Collaborating over the Internet

If your company operates an online fileserver, and you want to use it for file-sharing, please ask your system administrator to “map the drive to your desktop.” This way, you can easily browse to find the drive as if it were your “C:” drive, etc., then open and access the folder where you will share your plan files. You would follow the above procedure; however, **if you do not have an online file-server…**

1) We recommend using IBackup (www.ibackup.com)
   (You can get 500MB online and accessible from anywhere/anytime for about $10/month)
2) Sign-up for one of their “Workgroup Plans” as these will enable file-sharing, collaboration, back-up, etc. over the Internet.
3) Download their “IDrive” software and install it to automatically map their web-based “disk-drive” to your desktop.
4) Drag your “JIAN Documents” folder onto the IDrive.
5) Log-in to BizPlanBuilder on your PC.
6) Click the ‘Change’ button…
7) Browse to the “JIAN Documents” folder on your new IBackup drive which should now appear on your desktop
   (Start → My Computer → Drive on I Drive (I:) → JIAN Documents)
8) Click: ☑ Make Default Path
9) Communicate to your collaborators that they must visit IBackup and follow steps 3 - 8.
10) (You will need to provide them with your IBackup log-in and password.)

Why Write a Business Plan?

A sensible man never embarks on an enterprise until he can see his way to the end of it.
~ Aesop

Writing a business plan, if you've never written one, can be a daunting thought. Perhaps you've never even seen one. Perhaps you haven't enjoyed writing or don't know where to begin. Maybe you have some experience in business and know about business plans, but just want some additional ideas. Or, perhaps you don't see the need.

What is a business plan?

A business plan is a written document used to describe your business. The sections of a business plan are fairly standard, though. Therefore, you have lots of help and precedents from those who have gone before you.

Each section in a typical plan has a specific purpose, for example, an overview of your company or of your products. A plan for a small, simple business can be quite short, perhaps as few as 8-10 pages. Certain sections can be as short as one page. Be reassured that each step of this process can be relatively painless and ultimately quite rewarding.

Many businesspeople apparently do not write or use business plans. Do you suppose that the guy running the local TV repair shop wrote one? Do you think your beautician wrote one? Well, if they got an SBA loan, then they did. Sure, you can do business without a plan, but consider the benefits of having one, such as obtaining funding from someone outside your family. Most of the businesses that fail have no written business plan, while many studies have shown that companies with business plans have a higher probability of success.

People write business plans for a number of reasons. Perhaps the one most important, but one usually left unstated, is to be taken seriously. Whatever the ultimate purpose of your business plan, if your business is not taken seriously, you won't achieve your purpose.

Having said that, perhaps the most common stated reason for writing a business plan is to obtain funding. This handbook focuses on funding. Funding, of course, is money that someone loans, invests in, or gives you because they believe you are going to be successful, and they want to share in that success. If you thought that funding only comes from banks, well, that is but one of probably several hundred sources of funding. See the sections: "Targeting Your Audience," and "65 Ways to Finance Your Business," for more background information. Here are some of the key reasons and benefits of writing a business plan:

Obtaining funding as the basis for…

- Attracting key employees into your company
- Convincing key suppliers to give you credit
- Creating a brochure for a business broker to use in selling your company
- Presenting live presentations to investors and key suppliers and dealers
- Designing a prospectus to sell stock in your company
- Attracting business partners
- Forming strategic alliances

To support the good management of your business…

- Ensuring that everyone in your company is working towards the same goals
- Convincing others in your company to allocate resources
- Collecting your thoughts about how to run the business-which helps you monitor its progress and make course corrections
- Managing your growth
- Obtaining input from employees and investors

What investors want to know...

Building a business requires more than just an idea and a plan. For a moment (and you may need to refer to this moment often), put yourself in an investor's position... What would YOU want to know about a business before you invested in it? We often recommend investing an amount of money in a friend's business just to get the mental, physical, emotional, and spiritual experience of investing precious CASH in someone else's business. Now, more than ever, you must be convincing to the bone. And, expect that intelligent people with money will want to feel comfortable with you and your answers. You will find that, no matter who you are and what you are doing, you're going to need answers to these basic questions:

- Who are you?
- Why are you in business?
- What is the opportunity here?
- What is the current situation in the world?
- How big is the market?
- What will you sell?
- How is your business structured?
- How will you make money?
- Who else is doing the same thing?
- How do you compare?
- Who are your most important customers?
- How will you reach and inspire them to buy from you?
- Do you have any strategic partners who will help?
- Who are the people running your business?
- What experience do you/they have?
- Who else are you working with?
- Who are your advisors? Who is on your board?
- Where are you today?
- What have you accomplished?
- How much money do you need to start / grow?
- What will you do with the money? What's the deal?
- How much money will investors make?
- When & how will investors make their money back?

Your Executive Summary will either inspire an investor emotionally or not (that's how most of us make decisions). This will only open the door to further discussion and exploration. The rest of your plan must provide the whole story with proof, logic, and the introduction to the people who will be response-able to build and run the business.

Investors likely have many interests. When you approach them with a complete plan A) you will have the above answers firmly in your head and you will be able to speak them with certainty B) your plan will provide written documentation that adds believe-ability C) having done the math, you will feel great about your prospects for personal wealth, as well as a huge payoff for your investor(s)(who may get richer then you do from your deal).

Warning: Some entrepreneurs, deep in their psyche somewhere, may resent investors, who seem like they don't do much work, making a lot of money on your deal. Someday, you too may be in a position where an entrepreneur will approach you for investment. Who will you be in that place? How should they FEEL about you? How would you feel about them?

Learn more about Choosing the Right Investors. Excerpted from the book *Business Black Belt*

Components of a Business Plan

The plan is nothing.
The planning is everything.
~ Dwight D. Eisenhower

There may have been a day when people read business plans cover to cover. Not any more. When they get close to giving you the money, they might, but first you have to grab their interest and answer their questions. We recommend organizing your business plan like a reference guide allowing readers to turn directly to the information they want. Different people want to know different things; some things are more important to some people than to others.

To help you visualize a business plan, here is a list of the sections of a typical business plan, in their typical order, and a brief description of what each one contains. Don't be concerned if you don't immediately see how to write such a section for your business, or if it sounds like way more information than you could possibly generate. This is a standard format that can be adapted equally as well to the smallest one-owner shop as to the largest corporation. The components of a successful business plan and a brief description of each section are described below.

1) **Cover letter**
Tailor and introduce your plan to a specific audience.
2) **Non-disclosure statement**, which asks the reader not to discuss the plan with anyone else.
3) **Title page**
The title page of your business plan provides the name, address, phone number and email address of your company and the CEO. For your first impression, make a bold, clean visual statement about your company.
4) **Table of Contents**
Ideally, your business plan will be a reference guide to your business and not a novel or thesis. Number your pages. I highly recommend starting a new section on a new page. Colored tabs dividing each section makes your plan immediately appealing and easier to use. When I recently reviewed a number of plans during the University of Texas Moot Corp Business Plan Competition, I was immediately drawn to the one with the color tabs—the other judges admitted they were too.
5) **Executive Summary**
This is the synopsis of your business plan and summarizes the highlights. It is the portion of your plan that will be first read by investors. You had better get to the point and be interesting—explain why your business will make money and is a great investment. (To bankers, it should demonstrate common business sense and that you have the ability to pay back their loan.) If you lose readers here, forget having them read any further.

This is a snapshot of the present stage of your business, plus a brief description of where your business is going and what it will look like when you get there. What is the present situation in the world and how does it affect your business? What is the status of your product or service? Finances? What management is in place? Who do you need to hire? Sales? Do you have any reference customers? (A wonderful indicator of viability!) Write this summary AFTER you have completed your business plan and keep it to no more than two to three pages. One VC told us he wanted to see a software package that could reduce a business plan to 2 pages!

6) **Company Direction**
Tell your reader who you are and where you are headed as a business. It includes your vision and mission statements. This is the part that, throughout history, has made the difference between great leaders and failures. (Regardless of their purpose, good or evil, selling their vision made the difference.) Your vision comprises your emotional drive to build your business to be something great that others can support and share in. State your objectives: Where are you going, what will it take, and what are you going to do with the money? Investors want to know how and when they'll make zillions on their investment in your business.

7) **Company Overview**
This section provides basic information about your company: structure, management, staffing, operations, and business relationships. Describe your company and its organization such as its legal name, form, current stage of development, and other information.

8) **Products & Services Strategy**
Describe your products and services, why you chose to or plan to develop them, how they are made, priced, and delivered, and other information. This section reviews your current product or service and what makes it unique and competitive. Your future research and development and production plans are part of your product strategy. Engineer types have a tendency to overemphasize this section—save that for a demo when the investors request it-great products and services have died without a good business model and the right people to run it.

9) **Market Analysis**
Present research and conclusions about what industry you serve, who your customers and competition are, and why your products and services are competitive. This section helps you understand and define your market, the demographics and psychographics of your target customers, competitor's products or services, and both business and environmental risks. Who are the people out there who will buy from you? Why will these customers buy from you vs. your competitors? Find 10 people/companies who are prospects and find out what they need/what problems they are having.

10) **Marketing Plan & Strategy**
The world will "beat a path to your door"... only if they know who you are, what you've got, and where to reach you. This section outlines, based on your market analysis and other plan data, how you intend to create awareness, interest and demand. It explains how you will actually sell your product to your customers and includes selling methods, distribution channels, advertising and promotions, pricing and profitability, public relations, and business relationships. How will you use an investor's money to efficiently sell to your customers? This should not be treated as something you'll work on later. It's a key component of your plan that affects everything you do throughout your business.

11) **Management Team**
What's a nice person like you doing in a business like this? How does your background and that of your management team uniquely qualify you for driving your business to success. Can you really relate to the customers of your business and deliver what they'll really buy? (Corollary: Start a company for which you are a customer.) Can you pull this off?

Who have you hired to do the job? In a way, you are providing a mini-interview with your management team members to assure an investor, banker, or corporate manager that you have lined up the right people to make your project go. This section is one of the most crucial. The only thing that will ensure success is the day-to-day activity of qualified people in the driver's seat following a plan toward a vision.

I recently was a judge for the San Diego State University business plan competition where 20 schools sent teams to pitch their business concepts. As I listened to their presentations and reviewed their plans, I was amazed at how these almost college graduates expected us to believe that they had the management experience and skill to run operations, marketing, and finance of their companies. It would have given them tremendous credibility if, instead of trying to convince us that they had enough experience, they outlined their intentions for hiring experienced managers to run key areas of their businesses. Although this was a college exercise, they were promoting real businesses. Put yourself in an investor's or banker's position. Would you give $50,000 to $5,000,000 to inexperienced people who try to convince you of their experience, or to people who demonstrated the sense to hire competent managers?

11) **Present Situation**
Give a snapshot of what you have accomplished so far. Patent filed, prototype working, etc. This will change as you work on your business. It gives an investor an updated starting point to understand where you are currently and what value you have already created. The idea is to continue building value in your business – the longer an investor waits, the higher your valuation.

12) **Financial Plan & Projections**
Describe your current financial picture, your projections for growth, tells your reader what sorts of funding you need (how much, when, and for what purpose), and explains how you intend to pay it back. This section addresses your ability to make money in your proposed business and how much money you'll need. Your company's capital requirements and the profit potential are analyzed and demonstrated here. The supporting financial statements include the following:

   a. Revenue & Expense Assumptions
   b. 12-Month Budget, including your Start-Up Requirements
   c. 12-Month as well as a 5-Year Income Statement
   d. 12-Month as well as a 5-Year Cash-flow Projection
   e. 12-Month as well as a 5-Year Pro Forma Balance Sheet
   f. Break-Even Analysis
   g. Sources & Uses of Funds Summary
   h. Sensitivity Analysis showing Pessimistic, Planned and Optimistic scenarios
   i. A projection of your company's value after five years is also very useful.
   (It's also amusing to see what your company will be worth after five years of hard labor.)
   j. Capitalization Table

Are your financials believable? I've never met an investor who believed in anything beyond five years-their financial attention span is fairly short and they want to be out with their profit in less than five years. Investment performance, measured in return on investment, takes time into consideration-the more the sooner, the better they did. The idea is to get 'em in, make 'em rich, get 'em out.

13) **Supporting Documents**
Here is where you add your collection of extra information that you feel is too detailed for the body of the plan but would help a reader understand some point or conclusion you've made. For example, it can include copies of various financial statements, product brochures, resumes, media kits and schedules, advertising, complete list of objectives, and more.

You may actually have more of this material than you think. You may already have a substantial amount of knowledge just floating around in your head, or written down on notes or memos, or written down as receipts and ledger entries, all just waiting to be organized into a plan.

You may even have one or more documents already written, like a budget or resumes, that you can use as-is or its contents can be inserted into the right plan section.

The information you already know or have developed to this point won’t go to waste! It will speed your plan-writing efforts. For example, if you have a product brochure, a profit and loss statement, tax returns, pictures of your site, even a checkbook: everything helps.

Your reader's perspective

In addition to providing a large amount of data, you must show your personality and spirit, and those of your management team. You're attracting interested people who can help you. The tone and credibility projected in your business plan will determine their response. How will your reader perceive you and your business and take action ($) on that perception? Remember this and be prepared.

Investors are often heard telling one horror story after another about a business plan "stubbing its toes" on its way into their office. One opportunity is usually all you'll get to demonstrate your competence and the feasibility of your project to your investors, senior executives, or clients. These are influential and powerful people. Don't waste their time, bore them, or leave them feeling dissatisfied with your work. Show them that you know what you are doing. Think in terms of return on investment. Show that you can project your company's earnings. Prove that you can execute your plan.

Notes

- You must proceed down the path to attract the opportunities you need.
- A business plan is a comprehensive brochure that sells your ideas.
- A business plan takes your nonlinear thinking and coordinates it into a logical progression of concepts following one after another.
- The description of your business, market, competitive position, and so on all provide credibility for your financial projections.
- The deal is won or lost in your assumptions and your ability to sell them.

Do *I* Need to Write a Business Plan?

I don't need a business plan, I'm already in business.
~ An entrepreneur before her recent business closure

Perhaps you see that there are many good reasons to write a business plan, but is it required? Isn't it obvious that your business or product valid? Can't you just go to the bank and get a loan against your house or other assets? Sure, in some cases you can. But why limit yourself?

Consider this: If you are going to ask someone for money, even if its family or friends, a plan will certainly increase your chances. If you intend to go to a bank, even one who knows you, they are going to want some type of papers completed. If you go to an investor who doesn't know you, it's a must. If you are asking for funds from a government agency such as the

Small Business Administration (SBA) it is required. Even if you have an existing business, and you've been running it without a formal written plan, you will benefit from writing one. You will get a clearer view of your business; one that might surprise and even inspire you.

Simply stated, a business plan is a written document detailing the operational and financial aspects of your company. Like a road map, it helps you determine where you are, where you want to be, and how you're going to get there. If it's well written, your business plan will keep you in touch with your goals, potential risks and probable rewards. Moreover, it may be the crucial factor in convincing investors or company management to give you the financing you'll need to realize your dream.

Types of Plans

There are three general types of business plans, each written for different purposes or situations. In general, a Complete business plan and a Summary business plan are intended for readers outside your company. An Operational Business Plan is intended for internal usage in an ongoing business.

A Complete business plan is necessary when you are seeking a significant amount of funding or want to give your external reader a full picture of your business. It is the total package, including all of the sections of a business plan provided by BizPlanBuilder, as appropriate for your business. The Complete plan can range from 15 to 40 pages or more. Here you need to explain your business concept in detail to potential backers, strategic partners, or potential buyers of your company. It should clearly state the specific request(s) you are making with your business plan and what your company brings to the table should the request be fulfilled by the reader.

A Summary business plan is a much shorter document that highlights the most important information about your business and its direction. It should make clear the specific request(s) you are making of your reader and the purpose of the request. It is ideal when your request is simple or minimal, when you are strapped for time, or when you want to give your reader a preview of your business plan, to gauge if they would have sufficient interest to see your Complete plan. A Summary plan is also effective for small to moderate bank loans, attracting key employees, or for persuading friends and relatives to invest a few thousand dollars. A Summary plan is usually about 10-15 pages long and includes an expanded Executive

Summary (generally 3-5 pages in length), a concise Financial Plan (usually 2-3 pages) and a few Supporting Documents, including your 5 year Income Statement, your 5 year Balance Sheet and your 5 year Cash Flows.

An **Operational** business plan is an important internally oriented document of your established company. It is used primarily by the management team, board of directors and your high level professional advisors. It's excellent for focusing and aligning the efforts of key managers toward common company goals, and therefore should be updated at least annually. It is your master blueprint to which you tie your budgets and departmental plans. The key elements of the operational plan are the Company Direction, supported by sound plans for Products/Services, Marketing/Sales and Finance/ Administration. Writing a good operational plan is the hub of running a viable business and can do wonders for any executive's career.

What Is Involved in Writing a Plan?

If you feel like you have a fair understanding about the format and purpose of a business plan, but just don't quite see where to start or what's involved, the points covered in the next several pages can help you. Of course, the length and depth of your plan varies with the complexity of your business. At the same time, be sure that you don't create a business plan more complex than it absolutely needs to be for your readers. You want to make sure you say just enough to grab and hold their interest.

Steps for Business Planning

Before you can write a plan, you have to have a good understanding or idea of your business. Here are some mental processes and activities that can help prepare you for the writing process. If you haven't thought about these things, then you aren't ready to write. However, once you have, your plan writing should proceed smoothly and with few interruptions to obtain missing data.

These steps are written in plain-English. For now, just read through these ideas and see where you are. The order is not important. The order of these steps is just one logical progression. It is not the order in which you actually write the plan nor is it the order in which you present it. It is simply a starting point.

How many of these things do you already know or have you considered?

What Business Am I In?

The first step in the planning process is usually to figure out what business you are in and where you want to be in a year or more. This is largely a mental exercise. If you have business partners or management staff, include them in the discussion at some point. Take notes. Dream dreams.

Do you want to do business locally or worldwide?

- Do you see yourself issuing stock?
- WHY WRITE A BUSINESS PLAN?
- Do you see yourself opening branch offices?
- Do you see making a great product and then selling the business and retiring to the Bahamas?

Spend as much time as you need. This information eventually forms the basis of your Company Direction section. Is this business feasible?

Next, figure out if your business is feasible (given the opportunity, costs to build it, is the profit worth the effort?). Do some research, ask people already in the business, visit the library, contact trade associations, pencil a few notes. Logically, you need to know:

- What products or services am I qualified to offer for sale?
- Is there anyone out there who might like to buy them?
- If there is, are there enough people to support my business?

- Can I reach them? (If you make surf boards, Denver would not be a good place to sell them.)
- I seem to have a market, but who are they buying from now? Who is my competition?
- Can my products and services compete?
- What should I charge?
- What does the competition charge?

This information eventually forms the basis of your Products and Services section, and part of your Market Analysis section.

Can I afford to sell my products and services?

You need to know at some point if you can afford to sell your products and services. Get out your accounting books or your checkbook. If you have an accountant, pick his or her brain about any financial terms you don't understand. Ask for the purpose of various financial statements. Ask what's involved in a financial analysis. If you don't have an accountant or feel you can do this yourself, read Part Two: Business Plan Financials. If you are unsure about any-thing, consult a professional.

Here is where you actually start writing things down. And since you don't want to do the work twice, write it down on the correct financial statement if you can. In fact, using the standard financial statements lets you know what sort of financial information you need to gather and how it relates to what you already have. Figures for financial statements come from your company books, from industry data, from financial statistics published by the government, people in your trade, and many other places. Among the things you need to find out are:

- What will it cost me to make and deliver products?
- How long will it be before I get paid?
- How can I pay for supplies until I can turn a profit?
- When would that profit point be?
- Do I need inventory and if so, how much?
- If I have to borrow money, how much do I need and when?
- How can I pay it back and when?
- Do I need employees?
- Do I need to rent or build a site?
- Do I need special machinery or equipment? Can it be leased or do I have to buy it?
- Is there enough profit potential to earn me the sort of living I expect and want, given the effort involved? Is there enough for everyone in the company to do the same?

This information and more eventually forms the basis of your Financial Plan. The information you need to answer the questions above, and many more, go into standard accounting forms called Financial Statements. You and your accountant analyze the data and make projections (educated guesses about what the future holds based on certain business assumptions—sort of like a statistical forecast of who might win a horse race or an election). It is these projections that you present in your plan.

If you aren't comfortable doing this yourself, your accountant or other financial advisor can do much of this work for you. You still need to understand what they are talking about because the ultimate business decisions are yours. The information and definitions in Chapters 3, 4 and 5 can help you talk with your accountant more knowledgeably.

Once you have established, at least initially, that you can afford to do business, even if you need additional funds to do it, then you are nearly ready to begin writing.

How do I reach my customers and persuade them to buy?

The last consideration before actually sitting down to write your plan is how you are going to reach and persuade anyone to buy your products and services. Find data on who they are and to what sort of appeal they respond. Look at market research for your industry, write to the Better Business Bureau or Chamber of Commerce, think about what persuades you, ask business people in your type of business, ask prospective customers, and visit trade shows. Read more about sources for all types of research and industry data in Market Analysis Supplement and Resources. You need to know:

- Who are the people who might buy my products and services?
- What are they like? What do they care about? Where do they live?
- Do I need sales people? Dealers? Representatives?
- What would I have to pay them?
- What would people pay for my products and services?
- How are they getting along without my products and services now? What features or benefits do I need to change their minds?
- Why should people buy from me? What is my selling message?
- What sort of company and product image am I trying to project? How am I going to manage that? Do I know any editors or trade reporters? Can I hire someone who does?
- Do I need to advertise? If so, what media should I use? The phone? A letter? An ad? A brochure? Radio or TV? Can I hire a firm to do this?
- What can I afford to spend on advertising? How do I determine that?
- If someone wants to buy, how would I deliver it to them?

This information eventually forms the basis of your Marketing Plan and part of your Market Analysis sections.

I have some answers… Now what?

As you acquire the answers to the questions on the last few pages and to other questions raised by your common sense and by the business plan sections, you also gain confidence and knowledge about your company and its future. You begin to believe you can do it, or at least know what you have to do to get ready. When you reach that point, you are ready to tackle writing the plan.

In all probability, you won’t have every little bit of data needed to make a really professional and complete plan the first time you sit down to write. That’s OK! Read the handbook chapters on writing the plan. See what else they suggest you need to know or what key decisions you have to make before you can complete each section. Write down what you can now then come back to it.

The idea of editing and rewriting is not always pleasant. However, most people find that the more they know about a subject, the more they have to say and the more anxious they are to say it just right. If you have friends or business partners or management staff, let them help you. Let them contribute ideas. Let them read parts and make suggestions. Let them write parts and prepare presentations based on their area of expertise.

Besides submitting a finished plan in writing, you may be invited to present your plan in person. The act of writing the plan, along with the knowledge of all the background data that doesn’t appear, prepares you for the most vigorous scrutiny. If you have your team help you write, then you can take them along to present the parts they know best. This makes for a more interesting presentation, and is also a wonderful way to introduce your key people to your investors. The more personal a relationship you can forge with your investor, the more likely he or she is to look kindly on a well-written plan. Also, if you know you have portrayed your business well in your plan, you will be in the best position to let the true merits of your plan influence whether your funding will be approved.

That brings you to the subject of investors. They are going to evaluate all your hard work and ideas by reading a few pages. That is all they have to help them see you as the success you know you can be. Worse, they are also looking at other plans who are competing with yours for the same money. This is why, before you pick up your pencil or sit down at your keyboard, you have to do one last bit of research. You have to know who your investor is and what they want to know. That is the subject of the section, “Targeting Your Audience.”

Appealing to Your Audience(s)

Nowhere is a man's imagination so fertile as in the discovery of new ways to say no to a man who asks for money.
~ Joseph H. Shapiro

This chapter discusses the first step in writing your business plan—targeting and landing your audience. That means figuring out who you want to show your plan to, figuring out what that reader wants to know, and tailoring certain sections of the plan to ensure that it answers those concerns. This chapter also talks about some business writing techniques that can help you create a more professional, more interesting, and more inspiring plan. It covers:

- Targeting Funding Sources
- What Do Investors Care About?
- Table of Investor Types
- Writing Plans that get Read
- Am I Ready to Ask for Funding?
- Legal Note, Before You Ask for Money
- 20 Questions

Targeting Funding Sources

By now, you may have some idea of how much money you need to get your ideas rolling. Even if you don't know exactly how much you need, and have lots of questions, you should start thinking now about matching the type and amount of funding you want with the right type of funding source. Once you do that, you can find the specific investor or investors you want to send your plan to.

This exercise will not only clarify your thinking but can open your eyes to possibilities you may not have considered. You may actually find that you can get a better deal than you first thought possible, and you may find that your carefully chosen investor can turn out to be one of your biggest business assets in terms of management advice, secondary funding, and industry contacts. After all, once they are on board, they want you to succeed. Consider, too, that one of the major reasons for small company failures is under funding: not raising enough capital to survive the tough initial trials.

➢ *NOTE: Although this handbook is geared toward helping you obtain funding, ask yourself if you really need investors. It's a fair question. just because you are starting or expanding a business and you know you need money, doesn't necessarily mean that you need an investor. Investors want a return on their investment, and they sometimes want partial ownership. Is their help worth it? Can you channel the energy you would spend seeking funding into new selling efforts or reducing your expenses until you can generate the expansion money?*

What Is an Investor? What Is Funding?

You are probably writing your business plan primarily to obtain money to either start your business or to enhance an existing business. The money you ask for is called funding. People who provide that funding are called investors. This probably seems obvious. However, the words funding and investor often bring to mind only a limited picture to many people. Perhaps funding means getting a bank loan and an investor is someone who buys shares of stock. But there are many other meanings.

Funding refers to the form of investment. It can certainly be a bank loan, but it may also be a grant, the sale of stock, a partner who joins the company and brings cash, or other types of secured and unsecured loans from finance companies, from government agencies, from individuals, from non-profit organizations, and more.

Each type of funding is granted and administered by one or more investor. For example, a bank has a loan officer: one person that you talk to but who may have to represent your business to a committee of people who make the final decision. But there are many more types of investors, each with their own unique requirements. These requirements include things like how much risk they are willing to take, what form of repayment they are willing to accept, and what sort of qualifications your business needs to meet before they will consider you. For example, the Small Business Administration has several very desirable loan programs, but they require companies to meet certain criteria with regard to size, ownership, and financial condition before they will lend money.

Also, be aware that when you seek funding, you may not be able to find the entire amount in one place. Indeed, you may prefer to spread out your investment between several investors. Some investors cannot handle the total amount, and some investors prefer not to be your sole source of funds. Be sure you have done your homework here, or you risk writing a plan that is not tailored properly and will be rejected out of hand.

In addition to writing a business plan, you may be called upon to present your plan in person. That means you must be intimately familiar with your plan's contents and be prepared to discuss things not featured in the plan but that underpin it. It is often a good idea to take along various members of your team to present the part of the plan they helped write and in which they have expertise.

Sample VC Discount Rates from Expected Payoffs

Payoff	**Compounded Annual ROI**
3 times investment in 3 years	**44%**
5 times investment in 3 years	**71%**
7 times investment in 3 years	**91%**
4 times investment in 4 years	**41%**
3 times investment in 5 years	**25%**
5 times investment in 5 years	**38%**
7 times investment in 5 years	**48%**
10 times investment in 5 years	**58%**

Management should also consider that VC payoff requirements, and their corresponding ROI expectations, lessen with the maturity of the Company in which they invest. Examples of the ranges of ROIs that VCs typically expect for maturing private companies include the following (see *The Venture Magazine Complete Guide to Venture Capital*, Clinton Richardson, 1987, pps 183-184):

Company Stage	**Compounded Annual ROI**
Seed or Startup	**40% and up**
First and Second Stage	**30% to 50%**
Third Stage and Mezzanine	**20% to 30%**

Who Are These Investors?

Here is a list of some common types of investors. You may want to approach one for all your funding needs, you may want to approach different investors at different stages of your company's growth, or you may want to approach more than one to come up with your total requirement.

- Associates and partners who can contribute funding
- Bankers and investment bankers (local, national, or international) who provide loans for equipment and expansion.
- Finance companies who provide loans, like banks, but who accept more risk. Some may also offer secured loans against inventory or receivables.
- Business Brokers who can help you sell your business
- Venture Capitalists (VCs) who specialize in high-risk, start-up companies
- Small Business Administration (SBA) and other government agencies who can guarantee or approve low-cost business loans. They also offer special programs for things like Economic Development Zones and for women and minorities.
- Government grant agencies who offer funding for the research and development of new technologies, education, and other published purposes.
- Stock Offerings that bring in money by offering part ownership in the company
- Suppliers who can provide credit for inventory and materials
- Angels who are patrons of your industry and fund promising young companies, often through consortiums.
- Private foundations and charitable institutions who offer grants or low interest loans for charitable purposes such as community betterment or the arts.
- Family or friends who believe in you and your ideas and can chip in
- Yourself and your own assets such as the equity in your home, insurance policies, retirement accounts, or even credit cards.

What Do Investors Care About?

You never change things by fighting the existing reality.
To change something, build a new model that makes the existing model obsolete.
~ Buckminster Fuller

Before you can write a plan that satisfies all the points that an investor cares about, you have to have some idea what those points are. The answer to this is really no secret. Investors want you to know what sort of businesses they are interested in funding. They don't want you to waste their time. Ask about investors and what they're interested in or research them in trade or financial publications.

First, though, remember the one common attribute shared by all investors. They all want to make money. That may seem obvious, but sometimes that fact gets lost in the excitement of your own idea. Often, investors have a portfolio of industries that they specialize in. Even charitable groups who grant money will want something in return such as local job generation. Your plan needs to emphasize how your business will pay off for the investor and that it pays off in the right kind of coin. Once you get that firmly in mind, you are ready to explore the differences between investors.

To give you an idea about the things you need to consider, ask yourself the questions posed below. The answers help you narrow your investor selection and help define how you need to talk to them through your plan. See also "65 Ways to Finance Your Business," for more ideas on business funding.

What business are you in?

Each type of investor has a certain portfolio they invest in. They have business expertise in funding certain types of companies in certain industries, and they tend to stick with them. For example, a retirement fund manager may limit his or her investments to low-risk companies. They are also probably well diversified having some foreign stocks, some utilities, some technologies, and so forth. You need to find out who funds your type of business.

How much money do you need?

Investors tend to have an average range of funds available for investments. For example, credit unions and banks tend to fund loans for items in the car, boat, and home price-ranges while government contracts can be in the millions. The smallest investors are probably yourself, your family, and your friends. The largest investors are usually venture capitalists and certain government agencies.

Try to match your need to a funding source that is capable of handling the amount you need. Consider also that you may need more than one source, working in concert, which is perfectly acceptable in many cases.

How risky is your business?

The more risky your business, the more return on investment you need to offer to attract backers. You have to be able to offer them more return than they can get a less risky investment. For instance, if the bank is offering 9% CD rates, you have to either beat that or find a way to lower your risk.

Be sure to match the amount of risk you offer with the right sort of vendor. For example, in banking, they mark up the money they pay depositors by about 2%. This is called the "spread." Your project has to not only pay back the entire amount but the interest too. In the back of the banker's mind, he or she is thinking, what happens if you can't pay it back? You have to make up any shortfall and losses from profit not sales. How much profit can you afford to lose?

For the investor, it would mean losing all the profit they would have made on their loan to you, as well as on the profit they would have made had they loaned that money to someone else who didn't default. This translates into about a 98% assurance that they will get their money back.

In addition, be sure that the way your plan is written doesn't give the wrong impression about your risk. Be honest, but be sure your perceived risk is accurate and not expressed poorly. For example, one measure of risk is your Debt to Asset Ratio. Look at your plan objectively and ask yourself if you would offer funding based on your financial picture. You may need to pay particular attention to the way you present financial analyses and ratios to be sure your business looks as sound as it really is.

For how long do you need the money?

Each investor has a particular term in mind. Many investors have more than one way to finance. For example, banks offer different terms for different purposes and amounts. Car loans range from 1-5 years: the longer the term the lower the rate. But the longer the term, the more money you end up paying. Home loans work similarly. On the other hand, venture capitalists typically don't want to be paid interest at all. They want to be cashed out in a fairly short time with a fairly high return.

Your plan should be designed around this need. Does your investor want his or her money back in a short or long term? Do they want it back in cash, in interest over time, or in stock? Can you convert the first loan into a second with a new investor, and cash out the first investor?

Do you plan to grow the business and then sell it? This is a question you need to answer fairly early on in your business planning. This is a fundamental goal, and it affects the way you conduct daily business. If your goal is to grow a company and then cash out, your plan needs to address how you intend to do that.

The way you structure your finances for this type of goal is different from the way you structure a company you intend to keep and run. If you plan to sell, how are you making your business more attractive to a buyer? What sort of equity position do you have, and what sort of equity position will your investor have? Will there be a market for your company when you intend to sell it? Do you have a business broker helping you? What sort of financial picture are you trying to paint?

Do you qualify for government grants, guaranteed loans, or special Economic Development Zone funds?

Have you thoroughly explored the possibility of grants, subsidized, or guaranteed loans? The government and private institutions have many programs to aid certain sectors of the business community. Perhaps you are only familiar with disaster relief loans offered by the SBA, but there are many more. You can find out about these types of programs through the government, trade associations, other business people, and through associations who specialize in locating these types of loans and grants. One prerequisite for these special grants and government loans is a business plan.

Your plan will surely be rejected if you don't do your homework. However, some agencies will help you with your plan. Be aware, though, that many, many people apply for grants in particular because grants do not require repayment and are very attractive. Your plan has to be very compelling and competitive. Be clever. Think about what all those other plans might contain, then highlight why you are better and more deserving.

Are you asking for first-round or second-round financing?

Some investors won't offer first-round funding. Instead, they specialize in second-round funding. Second-round financiers feel more comfortable funding companies who have proven that they can meet first-round goals.

Find out which type of investors fund companies at your stage of development. Your plan will be rejected out of hand if you don't choose wisely. Moreover, you don't want to go on record as having made this type of mistake lest you have to come back and ask for an investment from this same person or agency later on.

First round financing is usually a subject for venture capitalists, government loans and grants, and angels. Second-round financing, which typically goes toward expansion and growth, is the specialty of other types of investors such as banks, finance companies, and business brokers.

Are you seeking all your funds from one source or from a number of sources?

As mentioned above, some investors, such as angels, tend to fund in groups called syndicates or consortiums. This is for two primary reasons. One is that they want to spread the risk around. The other is that they cannot individually meet the amount you are requesting. Find out what each investor's dollar limits are.

This rubs two ways... Some investors don't want to share the return and would not want to join such an arrangement. Similarly, if you have previous funding from somewhere else, try to find out in advance how your new and current investors would feel about your bringing another investor on-board. You have to spell out very carefully the terms, risk, and standing.

For some investors, bringing others on board is expected. For instance, corporations expect it and they sell stock for that reason. They care somewhat about how much stock goes to any one shareholder but, in general, they welcome new investors. Similarly, general and limited partnerships are often set up to attract new partners. Some real estate partnerships, for example, have a few general partners who run the business, but actively solicit limited partners who only invest funds by buying shares of property.

If you intend to solicit additional investors, your plan needs to be sent to the right sort of investor. It has to spell out exactly how that arrangement would work and how each partner or shareholder divides the equity and risk.

What form of payback can you offer?

This may sound obvious. People pay back investors out of profits, don't they? Well, no. Actually, investments are usually paid back out of sales. If you start tapping into your profit, then you have nothing to pay yourself or your employees with. You also eliminate your ability to reinvest in your business without the need for further loans. See Part Two: Business Plan Financials, for more information.

There are many ways to formulate a payback strategy. Furthermore, each investor has a preferred method of repayment. For example, a venture capitalist generally wants to be cashed out. You have to show that you can earn enough to do that. Will you be in a position to sell the company when the repayment is due? Will you be in a position to make a public stock offering that will cover the debt? Or, can you take on partners who will cover the cash out?

For these reasons, it is important to find out what sort of repayment plan (exit/payback strategy) your investor expects. Then you need to figure out if you can meet that need one way or another. If not, find another type of investor or change the way you do business.

What is your purpose for seeking funding?

Does your investor want security or collateral? The reason you are asking for money affects who you ask. If you are financing growth or expansion, you might look to stock offerings instead of a bank or an angel. On the other hand, if you have assets in the form of inventory or accounts receivable, you may find finance companies who will loan you money with that as security. As you pay the loan back, you can borrow more up to a certain limit. If your purpose is to purchase property or buildings, you might want to seek out certain government loans who prefer this type of security.

At the same time, consider leasing or renting. If you need money to buy capital equipment or other fixed assets, such as special machinery for production, you may want to explore leasing it from the manufacturer with a buy-out option.

Your plan needs to highlight the purpose of the funds throughout. Use this information to help you select the right investor.

Do you have any intellectual property or other unique traits? Investors are favorably impressed by companies who have intellectual property such as patents or proprietary technology because that can be a significant business edge. Even if you don't hold patents, you may have some other unique attribute that is in demand. Perhaps you have developed an electric car battery that lasts for a week without recharging before anyone else. That might be interesting.

List these unique features prominently in your plan. Remember that what is obvious to you may not be obvious to your reader. Tell your reader why this is an asset, how it affects demand, and how long this advantage will be yours.

What form do you want this investment to take? Do you want to retain controlling ownership? Do you want all the money up front? Do you want a line of credit? A secured or unsecured loan? Do you want to offer stock? Be sure that you match your investment requirements with an investor who can handle it.

What Venture Capitalists Typically Want

Large, strategic markets

A market opportunity (customer demand) sufficiently large enough to build and support a business with at least $50 to $100 million in annual revenues. One way to demonstrate demand is to use a software product like "Good Keywords" (available at www.goodkeywords.com) to show exactly how many people entered a certain keyword or key phrase into the Internet search engines. This is current reality. People are actually looking for these things and you can list the number of searched in your plan as well as PowerPoint presentation. Try different variations of keywords and keyword combinations to make your case.

Early-stage

Companies that have developed the basic idea and business strategy, assembled a core team of people, and perhaps made some progress raising their own capital or financing from family and friends. These startups are typically interested in raising $2 to $10 million in a first or second institutional financing round.

An aggressive, growth-oriented business plan

The company's business plan should demonstrate its plan for rapid growth—startups that can become #1 or #2 in a specific market segment. Your plan must show how your company will become profitable and provide investors with a significant return on their invested capital in the near future.

Proprietary technology or other barriers to entry

Can't someone come along and blow you out of the water? That's one thing investors are afraid of. So, how will you prevent others from eating your lunch? Investors love patents, but those take time and often can be circumvented by a clever competitor, nevertheless, if you have a clear technological innovation that is patented or warrants a patent, then use it. According to a patent attorney friend of ours, "a patent just gives you the right to sue someone." Keep that in mind. Anyway, what have you done, what are you doing, and what can you do to prevent competitors from entering your market?

Strong management

Investors want to see entrepreneurs with relevant and successful business experience who are bright, talented and have a deep understanding of their market space and the business model driving their company's success. (Not necessarily a complete team.) Many investors have a golden rolodex full of potential management team candidates, who have made them money before, they've worked with before, or they trust to get the job done – investors can be a wonderful resource for recruiting the talent you need and, with them on board, it makes the investment more attractive to the investor who recommended them.

An exit strategy for the investors

Show/explain how they will get their money back + a significant return on their investment. Notice that we don't say a "reasonable" return on investment. Reasonable is no fun and certainly not worth the risk they are taking on your deal. Who can you sell your business to and why would they buy it? Going public (IPO) is a long shot, do-able, but statistically a very long shot.

A desire for advice and coaching

If you are an "I can do-it-myself" smart-ass, you are doomed to remain all alone… Investors will likely invest because they can see their way to helping you succeed (e.g. assure the success of their investment). If they can make a few calls and get your product in to the Sharper Image Catalog, for example, they will feel more inclined to invest because they can help. Likewise, if they feel that you will utilize their wisdom, then you won't make certain catastrophic mistakes. Many angel investors have certainly been through a variety of harrowing experiences that they never want to see repeated, and they certainly want to head you away from them. Are you someone who pays attention and takes the right action? Remember, these people have lived for a while on our planet and can smell/spot/sense a self-righteous ego-maniac in a heartbeat. (Read the book: "*Blink*" by Malcolm Gladwell.)

The company valuation must fit within risk/reward expectations for the investment

How much is your company worth? They all will ask. Remember, the value of your company is based upon what it will be worth in 3-5 years, discounted by the cost of money and especially the risk (or doubt) of you making it. This is why everything you do and put in your plan must add up! You must eliminate or minimize all risks (recognize and acknowledge them, then explain how you will deal with them). Your management team are the people who will take the investors' money and use it to build the business. Do they know what they are doing? (Do the investors believe it?) Your numbers must make sense. Everything you do, say, and demonstrate must build value in your business – provide the maximum certainty of success by years 3-5 in order to sell your business for a high multiple. You and your investors must fly over this hurdle.

Use of Funds

You must be able to demonstrate how you will use an investment to *complete* at least some of the following:

- Proof of concept
- Prototype of its product or technology
- Patent filing (for broad patent)
- Product development
- Market research
- Product launch
- Major contract or customers
- Management team
- Reduce other investment risks

What can your investor do to help besides investing?

As mentioned above, some investors can offer management advice, product guidance, or business contacts. They are often a great source of contacts with other businesses or people that you might benefit from knowing. Having a good relationship with your investor can also help if you ever get into temporary trouble and need some understanding. Ask yourself:

- How typically rigid are they about the terms of the investment?
- Does your investor have shareholders or government regulators to satisfy?
- Does your investor make his or her own decisions or answer to a committee?
- When do you want the money?
- Do you need it all right now or a little bit at a time?
- Can you coast along as you are?
- Some investors move more slowly than others, and some investment instruments take longer to implement. For example, if you are self-investing, you may have to wait until your CD matures.
- Am I willing to invest in this myself? Some investors are impressed by your personal involvement or by a list of others who have invested in your business. Putting your own money where it counts can be very persuasive.

Choosing the Right Investor – Read this excerpt (online) from *Business Black Belt*

Principles of "Fund-Raising From the Heart"

by Lynne Twist – The Soul of Money – Here is another perspective by a person who has raised money for the Hunger Project… having dealt with some of the richest as well as the poorest people on Earth (we highly recommend reading this book to give you another perspective on money):

- Fund raising consistent with the mission will always produce enough money.
- Effective fund raising is a stand for the mission and the vision so potent that it draws the resources and support it needs to fulfill itself
- Effective fund raising is a function of *who you are*, not *what you do*
- Money given to make a difference does so; it is blessed money
- Fund raising is giving people an opportunity to be vested in a new and better future
- You honor, validate and serve people with the request itself
- The act of investing calls up accountability and ownership
- When you bring joy, privilege and honor to fund raising, it is always productive—and fulfilling
- Clarity, authenticity & boldness attract money

Writing a Plan that Gets Read

Investors tell one horror story after another about poorly written business plans. Although that may sound cynical, realize that you usually get just one opportunity to demonstrate your competence and the feasibility of your project.

With the information presented in this chapter, perhaps you now have a better idea who should read your plan. That selection alone goes a long way toward determining what information your plan should address. For example, you know that a venture capitalist expects a very different payback strategy from a bank.

Presume, however, that all you have learned is also known to your competitors: those other businesses who are also presenting plans to the same investor. Now, your only remaining edge is to write a more dazzling and communicative plan than they have. This part of the chapter helps you do just that.

Imagine all the other plans your investor may also he considering. Is your plan competitive?

Think about which points make your business most competitive. Those are the points that make your plan competitive too. You are competing for funds that other companies want. Consider your strengths and illuminate them. For example:

- Can you offer a cash payback?
- Do you have other lenders involved so each one's share of the risk is smaller?
- Is your business is low-risk?
- Is your business high-risk but in a well-documented emerging market?

Put yourself in your investor's position

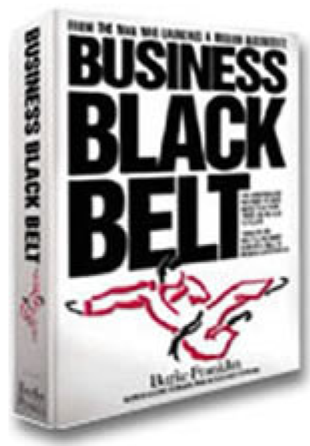
Even small companies should not overlook their ability to compete, although they often do. For example, if you can get space for your pizza parlor in a mall, you are probably more competitive than the street-corner pizza parlor asking for funding since you have the benefit of greater foot traffic found in malls. If you were investing, wouldn't you, all other things being equal, choose the mall company on that basis?

Tailor your material to your audience. You would not present the same sort of plan to a loan officer in a bank as you would to a venture capitalist, a grant agency of the government, or even to a potential key employee. This does not mean that every part of your plan must be different for each audience, it simply means that you rely on your research about what sort of things your loan officer or your venture capitalist cares most about. Be sure that you have customized your plan so as to specifically address those different interests.

Often these differences show up in the Executive Summary, the Exit/Payback strategy, and in other financial sections. For instance, a venture capitalist is interested in higher risks because of their higher gain potential and wants cash as repayment. The loan officer in a bank wants almost the opposite: a low risk, modest gains, and will accept other forms of payback. Read more about this in the section, "65 Ways to Finance Your Business."

The Money People

The meek shall inherit the earth, but not its mineral rights.
~ J. Paul Getty, oil magnate



Excerpted from Business Black Belt by Burke Franklin

People will give you money for your venture provided it furthers their agendas.
Know who you are selling to if you want to speed the process of getting cash.

There are a multitude of good reasons why many business plans are never funded. Your idea has to make sense, your business model to develop, market, and sell your idea has to make sense, and you and your management team have to demonstrate that you have enough sense to succeed. Fall short anywhere and your plan goes into the trash.

Angel Investors

"Angel" is the term once used to refer to rich individuals who backed Broadway plays. Suffice it to say that today, "angels" likely to invest in your business have a different motivation than supporting the arts. Angel investors are private individuals who usually have earmarked a portion of their portfolios (savings, cash, etc.) for risky, high-return investments. Most angels have been entrepreneurs themselves, so they understand your situation, have vision and can stomach the risk. Often, these people have a personal and possibly an emotional interest in the subject of your business and therefore may put in more money, at a more favorable valuation to you. Amounts they may invest vary greatly, but you can imagine that as your requirements increase, the number of angels likely to, and capable of investing, diminishes exponentially. $50,000 to $250,000 are likely investments per individual. Statistically, they are middle-aged, well-educated white men... make your type large enough to read, use good grammar, no typos, and make sure you understand your numbers! If one angel isn't enough, you can approach one of the many angel groups. (Please visit www.jian.com for a listing.)

Venture Capitalists

Venture capitalists are expert investors who usually specialize in a few industries. They perform sophisticated analyses of your opportunity and structure the deal to cover their interests. Venture capitalists may solicit other investors and institutions to entrust portions of their portfolios to them to invest in potentially high-return opportunities like yours. Everyone who plays this game knows and accepts the risks and they use the following guidelines:

o *Does your business fit into their niche?* It's likely you'll get a warmer reception (and a more valuable partner) if you choose an investor who already has a portfolio with many companies in your industry or market. They already understand the common difficulties and opportunities in your industry, and they may be able to provide much synergistic assistance for your venture.

o *What's your advantage?* Proprietary technology-a patent, process, trade secret, or something that can be protected from competition demonstrates an advantage. Regardless, you must have a unique product, process, or something special that can make a lot of money. An improvement or product that addresses a very limited market isn't nearly as interesting as something that appeals to a broad market.

Never invest in a programmer with a tan.
~ Derek Blazensky, Adobe Ventures

o Can they bet on your management's track record? Investors usually bet on the jockey, not the horse. You must assemble a proven management team. A venture capital firm usually wants to invest at least $2 to $3 million or it's not worth all the effort. Since the stakes are higher, they want to see an experienced management team capable of capitalizing on your unique situation. Venture capitalists and most investors are masters at sizing up management. Any attempt to convince them that an inexperienced manager can do the job will only damage your credibility. It's much better to describe the management competence you intend to hire. Plus, you must have a team-investors want to be assured that the business will continue should something happen to the founder.

o *Will they get a ten to twenty times return?* For the risk, most investors expect huge returns. Afterall, there are some stable, growing companies whose stock can be purchased which will generate respectable returns with much less risk. Are you making a better offer? Will an infusion of money make a big difference? When you project your future income, their investment should enable you to do big things that will catapult your company forward. Often they look at the “J curve,” which projects the difference in growth (revenue and profits) of your business with and without their investment. The upward point on the curve in the 'J' is the point where they've written you a check and the business takes off. If it will. This means that your business must be 'scalable'-bigger is better-like rolling-out a franchise (like Starbuck's), building a factory that will enable you to manufacture a gizmo inexpensively in quantity and therefore generate huge profits...

Why do you want to be my toy?
~ Ward Payne, OSCCO Ventures

o *What is your (their) exit strategy?* This doesn't necessarily mean that you must leave, it just means that you must sell your investors on how they will actually get their investment plus a return out of your business. When you can convince investors that your company will grow to $[20] million and go public in [four] years or sell to a larger company, investors will see that your opportunity is indeed worthwhile and that you have provided for them to make their money. (You must not resent them making a fortune from your hard work and creativity-they are providing the coveted cash without which you go nowhere... or you make very little otherwise.)

Getting your plan on top of the heap

Investors, especially active venture capitalists, see a foot-high pile of business plans every day. To get yours directly into the right person's hands, the best way is to have someone who knows the investor personally introduce or recommend your plan to them. When venture capitalists do their triage on the deals that come in their door, the ones recommended by someone they know are read first and get the highest consideration.

You can take NO for an answer

Even though you usually only get one chance to make a favorable impression, “No” often means “not now.” Come back in 6 months... when the market conditions are more favorable... when your product is further developed... ‘No’ may also mean that this investor just isn't the right one for your deal. Their portfolio may require a different investment to give it the balance the VCs want, etc. Ask if they know another investor who might be a better fit.

A couple of things to consider before looking for investors

Often, when starting a business, many people think they need investors. I always wonder how much you can do without investors. Instead of spending your time trying to sell a portion of your business to investors, what if you invested your energy in selling your product or service to customers? Obviously, if you need expensive capital equipment to get going, you'll need cash, but what if you could get the equipment or to use it without cash? Having no money compels you to be creative. I'm in favor of exercising my creative talents as far as possible before taking on investors.

I'm also in favor of starting small to experiment with what works with customers. We often create simple desktop published brochures, photocopy them, and use these as sales tools with real customers before we commit to a run of 10,000 to 100,000 expensive full-color brochures. It never ceases to amaze me how many changes and improvements we make after we start showing customers our materials and then answer their questions. Other ideas include renting space in a customer's building in trade for your services. You may even win their business with an offer like this. A friend of mine runs his graphics business in the spare offices of a public relations firm in downtown San Jose, California. And, he gets a nice location, extra business and the occasional services of a competent staff.

Big bucks can mean big mistakes

With a lot of money in your pocket, you can make big mistakes. Unless you've tested your marketing materials, refined your business model, and know how your customers will respond to your product or service, you may be tempted to put a lot of money behind some invalid assumptions.

You really want to know what's working and what's going to work before getting money to expand. If your business doesn't work out, the investors will own your business, you'll still not have enough money to make the necessary corrections, and if you need to ask for more money, your position is weak. You don't want to go out whole hog and mail 500,000 mailing pieces without testing. If you have no money, you can mail only 5,000. Then, if you lose it, you've only lost 5,000 mailing pieces, not half a million. Keep testing everything in your business on a small scale. Then when everything is working, you can build on it with a big investment. You'll also be able to promote your business to investors with greater confidence and come from a very strong position.

To be successful,
keep looking tanned,
live in an elegant building
(even if you're in the cellar),
be seen in the smart restaurants

(even if you nurse one drink)
and, if you borrow, borrow big.
~ Aristotle Onassis, Greek shipping tycoon

Bankers

If you're looking for a loan or line of credit over $100,000 or SBA-backed financing, you'll need a business plan. Bankers are almost the opposite of investors. They loan the money deposited from people who've been guaranteed to get it back with a little interest. The money was deposited with the idea that there's little risk, so bankers won't risk it. Bankers use the five Cs: Credit, Character, Cash-flow, Collateral and Capacity—when evaluating a loan. They also look at a company from a deliberately pessimistic point of view to minimize the risk, so you must have good answers to their questions to demonstrate that you understand the issues.

Zen and banking

The old saying is that bankers will give you the money when you don't need it. This echoes the Zen philosophy: When you really want something, you don't get it. (And you can't not want something in order to get it either!) When you completely let go of something, it comes to you and you have it. When you don't need money, bankers seem to want to give you money. That's the way the world works. Nobody wants anyone who's desperate. So, the more you try to get bankers to give you money, the more they don't want to give it to you. (The more you throw yourself at investors, the more they turn away.) Let's look behind the scenes.

The nature of the banking business

For example: You ask for a $100,000 loan. The way the banking system works is that they mark up the money they pay depositors by about 2% (the spread). In the backs of their minds, they're looking at you and considering, "What if you can't pay this $100,000 loan back?" Remember, in business you have to make up any losses from profits, not sales. So, how much profit is lost if they lose your loan? Two percent at $100,000 is all the profit from five million dollars worth of loans. So if your loan goes bad, that means they lose the equivalent of all the profit they would make on five million dollars worth of loans they've made elsewhere.

They need your first born

Now you can imagine why they scrutinize every loan. They look at how much business they would throw away if something went wrong with yours. That's why they're going to look at everything about you, including your character. Your credit history plays a big part here. They want to be sure you're the kind of person who's going to pay back the loan. They don't want to get left holding the bag because they'll lose all their profit. That makes it even more imperative that you know what you're doing in your business. So what do you do? You've got to show them a track record. You need to prove that you can pay your loan back no matter what. That's also why they want collateral-it's insurance so they won't have to take it out of their slim profit.

Prerequisites for a bank loan

A bank wants to see a track record of profit for the past three years which also means you have to have been in business for at least three years. Banks are looking to finance growth, not cover for inefficiencies. Show them how you'll use the loan to improve efficiencies in your operation. For example, buying a printing press will save money over buying printing if you spend a fortune on printing. Then the loan would make sense. However, if cash is short because you're slow to collect receivables, then the loan doesn't make sense. If you could collect your receivables faster, you wouldn't need the loan. They prefer a debt-to-equity ratio of less than 3 to 1. This is one of a banker's measures of risk. *Bankers hate risk!* The debt-to-equity ratio compares the amount of what you owe to what you own. Banks expect that you will repay your loan out of cash flow-show that you'll generate enough cash (not just profit on paper) to repay your loan. If you can show that the loan improves cash flow, so much the better.

Sandbag your projections by just enough
to assure that you hit your numbers.
~ An anonymous banker

If you can hit your projections then apparently you understand your business and have it under control. You should have solid financials based upon conservative assumptions. Future projections should be conservative and show steady growth with profits over the next five years. Too much hype and too much projected growth equals too much risk.

Part of your financing package should always include a reasonable explanation of anything unusual in your credit report. I recommend including this explanation up front in your financing package because inevitably they will ask you about this unusual item on your credit report and you'll have to address it. If you want to speed the process of your financing, have this answer prepared in advance and include it with your package. If nothing else, at least a half page explaining the situation. For example, right now my TRW report has grown to about seven pages since I started my business. It got that way because bankers, investment firms, and finance firms have looked into my TRW report over the years for credit cards, limit increases, leasing, equipment purchases, and a number of other things. Every one of those inquiries appears on my credit history.

Many years ago, I had a pager that I rented from Pacific Bell, and one month I missed a payment on that pager. I thought I turned it in and made my final payment, but because the phone number was wrong, they added to my TRW a debt of $27 that they say went to collections. I stubbed my toe on the $27 in the process of buying my house. It came up when we got our credit line, it came up when we got our SBA loan, it reared its head again when we got our credit increase. Every single time, I needed to explain why this $27 in collections on a simple pager was on my TRW report. The banks questioned nothing else. (Seven pages worth of TRW and the only thing that really disturbs anybody is the fact that a $27 pager payment was on there for collections!) Obviously, when I first heard about this debt, I immediately sent $27 because that was infinitely cheaper and easier than trying to argue with the company. Nevertheless, for all future lenders, I prepared a half page explanation of why my $27 pager payment is on there.

Use your business plan as a brochure, a tool to coach the loan rep to sell your company internally. Believe it or not, bankers want to know about your market, so include a strong analysis of your market as well as a sensible marketing plan. Back up your sales projections by demonstrating the demand for your product or service and your ability to reach and sell to customers who will ultimately provide the cash to repay your loan.

When you talk to your banker, remember to remain calm and sane. Too much entrepreneurial enthusiasm frightens bankers. This is a matter-of-fact deal, business as usual.

Friends & Relatives

The good news is that they know you. The bad news is that they know you. When you ask those you know for a loan, the first hurdle you must overcome is your reputation and all your past sins. You might no longer do the foolish things of the past that maybe some friends and relatives have indelibly etched in their memories. Your new business plan will update your friends and relatives to the current you and prove that you are responsible with their cash. You must reposition your past as a time full of rich learning experiences from which you will now earn yourself and others a fortune.

You'll probably have to work extra hard to prove that you know what you're doing. Thorough market research will help demonstrate that your business makes sense.

I think it is important that you make it clear that you are in charge. Accepting an investment from family and friends opens you up to a variety of emotional hooks and distractions beyond that of most investors. The last thing you need is loved ones telling you how to run your business. An advantage to having friends and family invest in your business is that it keeps the money in the family or community. If it's a failure, then you run less risk of repossessions and you enjoy some slack, but you'll have to pay everyone back or make good. Otherwise you'll never hear the end of it.

Finally, you'll need to overcome any emotional entanglement as you present your plan. I was very annoyed by most of my grandmother's questions before she gave me $5,000 for my do-it-yourself used car lot. Don't be distracted by your emotional reactions. Certainly any questions are reasonable and any investor would ask them, so treat your friends and family with the professionalism you'd present to a stranger. This will be key in overcoming past indiscretions and proving your maturity to manage your friends' and family's cash well.

Senior Management

If you haven't taken the plunge to go on your own, consider the benefits of having the company you work for right now back your ideas. Management wants to know what resources you'll need. How long before payback? What's the risk? A thorough business plan helps you justify your program and gain your management's sign-off. And you can design your plan so you can collect a percentage of your success.

The first thing you'll probably hear is, "Great idea... write me a proposal." This is where most good ideas die. Of course, we promote BizPlanBuilder for just such a purpose and I recommend including your name in the footer of every page lest someone else claim your ideas as theirs. Obviously, what you must pitch is your ability to expand company sales and profitability, and your projections must show sufficient return on investment (just ask your boss how much). Management will likely want to be informed of key milestones and they'll watch you like most investors. In the next chapter, I elaborate more on the possibilities of pursuing business development within your company.

Employees

Sure, you can tell each one exactly what you want them to do, but if you want a high-performance team, you need to paint the whole picture. Many a manager has come close to the funny farm because he or she tried to wing it verbally. Now you can take your time to write a comprehensive plan your people can buy into and follow. Plus, you won't have to explain your plan over and over. BizPlanBuilder makes it easy to engineer changes in your company and engage everyone's support.

Business Black Belt Notes

- What would you want to know before investing in a business?
  Be prepared to answer those questions.
- Venture Capitalists compete with each other for funds.
- Bankers must repay their depositors—with a 2+ percent margin, they need a 98+ percent assurance that you will pay them back!
- Treat your family and friends who invest in you with the same respect you would a stranger.

Click here to learn more about *Business Black Belt* or to order a complete hard copy version for yourself or a friend.

Are You Ready to Ask for Funding?

The act of writing the plan is essentially making your pitch for funding. After you have written the various sections, read the section on how to finish up and present your plan in "Presenting Your Plan." It includes information about the order of presentation, writing your cover letter, what to put in Supporting Documents, and more ideas for success.

Don't appear desperate, even if you are. The harder you ask, the faster an investor runs.

Big bucks can mean big mistakes. Sometime people get carried away and spend their funds in unwise ways. Be sure that you've tuned your business practices, refined your models, slenderized your budgets, and whatever else you have to do before spending this very finite source of money. Be sure that if you get into trouble, you have reserved enough to get back out. Keep testing. It will stand you in good stead throughout your business career.

What is the best corporate type for an offering?

Can it be an "S" Corporation, Limited Liability Company "LLC" or "C" corporation?

Which is best?

This depends on the type of transaction. S Corporations do not make good choices for equity offerings simply because most States limit S Corporations on the maximum number of shareholders that can be in the company (usually 35-75).

Limited Liability Company "LLC" formats are popular with companies that have a single project (film deals, real estate development, etc.) where there is a definitive end of the transaction, and with companies that are going to remain private and only need one or two rounds of funding. In an LLC the company sells a membership unit in lieu of stock – It is basically an ownership stake in the company the same as stock ownership is but with some "pass through" tax advantages at the corporate level.

C Corporations are the most used entity type because the C corporation structure provides for more flexibility in future rounds of funding and allows for the company to go public without the massive entity restructuring that would be needed in an LLC.

However, you could start with the simplicity of an LLC, then as your plans become more clear and you have some financed in place, you can change to a C corp. before things get more complicated.

Legal Warning: Before You Ask for Money

Before you approach any investor, be aware that soliciting investments for your business actually constitutes selling securities. That activity falls under the jurisdiction of the Securities and Exchange Commission (SEC). You may be personally liable to your investors for any money they may lose as a result of investing in your business. Regardless of corporate status, you sold them the stock, so you have to pay them back! If in doubt about your status, consult your business advisor or the SEC. You may need to use a written Offering Circular for soliciting investments.

20 Questions

Until one is committed, there is hesitancy, the chance to draw back, always ineffectiveness. Concerning all acts of initiative and creation, a whole stream of events which no man could have dreamed would have come his way. There is one elementary truth, the ignorance of which kills countless ideas and splendid plans: that the moment one definitely commits oneself, the Providence moves too. All sorts of things occur to help one that would never other wise have occurred. A raising in one's favor all manner of unforeseen incidents and meetings issues from the decision,

~ Goethe

This list was originated to help develop advertising brochures and promotional pieces. The Top 20 Questions are what most people will ask you about your business. Some of these answers may be appropriate for your cover letter.

1) What type of business do you have?
2) What is the purpose of this business?
3) Who is your target audience?
4) What is your product or service?
5) What is the product application?
6) List three unique benefits of your product.
7) What is your reason for being in business? (What's a nice person like you doing in a business like this?)
8) What led you to develop your product?
9) Who is your competition?
10) How is your product differentiated from that of your competition?
11) List the top three objections to buying your product/service immediately. (Address your objections up front; that way you are never on the defensive, acting like you overlooked something or have something to hide.)
12) What is the pricing of your product versus your competition?
13) When will your product be available?
14) Is this product or service used in conjunction with other products?
15) Are you making any special offers?
16) What is the key message or phrase to describe your business in one sentence?
17) What plans do you have for advertising and promotions?
18) What datasheets, brochures, sketches, photographs, related press releases or other documentation about your product/service do you currently have?
19) How will you finance company growth?
20) Do you have the management team needed to achieve your goals?

Set Powerful Goals!

While I believe that taking a moment to write down your goals clearly is useful…
I used to write down every year that I would get my pilot's license by the end of the year.
Several years later, I changed my goal to, "Sign up for flying lessons by this Friday"
~ Burke Franklin

Although successful people are visionaries and intentional dreamers, they are also stable and goal-oriented. As Harvey Mackay cited, "A goal is a dream with a deadline." Successful people have written goals. They communicate their goals, visualize the results, and reward themselves and others for the accomplishment of milestones.

The following tips will help you to set and achieve powerful goals:

- Before setting a goal, think about what you really want in your life. Many of us set goals to do what we think we should do; however, we do not want the results enough to remain committed to the goal.
- Ask yourself if your goal is in alignment with your priorities in life. When your goals and priorities are not aligned, a sense of being overwhelmed can stand in the way of accomplishing your goals.
- Ensure that your goal is realistic and achievable. Many people give up on trying to reach their goal, because they were hoping to achieve the impossible when they set the goal. However, it is also important to engage in possibility thinking and to realize that you are capable of achieving what others might consider impossible. Give your goal some "stretch."
- Clearly state your goal by describing your desired results exactly as you wish them to be. State the goal in terms of what will be accomplished and when it will be accomplished.
- Ensure that your goal is measurable by asking yourself how you will know whether you have achieved this goal.
- Write your goal on paper, and keep this piece of paper in a place where you can look at it every day. Fewer than three percent of all adults have written goals, and research shows that people with written goals are more likely to achieve them.
- Make a commitment to yourself to reach the goal, ensuring that you understand the effort that will be involved in doing this.
- Visualize the end result. Close your eyes, and create a mental movie of how the end result will look. In this mental movie, visualize yourself enjoying these results. Repeat this visualization daily, picturing yourself as if you have already achieved your goal.
- Describe the benefits of your goal. Do this on paper, so that you can read the benefits whenever you might struggle with doing the things needed to reach the goal.
- Establish milestones as mini-goals, and write them down as well. It is easier to work on one small step at a time than on a big goal.
- Develop and implement an action plan. Determine the steps that you will take in order to achieve your goal, and write these down.
- Communicate your goal to supportive people who might be able to contribute to its achievement, either through direct efforts or through encouragement.
- Reward yourself as you reach milestones along the way to achieving your goal. By giving recognition to ourselves for our accomplishments, we expand our enthusiasm and energy to accomplish more.
- Remain flexible. Although you will set a date for accomplishing your goal, there could be an emergency situation that you need to handle en route. When taking care of this situation is a higher priority than the goal, allow yourself to adjust your schedule for accomplishing the goal. Also, as you achieve your goals, you may change direction and will, of course, set new goals for yourself.

- If you make a mistake, give yourself permission to start again. We are all in a constant process of growth and development. We can use our mistakes as learning opportunities and become even stronger than we had been previously.
- Your goals, integrated with your dreams, will enhance your success, both in your business and in your personal life.

Company Direction

A man to carry on a successful business must have imagination.
He must see things as in a vision, a dream of the whole thing.
~ Charles M. Schwab

The Company Direction section of your plan explains to your reader why you are in business and what you intend to achieve. It typically begins with a short statement of your present position, even if you are still in the planning stage. Then it covers your vision for the future and your mission. The rest of the section explains the goals and objectives that under-pin the achievement of a successful mission.

The primary purpose of the Company Direction section is to show your reader a picture of the passion, confidence, and commitment of your business. This chapter covers:

- Components of the Company Direction section
- Writing about Your Present Situation
- Writing the Vision Statement
- Writing the Mission Statement
- Writing Goals and Objectives
- Examples of Common Business Goals
- Company Direction Checklist

Components of the Company Direction Section

Your Company Direction section should be concise. Think about how to organize it for easy reading. You might use short sections and bold titles, set off parts in highlighted or quoted paragraphs, or use a bold font. Like an Executive Summary, it should grab the eye, which helps engage reader interest.

Here are the typical components of a Company Direction section in their typical order. The reason for this order is based on the notion that you should first know where you are, then where you want to go, and lastly, how you intend to get there.

Vision Statement

A brief, succinct statement of where your business is headed. It should cover some reasonable time span. For example, new businesses may only cover a few years into the future, while others in more mature and less volatile industries cover maybe ten or into the future.

Writing the Vision Statement

Your Vision Statement is a statement of your company's direction, but it also shows your company's personality. The Vision Statement should be inspirational as well as truly meant. It, and the Mission Statement, are probably the parts of your plan that most directly that let your company's personality shine through.

A vision is important for two reasons. First, it gives your company character. Your reader can visualize your business almost as a person: as someone they can like, trust, and believe in. It helps them see your company as you do, not as an impersonal piece of paper.

The second reason for presenting your personality is that it makes for more interesting reading. That can mean the difference between your plan being glanced at and actually read through. Remember, an investor may have to sift through dozens of plans, and you want yours to stand out from the crowd both by its force of character and by its well considered data analysis and planning.

Vision statements are not designed to express concrete ends, but to provide motivation, general direction, an image, a tone, and a philosophy to guide the enterprise.

Mission Statement

A short statement of how you conduct business so that you achieve your vision and goals—the levels of attainment required to succeed in your mission.

Writing the Mission Statement

Your mission statement should be one you can sum up in one or two sentences or a short paragraph or two. Fred R. David, a prominent strategist, in his book, *Strategic Management*, suggests these as questions a mission statement should answer.

- Customer – Who are and who will be your customers?
- Product – What are your company's major products or services?
- Markets – Where does your company compete?
- Technology – What is your company's basic technology?
- Survival, growth, and profitability – What is your company's commitment towards economic objectives?
- Philosophy – What are the basic beliefs, values, aspirations, and philosophical priorities of your company?
- Self-concept – What are your company's major strengths and competitive/technological advantages?
- Public image – What is your company's public image and standing in the community?
- Employees – What is your company's attitude toward its employees?

Some companies communicate their mission in just a sentence or two. As an example, here is JIAN's three-sentence Mission Statement:

JIAN's mission is to be the #1 provider of tools for the education and successful business management of businesses worldwide, with a commitment to quality that creates powerful opportunities for our employees and customers to fulfill their visions. The foundation of JIAN's success is built upon using our own products and services to organize our ideas into plans of action. We are an energetic, high spirited and fun organization of extraordinary relationships grounded in integrity.

My favorite for JIAN: *Build tools, minimize BS, and help people succeed.* This is actually in keeping with Guy Kawasaki's idea of "Make Mantra" a short reason-for-being that all of your people can remember as their daily purpose for showing up and making a meaningful contribution.

A growing number of larger or more progressive organizations go further than just issuing a Mission Statement. They add statements on company philosophy and/or company guiding principles to expand on their mission statement.

Whatever the length or format of your statement, it should be collaborative and every word should count. A Mission Statement should be both highly descriptive and inspirational. It should be broad enough to cover a range of strategies and objectives, while calling attention to your top priorities.

Immediately following your Mission Statement, you may also want to include a sentence or two answering the following question: How would achieving your mission benefit your company economically, and by implication, your investor or lender? This answer could significantly assist with their buy-in to your plan.

Do's & Don'ts for Writing Your Vision & Mission

Here are some thoughts for you to bear in mind while writing this part of your business plan:

- Keep your Mission Statement real. Don't promise more than you can deliver. If the vision is clearly achievable, rather than self-serving fluff, you can more readily develop a concerted team effort and build enough momentum to make it happen.
- Be sure your team concurs on all points. This helps ensure that everyone sees the company the same way, and is committed to achieving the same things for the business.
- Many elements of the Company Direction section can be used in other presentations when the full plan would not be suitable. For example, you may want to use this section as the basis of a live presentation to generate key employee interest in your company or to generate distributor interested in your product.
- The vision statement should lay out a path for your company to stretch its possibilities, yet it must remain simple, believable, achievable and understood. All people involved in, and associated with, your company should be able to comprehend and in some way relate to the vision. Otherwise your company and its management may wind up making more poetry than product." It is still the wisest vision of all to provide real products and services that real people will buy!

Objectives

The specific and measurable actions you intend to take to achieve your goals.

The entire Company Direction section of the plan does not need to be long. Two to four pages is sufficient for most companies. In fact, a long, flowery Company Direction section runs the risk of sounding false or tedious. Some companies include a Mission Statement as part of their Company Overview, or Executive Summary.

Writing Goals & Objectives

In your Company Direction, you only need to include as many goals and objectives as you think are necessary to demonstrate that you can achieve your vision and mission. Investors are more interested in your overall picture than in your daily operations. They want to know if your business is based in reality and has someone trustworthy to run its operations. There-fore, include only those goals that are key to achieving your mission and omit the objectives unless you feel they are important to show that your goal is truly attainable.

The difference between goals and objectives is simply that a goal is the level of achievement you must to attain to reach your mission, and the objective or objectives are the specific measurable actions that act as stepping stones to that goal.

When all your goals are achieved, your mission must logically succeed. That is why goals, and the objectives that underpin them, must be measurable and in alignment. Otherwise, you have no way to know what went wrong if you fail.

For example, if your goal is to have a toy ready for the market for the Christmas season, its objectives are the list of things that have to happen first, such as packaging, design, advertising, distribution, and manufacturing.

Constructing Measurable Goals and Objectives

While the Mission Statement conveys how your company conducts its business, the goals state which accomplishments must take place to move the company toward its vision.

Goals must align with the big picture of your company. They show you understand the business, know your resource requirements, have the ability to marshal those resources, and have generally been thorough and focused. In other words, are you goal-directed?

Here are some of the attributes of well-formulated goals:

- Have financial objectives
- Deal with vital issues
- Contribute to profit or productivity and provide a return on investment
- Are measurable and specific
- Tie into the company vision/mission
- Are stated as end results
- Offer challenges but are realistic
- Are under your control
- Are time limited
- Make strategic sense
- Position the business for growth

Where Goals Come From

Goals spring from your analysis of the current level of your company's performance as compared to your vision; that is, where you want the company to go. Your Market Analysis and present-situation description provide the key to your goals. Your Vision and Mission Statements provide the platform for aligning them. The other sections of your business plan pro-vide the framework for, and backing data about, how you plan to reach your goals. The process, then, shuttles back and forth between analyzing your financial and marketing pictures and setting goals and expectations based on those pictures.

Financial Goals

As stated earlier, all goals should have financial objectives and be bounded by a time frame. They should be aimed at increasing or maintaining your company's financial position in some way, even by implication. Therefore, placing a dollar amount and date on a goal is a good way to ensure you have built in some measurability and that they materially contribute to the profitability of your business.

Here are two ways to formulate financial goals using data from your overall plan:

Break-even If your goal is to break even by a certain date, you can test it by calculating the dollar value of the sales you must make to break even. When you know that figure, you can compare it to the demographics of your market to see if there is enough demand to support it.

ROI

If your goal is to gain a specific Return On Investment (ROI) by a certain date, you can test it by comparing your required profit to your projected sales. For example, if you invest $10,000 of your own money to start a business, and your goal is to earn 20% ROI, you would have to break even plus earn $2,000 profit. By comparing that requirement to your projected sales, you can see if this is a valid, reachable goal.

Designing Measurable Objectives

Objectives are specific actions that propel your business toward its intended destination by supporting a specific goal. You may have heard the acronym "SMART" for: Specific, Measurable, Achievable, Realistic and Timely. We like to go beyond the ordinary 'goal-setting' and help you with things that really work… Here are some of the attributes of good, measurable objectives:

- Specific They are spelled out and assigned with completion dates.
- Appropriate They "ring true" and seem logical given your mission.

- Acceptable — They match standard practices within your industry and political environments.
- Feasible — They are achievable given your resources.
- Flexible — They permit appropriate responses to contingencies.
- Measurable over time. — Results can be compared from month to month, year to year.
- Motivating — They are aggressive, yet achievable.
- Understandable — They make sense to others unfamiliar with your concept.

The word “objective” itself refers to something real or tangible, rather than a mental or theoretical exercise. Ideally, each goal should have one or more objectives that support it. Each objective should include the name of the responsible person and the completion date.

If your audience is demanding, you may want to supplement the objectives you’ve included in your business plan with a full listing of objectives in the Supporting Documents section. A concise way to do that is by setting up a table showing each goal and its attendant objectives. The mere fact that it is there is reassuring to your reader. This method of presentation also makes the material easy to read. In addition, as you begin to implement those objectives, the fact that they are written helps you communicate and monitor their progress.

Examples of Common Business Goals

This section includes some examples of business goals to help get you started. For the majority of businesses, there are some common goals you might choose to adopt. The following are just a sample of goals set by many companies.

Market Penetration

Market penetration means to increase your share of a market in which your firm already participates. A goal of increasing market penetration is set by many companies. For example, you might offer an existing product to a larger portion of an existing market, or offer a new or improved product to an existing or similar market. An example of this might be a fast food chain adding breakfast to its existing hamburger menu.

Market Maintenance

The goal of market maintenance means maintaining your status quo in the existing market-place. It means you are satisfied with the size and performance of your company and want to keep it that way. This is not to say that sales volumes won’t increase: it simply means your business’ percentage of overall market sales remains constant, unlike Market Penetration.

Market Expansion

The goal of market expansion has a broader interpretation than Market Penetration. It means offering the same product but to new customers by broadening the definition of your existing market. Some examples are expanding your territory or advertising in new types of media to attract new target customers.

Diversification

The goal of diversification applies when an existing business moves into totally new and different markets. This is a very broad category that includes manufacturers who enter the market as wholesalers or retailers (called a vertical expansion), or a contractor who opens a restaurant.

There are several reasons why a business owner might diversify. One common one is to lessen business risks. In the case of the manufacturer, the goal is to lessen dependence on others. However, in the case of the contractor, the goal might be to move toward a long-held personal dream.

Utilization of Excess Capacity

A firm that has under-used or idle production capacity might set a goal of utilizing excess capacity. For example, if a business has a fixed cost (one that exists regardless of the sales volume) such as a computer chip manufacturer, but has the capacity to make more chips than they can sell, that company has excess capacity. By using their resources to make chips for another company, they expand sales, drop their fixed-cost-per-unit, and increase profitability. This is different from Market Expansion in that it is driven by cost rather than sales.

Specific Net Profit Percentage

Many companies set specific goals with respect to the net profit that a product line/service must generate. Products that cannot produce the net profit, and so are only marginally profitable, may be dropped or restructured. This determination is made by analyzing the product's profit performance against the projections made in the marketing plan. If it fails to meet its net profit goal, even though it makes some profit, it is dropped. Another product/ service may be more capable of generating profits using the same fixed costs.

Profit Maximization

The goal of profit maximization is when a company raises or lowers the price of its products or services, regardless of what it costs them to produce it (up to a point, of course) so as to maximize profits. There are two strategies. One is to raise the price to get more dollars per unit sales. The other is to lower the price and gain more dollars in volume.

As with the Net Profit Percentage Goal, the focus of the Profit Maximization goal is to maximize as many profit dollars possible rather than attaining a certain profit percentage.

Asset Productivity & Return on Equity

The goals of asset productivity and Return on Equity are a set of financial goals based on ratio analysis. Asset Productivity refers to two financial ratios. A high sales-to-assets ratio and a high return-on-assets ratio which means you are maximizing your profitability. They are measures that help you see how productive your assets are. These are assets you use to generate sales and net profits, such as manufacturing machinery. To help you measure these ratios, you can compare your data with published industry standards. These are also the basis for evaluating excess capacity.

When looking at Return on Equity, which is similar to ROI, you want to see a high percent return. Return on Equity simply means the amount of interest an investment yields. Your readers evaluate this as a key factor in your plan. For example, an individual can earn 5% in a savings account, perhaps 7.5% or 8% in a money market account, and as much as 10% in government securities. Therefore, investors usually looks for a much higher returns on their money when considering an investment in your business, particularly if it is a closely held business (not many owners) or one that poses substantially more risk than the "safer" investments with banks and securities.

Present Situation

This section provides a current snapshot what the company is like now, what industry it serves, what kind of products or services you offer now, or have plans to offer, and who your customers are. It might contain a brief description of the company size, location and number of employees.

Writing about Your Present Situation

The general idea is to help bring your reader up to speed and orient them about your business, so you need to quickly summarize your company's present situation. Even if you are in the planning stage, state that. One way to think about that is to ask, "where are we in relation to opening our doors for business?"

Don't go overboard describing your company. This part should not exceed a page or so. This part should simply sketch an overview with an eye toward how it relates to your mission.

Here is a list of points to cover. Remember that you are describing only your current situation, not how you plan to be, or would like to be, or are projecting you can be. Those issues are handled in the Vision and Mission Statements and in other sections of the plan.

- Who is your company serving right now through its products and services, and how?
- What real benefits or values does your business provide today?
- What are your company's weaknesses? Are you addressing them?
- Why are you well suited to be in your chosen business? How do your products and services advance the attainment of your mission?
- Why is the person running your company well suited to steer you toward achieving your mission? (The Company Overview explains this more fully. Here all you have to do is convince your reader that you already have a specific team of experts or know exactly what you need in a team-a team that is going to be able to strategize together and execute activities that reach your goals.)
- What is your market like today? Briefly summarize why your products/services are needed, and honestly appraise where your weaknesses are. (This information is more fully described and backed with data and analysis in other sections of the plan. The point here is to convince your reader that your mission is attainable by showing that there is a need for your products/services.)
- How does your pricing or profitability, if applicable, affect or drive your mission. This is a baseline that helps you build the major points in the rest of your plan.
- Who, in general, are the customers you are currently targeting? (The actual analysis and customer/competitive profiles appear in the Marketing Analysis section.)
- How are you currently distributing your products or services, if applicable? What channels are you using?
- How has your mission affected your financial position?

Depending on the size and complexity of your business, you may omit or expand on these suggestions. If you do an honest assessment of your company's overall strengths and weaknesses, you will be perceived as objective and your statements believable. Readers of your business plan want to know if you are in touch with the reality of your business situation and that you are a good investment. Convince them you know how to really meet the needs of your customers and so will survive and thrive.

➢ *NOTE: Even though your Company Direction , and particularly the Mission Statement portion, may be initially written to help obtain funding, remember it can also influence employees and potential employees, partners, vendors, and customers. Keep it current and use it actively during the course of your business.*

Company Direction Checklist

- What is your company's present business situation in regards to products and services, benefits or values?
- What is your dream for your company?
- How large will your company be?
- What industry will your company be serving?
- What kind of products will you be providing?
- Who are your current and future customers?
- Is your vision statement reality based, and does it accurately describe future scenarios that are in alignment with the growth that your company can achieve?
- Have key members of senior management provided feedback and fine-tuning to the vision statement?
- Does your mission statement describe the intended strategy and business philosophy for making the vision happen, and does it distinguish your business from all other similar businesses?

- Did a team of managers from various departments contribute to writing the mission statement?
- Are you regularly revisiting your mission statement to determine if you are meeting the concepts included in it?
- Do the goals of your company clearly state the accomplishments that need to take place to move the company in the direction of its vision?
- Is each major business goal tied into the long-range plan of the business?
- Are the goals focused enough for getting results by individual organizations?
- Do you have both a sales goal and a marketing goal?
- Are your objectives specific actions that support goals for moving your business to its intended destination?
- Are your goals appropriate, acceptable, feasible, flexible, measurable, specific, understandable?

Financial Plan Overview

Money is always on the brain as long as there is a brain in reasonable order.
~ Samuel Butler

While some experienced plan writers often begin with the financial component of the business plan, we feel that you should go through the entire narrative portion of BizPlanBuilder first because you will likely get many ideas—and some may change your strategies and tactics, and therefore affect your financial plan. (If you have jumped here, please consider our suggestion.)

A successful business plan helps you to obtain funding, improve your operations, and establish a realistic business strategy. A successful financial plan enables you—and potential lenders or investors—to determine whether your business will be self-sustaining in the short term and profitable over the long run. If your business cannot show successful financial projections, you don't really have a business and writing a plan is moot.

Your accountant or financial adviser can prepare and analyze financial statements and projections. You, the business owner, must make the important decisions and explains them in the business plan.

You and your management team have the big picture and are ultimately responsible for where your business is heading. The financial data informs and supports your choices, such as what products will be profitable, how you can afford to reach your customers, and what it will cost you to develop new products.

What Is a Financial Plan?

The financial portion of your business plan is a summary of your business' financial history, past and present, plus financial projections about the future and the assumptions upon which they are based. Together, these are commonly referred to as your "financials."

In addition to the overall financial picture of your business, the plan provides your reader with three important facts: how much funding you need, what you need it for, and how and when you intend to pay it back.

The financial plan is also a living tool. It helps you understand your financial picture, and to recognize and fend-off any potential problems through regular inspection. As time passes, projections can be compared to actual data so you can readily see if the future is coming to pass as you predicted. If not, then you may still have a fighting chance to correct your course before you are in serious trouble.

While the financial plan is primarily a written summary, it is customary to include a copy of the financial assumptions you used in the supporting documents section of the business plan. This way, readers can refer to your data to see if they agree with your conclusions.

What Are Financial Statements & Projections?

Prediction is very difficult, especially of the future.
~ Niels Bohr

The first known financial records appeared 5,000 years ago when Babylonian merchants marked sales, expenses and inventory on clay tablets. Business accounting has been with us in one form or another ever since. Modern record keeping had its origin in the explosion of commerce during the Renaissance. In the early days of American business, record keeping was haphazard until the 16th amendment to the U.S. Constitution was signed in 1913. This "tax amendment" and later, the standards and reporting demanded by the Securities Exchange Commission after the 1929 crash, triggered the need for periodic standardized financial statements that, in turn, gave rise to the modern accounting profession in the U.S.

Overview of Your Financial Plan

This section offers a general overview of financial statements and financial management concepts. Essentially, financial statements are records that record business transactions, and track financial condition and performance. They are designed to reflect standard accounting practices and follow a fundamental principle of accounting: matching costs and expenses with the revenues they create.

Although all of your financial statements are based on the same financial data for your business, each statement focuses on a specific aspect of your financial data with a specific purpose, level of detail, and period of time.

Financial Projections, or Pro Forma statements are your best guesses about what your financial situation will be in the future. If you don't have a track record, you must project one. If you do have a track record, you still need to tell your investor what you expect to happen. Because a projection is a "guess," it requires you to make assumptions, such as the cost of manufacturing your products for the next few years, or percentages of seasonal fluctuations in sales.

Financial projections justify the need for the funding you seek from your lender or investors, and document your ability to repay it at a certain time. Financial statements provide a perspective on your costs, profits, financing and cash requirements that can assist you in successfully planning and managing your business.

While there are many forms of financial statements, there are three fundamental financial statements commonly used to reflect the financial health of a company. They are (1) the balance sheet, (2) the income statement, and (3) the cash flow statement. At one time or other, any one of the following financial statements may play a part in your financial plan:

- Gross Profit Analysis
- Budget
- Income Statement (also called a Profit and Loss Statement)
- Cash Flow Statement
- Balance Sheet
- Ratio Analysis
- Break-Even Analysis
- Personal Financial Statement

These financial statements, their usage, and their key components are described in “Making Your Financial Assumptions.” All of these statements can be generated using the Comprehensive Financial Model included in BizPlanBuilder.

➢ *Note: Your company may not need to use all the financial statements mentioned in this handbook, or may choose to use different forms or present them in a different order. That is up to you and your advisors. When you assemble your plan, BizPlanBuilder will present you with a screen listing all of the pages in your financial model – check the boxes for the pages you want to include. The system will automatically hide the pages you did not check and then save a copy of the Excel workbook in the “Business Plan” folder on your desktop.*

Analyzing Your Financial Statements

The key financial management concepts to consider in the analysis of your business include the profitability of your business; the ability of your business to generate cash; and the over-all health of your business as indicated by ratio and percentage analyses. (See Ratio Analysis under “Financial Statements”) If these concepts seem foreign to you, you're not alone. It's estimated that 80% of businesses fail due to lack of proper financial management. Understanding the significance of the values you have projected by monitoring and analyzing your financial statements can mean the difference between success and failure.

Your financial statements are tools that enable you to identify the information you need. Analyzing your financial statements allows you to anticipate problems and needs, and to adjust your plans to address these issues before they negatively affect your operations. This not only helps you to manage your business better; it also helps you to understand and answer the questions that lenders and investors will ask if you intend to use your business plan to obtain funding.

Regular monitoring is required by some investors or lenders. Some require your business to conform to certain financial conditions, such as maintaining certain ratios. Failure to maintain those conditions can cause you to lose your funding and the entire amount could be called due all at once. Monitor your financial picture regularly to avoid unpleasant surprises.

The “Financial Statements” section discusses financial statements and the tools and techniques you can use to create and analyze them. If you need further assistance with your financial statements, we suggest you consult your financial advisor or a business analyst.

Preparing to Write Your Financial Plan

The next section, Putting Your Financial Plan Together, discusses the specifics of writing your financial plan. As you read through this chapter, and when you make your budget assumptions, keep the following suggestions in mind.

Do’s & Don’ts for Financial Plans

- Don’t be creative, be conservative. Don’t misrepresent anything. When projecting, use a conservative figure. It provides credibility. Remember you want to keep your promises.
- Get advice on anything you don’t understand.
- If you have a track record, include it, as well as your projections for the future. There is nothing stronger than fact.
- Explain your assumptions. Convince your reader that your reasoning is sound.
- Show scenarios. For example, you might want to show what would happen to your business without the investment, or you may want to include optimistic and pessimistic scenarios with your sensitivity analysis.
- Be consistent so that you can confidently compare one set of numbers to another.

Putting Your Financial Plan Together

It is not the volume of money but the activity of money that counts.
~ W. Bourke Cockran

Ask yourself, "What would I want to know to evaluate a business proposal before I would consider investing my own money?" If you answer all of the questions that you would have as an investor yourself, you will be better prepared for lenders or outside investors.

What you say in your written Financial Plan depends upon your type of business, your target audience, and your purpose for writing a business plan. If you plan to raise capital, target your statements to the concerns of your potential lenders and investors. The narrative of the Financial Plan normally consists of five parts:

- Business Assumptions
- Summary/Analysis of Financial Statements
- Capital Requirements
- Payback/Exit Methods
- Conclusion

Lenders and investors take calculated risks when they make loans or invest in a company. Much of the risk can be minimized in their eyes if you demonstrate a clear understanding of how your business operates, are specific with your requests for capital, show what the capital will be used for, and project how your business will generate payback to the providers of the capital.

The written Financial Plan is where you "ask for the money." Be brief and direct. Summarize your financial position and ask for the cash.

Business Assumptions

Garbage in, garbage out… You've heard that before. Begin your written Financial Plan by explaining the major business assumptions you used to make your projections.

➢ *Note: Your business assumptions are what you must sell investors; the rest is arithmetic. Every assumption needs to withstand the challenge, "How do you figure that?" Differences between your assumptions and those of your investors can drastically alter the outcome of your financial picture and their perception of your business. You and your investors must agree upon your assumptions. Your ultimate assumption is that there is demand for your product or service by enough customers who you can reach easily and sell to economically, and, who will ultimately provide the cash to repay the loan or investment you are seeking. The deal is won or lost in the assumptions. Financial projections are just the arithmetic that play out what might happen next.* ~ Burke Franklin from the book, *Business Black Belt*

A business assumption is any condition that you believe to be true based on your research and analysis. For example, you may assume that you will reduce your cost of goods by obtaining a volume discount on supplies. Other assumptions may have to do with federal interest rates or the condition of the general economy. Still others may include the availability of a fully staffed and trained production facility, ready to do business by a certain date.

The validity of your assumption affects the attainment of financial goals. Some of your goals might be achieving self-supporting profitability, or reaching the break-even point, or selling the business outright, or conducting an offering of public stocks.

It is usually assumed that your costs, including labor, will increase by the general inflation rate. Hopefully, costs will also be decreased by volume discounts and better negotiations with suppliers. If costs are shown to be level or decreasing, comment on that fact and explain the underlying reasons.

Summary/Analysis of Financial Statements

Financial statements do not stand on their own. You need to summarize and analyze each of the financial statements that you provide in the Supporting Documents section. The particular set of financial statements/analyses you need will vary depending on the nature of your business and your plan's purpose. However, you will generally want to include the following documents:

- Balance Sheet
- Income Statement
- Cash Flow Projection
- Gross Profit Analysis
- Break-Even Analysis.

Discuss growth rates for sales and any large expense items. Note economies of scale. Explain any large fluctuation in a category. Note any questionable items and explain them. Present various scenarios based on the consequences of different assumptions, such as slower growth than projected or the addition of new distribution channels. Include any track record data here as well.

Volume-adjusted measurements are helpful to add perspective to the discussions. These include income subtotals as a percent of sales; inventory, accounts receivable and accounts payable levels in days; return on equity; etc.

An underlying assumption that affects your projections is that you are going to obtain the funding you are requesting. Point out some of the things that may happen if you do not get funding or do not get it by a certain date. The purpose is not to make your investor feel guilty or sorry, but to highlight the opportunities that can make their investment profitable if acted upon. Your success is their success.

➢ *Note: All of the statements listed below, except for the Personal Financial Statement, will be automatically calculated for you based upon your input to the Assumptions Worksheet.*

Are Your Financial Projections Believable?

Many people think a set of financial projections is a business plan. Wrong. Experienced business people know that no matter how honest and forthright your financial projection is, it cannot present the full picture. To achieve credibility for your financial projections, be prepared to demonstrate an under-standing of your market, describe your product or service in detail, formulate your marketing strategy, outline your promotion and sales plans, and most importantly, introduce the management team responsible for using the capital and driving your business toward success, the financials demonstrate the viability of your business, but each element of your plan makes a difference to the success or failure of your business.

Investors understand that financials for new businesses in undefined markets are very hard to estimate, much less verify, but be realistic. Even if you believe that you can build a $500 million business in five years, understand that this kind of growth would make you one of the fastest-growing companies in American history.

~ Mike Frank, a general partner at Advanced Technology Ventures

Learned the hard way:

You may be tempted to inflate your sales projections, play down your costs and show big profits. After all, you want to show the true promise of your business. It takes longer and costs more than you think. Investors, bankers, experts and seasoned business managers all know this. Many professional venture investors will write their term sheet based upon what you said you would do. If you fall short by a certain milestone, they can "cram you down" (the missed milestone triggers their ability to take a larger percentage of your business at your next funding round). Project only what you are certain you can deliver. Be conservative (just never say, "we are being conservative" investors hear that all too often and it's well known as a "big lie"). You must understand the dynamics of your numbers! When you meet your projections—you're a hero. Money will continue to flow your way and you call the shots. Miss by just 1% and… (Most investors will not tell you this—they can anticipate your error and plan to take advantage of you when you are down.)

The proverbial 1%...

If you ever say, *"if we can get just 1% of the market…"* Be prepared to go home early. Investors hate this statement. Avoid this conversation, but keep this idea in the back of your mind… What kind of revenues would you be generating if you really captured 1% of your marketplace? Investors may feel that you will never get close to 1% of your potential market. On the other hand, investors want to know how you will dominate your market (you are aggressive!), own 20-30-50-80% not just 1%! Nevertheless, be prepared to talk about both ends of the spectrum. (If you must bring it up, at least say, "Well, given the *proverbial* 1%..." – at least they know that you know 1% is what it is.) Here's why: your plan (planning) should enable you to understand (and articulate) how you will reach a certain percentage of your potential customers, what that will cost, and the likelihood of them paying $XXX for your product and/or service… In other words, you should thoroughly understand and know exactly what percentage of your potential customers you will get! Relying upon the "1%" rule demonstrates to most investors that you are lazy, unprepared, ignorant of your world, unconscious of business in general, etc.

Freaked-out About Financials?

Not to worry. The easiest solution is to find and hire (with cash & stock, etc.) someone highly competent with spreadsheets and finance, whom you like and trust. They must speak the language of money and business finance. You will feel better and so will investors and lenders. Enter a question and/or your requirements into JIAN's expert network—the advantage here is that these people will likely be very familiar with our software and can save you a lot of time, trouble and worry. (Disclosure: We charge them $9.95 for your contact info if they want to contact you and take on your project.)

Still, you must educate yourself in finance—there is no way around it and avoiding it eventually may bite you. Sound financial management is one of the best ways for your business to remain profitable and solvent. Well-managed business finances form the cornerstone of every successful business venture. Each year, thousands of potentially successful businesses fail—due to poor financial management. As a business owner, you will need to identify and implement policies that will ensure that you meet your financial obligations. Finance is a learned thing. You can do this too.

To effectively manage your finances, plan a sound, realistic budget by determining the actual amount of money needed to open your business (start-up costs) and the amount needed to keep it open (operating costs). The first step to building a sound financial plan is to devise a start-up budget. Your start-up budget will usually include such one-time-only costs as major equipment, utility deposits, down payments, etc. The start-up budget should allow for these expenses.

The financial section of your business plan should include any loan applications you've filed, a capital equipment and supply list, balance sheet, breakeven analysis, pro-forma income projections (profit and loss statement) and pro-forma cash flow. The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years. This is all set-up for you in the BizPlanBuilder Comprehensive Financial model. For a start. we used many tables that drive your numbers based upon percentages of revenue, that way your spending can be adjusted depending upon your revenue. (Remember the dot.coms? Spend, spend, spend… Profit?)

The accounting system and the inventory control system that you will be using are generally addressed in this section of the business plan also. Your financial advisor can assist you in developing this section of your business plan.

Other questions that you will need to consider are:

- What will your sales goals and profit goals for the coming year be?
- If a franchise, will the franchisor set your sales and profit goals?
- Or, will s/he expect you to reach and retain a certain sales level and profit margin?

Experts Nearby Who Can Help You

Our growing network of currently practicing business planning professionals, attorneys, CPAs, and other business experts are familiar with JIAN software and can help when you need it. They can review your work, make suggestions, handle unique situations and provide extra support. They’re in *your* area and you can contact them directly.

Use our web search engine to find the right expert closest to you.

Look for this icon:

http://www.jian.com/community/

You can enter your request for assistance in our database for free.

Please provide as much specific information as possible. Your request will be emailed to the consultants who best match your needs. We charge them $9.95 for the lead to contact you. They may provide as much as an hour of free consultation, and they do charge for their services—it’s how they make their living. Sending you to them is a good deal for you since they are familiar with BizPlanBuilder and are more readily able to efficiently help you. Sending you to them is a good deal for them because you have a worthwhile project.

Business Plan Financials

It used to be only death and taxes were inevitable.
Now, of course, there's shipping and handling, too.

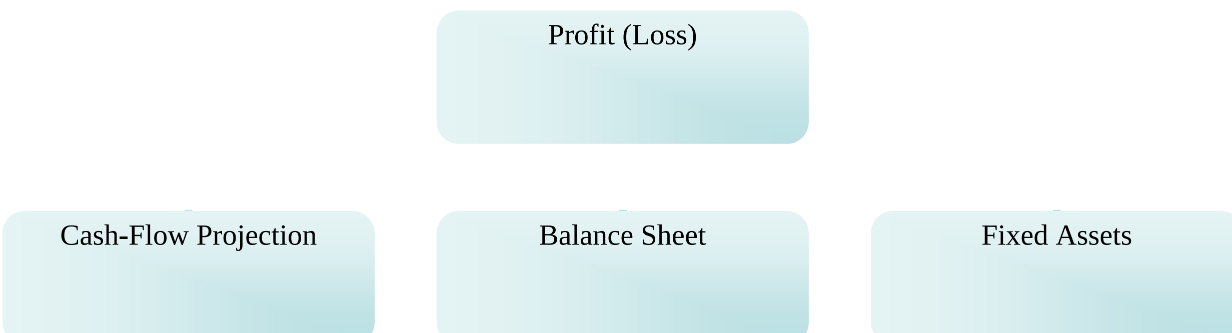
This section discusses the financial statements generated by BizPlanBuilder.

Working With Your Financials

For any of the BizPlanBuilder financial models or statements, you will probably want to maximize your working area. See "Increasing Your Working Area" above.

Basic Financial Statements

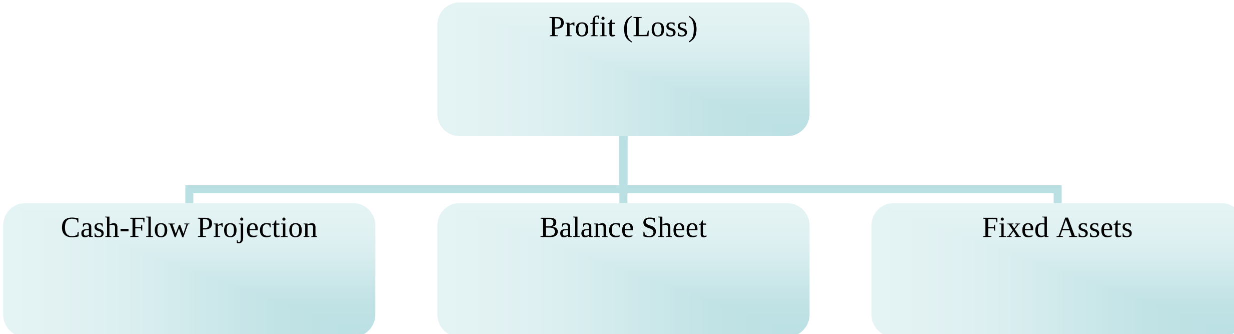
Basic Financial Statements are individual statements, and are typically most useful for 1- to 5-person businesses, where complex job-costing is not a factor. You may only need one or two of the statements, depending on what you need to accomplish with your plan. There are several other useful tools for service-oriented businesses in this section as well. *Unless you really want just one or two statements to customize, I would pass over these in favor of the Service /Loan Financial Model.*



The Basic Statements give you several very useful options, such as options for Sole Proprietor, Corporation or Partnership structures in the Balance Sheet; choice of a Product- or Service-based business in the Income Statement (Profit & Loss); and a layout option for portrait or landscape in the Cash Flow Projections. Click on the tab at the bottom of the statement for the option you want.

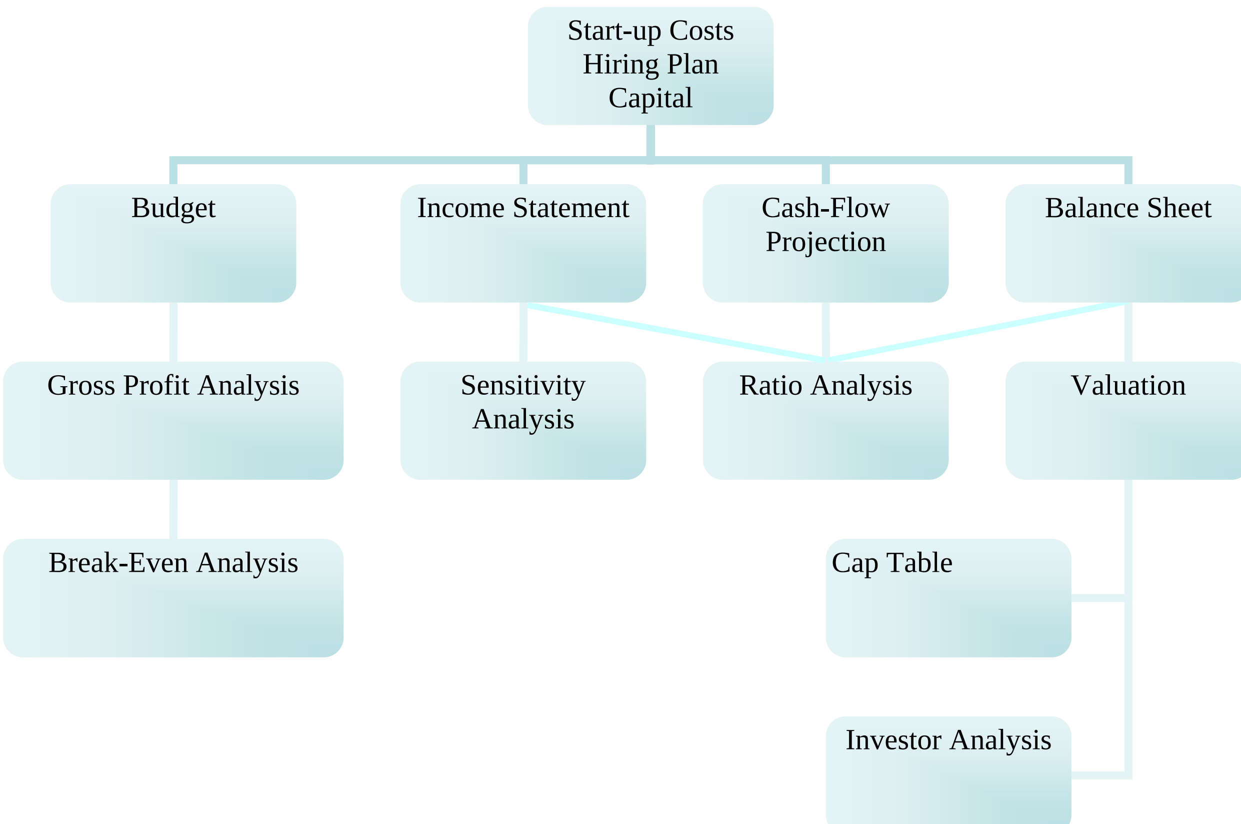
The Service/Loan (Intermediate) Financial Model

The Intermediate Financial Model can be used for a product or a service business, and meets the needs of small to mid-sized businesses. If you operate an established business, these may be all you need to get a bank loan. There are instructions in the opening worksheet, and at the top of individual sheets, as well as expert comments you can access by clicking on cells with red triangles.



Comprehensive Financial Model

The Comprehensive Financial Model is geared primarily to product/service/start-up businesses (especially for a product or service that has never been done before), and goes into the details that you'll need if you're seeking major funding; running a mid-sized to large organization; and/or need in-depth financial modeling. This model is driven from a series of Assumptions pages (scroll down…)



Gross Profit Analysis

The Gross Profit Analysis gives you and your investor insight into the profitability of your products. Include this in your Supporting Documents.

Budget

The budget forecasts detailed revenue and expenses month-by-month over a year. It is used primarily for internal purposes. You may not want to include your Budget in your business plan package; instead, include the monthly as well as the 1-5 year Income Statement which summarizes your expenses. During your presentation, you may want to have the Budget handy, and be prepared to discuss it.

Income Statements

An income statement is a record of financial performance over time separated into income and expenses to arrive at net income (or loss). Include all three versions (Year 1 by Month, Years 2-3 by Quarter, and Years 1-5) in your Supporting Documents. Comment on any large items or changes, such as R&D or marketing expenses that are large in your first few months (especially as a percentage of sales revenue), but taper off over time.

Balance Sheets

Comment on any large or unusual items, such as other current assets, other assets, other accounts payable, or accrued liabilities. Shows what you own and owe and the difference which is the net worth or equity of the company. You should include all three versions (Year 1 by Month, Years 2-3 by Quarter, and Years 1-5) in your Supporting Documents.

Cash Flow Statements

Cash Flow Statements track all of the cash that comes into and goes out of your business. Investors look to see if your company can generate positive cash flow to repay their investment. Include all three versions (Year 1 by Month, Years 2-3 by Quarter, and Years 1-5) in your Supporting Documents.

Break-Even Analysis

The Break-Even Analysis gives you and your investors the sales level at which your business must operate in order to break even. You should include this in your Supporting Documents.

Capital Requirements

Determining capital requirements begins with the question: "How much money do I need?" In order to estimate your capital requirements, you will need to consider each of the potential uses for the financing funds, including (but not limited to): research and development, fixed asset purchases, and working capital. As you analyze each, you need to project how much money you need, when you'll need it, and what type of financing is most appropriate for each.

Financing Research & Development

You may need funds to finance research and development (R&D) activities in order to turn a product concept into a prototype, and a prototype into a final product. Frequently, there is a long delay between the time money is paid out for R&D expenses and the time sales and profits are generated as a result of the efforts. Because of this, it may be appropriate to fund your R&D activities with long-term financing.

Financing Fixed Asset Purchases

You may need funds to finance fixed asset purchases, such as new equipment to produce a new product, or a larger manufacturing facility to increase your production capacity. As with R&D expenses, there is often a long delay between the time money is paid out for fixed assets purchases and the time sales and profits are generated as a result of the new assets. Also, the dollar values of fixed asset purchases can be very large. For these reasons, fixed asset purchases are almost always funded with long-term financing.

Financing Working Capital

You may need working capital to allow you to carry sufficient inventory, meet current debts, take advantage of cash discounts and extend favorable terms to your customers.

The financing requirement for working capital is "permanent" and grows proportionally with growth in sales volume. Growth consumes a lot of cash. Many people overlook the fact that if your sales increase 50%, your working capital requirements may also increase by about 50%. In other words, if you have $200,000 in revenue and sales increase 50%, you may need an additional $100,000 in working capital. Frequently, short-term debt can be arranged using your accounts receivable and inventory as collateral; however, this is not always the best approach. If you repeatedly need to borrow money to fund working capital, it may be more appropriate to obtain long term financing, if possible.

Your cash flow statement can assist you in determining how much money you need by anticipating your actual cash requirements. Once you've projected how much money you think you will need to finance each of these areas and when, incorporate these estimates into your cash flow statements in the appropriate time periods. Then, review your cash flow statements and look for large cash balances or shortfalls; you may need to adjust the amounts of your financing requirements or the timing of those requirements.

Once you've refined your financing projections, add the amounts you've projected for each financing use, then estimate an additional percentage over that sum to use as your total financing requirement. A general guideline to follow is to raise 50% more capital than your projections indicate you'll need.

Other Considerations

Many traditional lenders require businesses to have several continuously profitable quarters before they will consider granting a business loan. This has created a market for banks that specialize in loaning money to start-ups and other companies without several quarters of continuous profitability. They tend to charge higher rates and have some creative packages that may include stock or warrants.

Lenders may want personal guarantees from you and any other primary owners to ensure that you will do everything possible to repay the loan. If you are looking for new ownership investment, prospective investors will expect a clear representation of how their equity will be defined based on their investment. You will also need to define what security, equity, stock, collateral or personal guarantees you will offer for their investment.

In this section of your plan, the amount of investment and its form is simply stated as a fact.

Describe the operating requirements for the five years that have been projected in your financial statements. Your operating working capital is defined as your accounts receivable plus your inventory minus your accounts payable. This can be calculated for each of the five years from the values on your Balance Sheet for years one to five.

Recap the total short-term and long-term loan requirements for the five-year period, and for each of the five years.

Discuss the level of safety for this loan or investment—lenders need to see a variety of ways their money will be paid back to feel comfortable loaning it to you.

➢ *NOTE: If you are searching for financing for your business, see "65 Ways to Finance Your Business" for more information on the subject of raising capital.*

How Loan/Investment Funds Will Be Used

Lenders and investors want to understand exactly how the funds they lend you or invest are to be used. If your business plan outlines a new product launch or a reorganization of your existing business, an in-depth discussion of your proposed use of new financing is advised.

Explain how much you need and when, and exactly how you plan to use the funds they provide. Demonstrate that their funds will contribute to the success and profitability of your business venture that, in turn, will enable you to repay them.

Your proposed use of new financing may include research and development costs, fixed asset purchases, and/or working capital. Describe specifically how the loan and/or investment funds will be used.

Financial Plan Checklist

- Have you done the background research necessary to prepare your financial statements: operating expenses, sales projections, etc.?
- Have you prepared best case, worse case, most likely case scenarios? Use the Sensitivity Analysis.

- Have you completed the appropriate projected financial statement worksheets for your business?
- Have you carefully analyzed each financial statement, and do you understand the significance of the numbers you're projecting?
- Do you know how much capital you need and when you need it?
- Have you determined what types of financing are appropriate?
- Can you explain in detail how you plan to use any financing you receive?
- Have you determined an exit/payback strategy for lenders and investors (page down)?

Payback / Exit Methods

Love all, trust a few. Do wrong to none...
~ William Shakespeare, "All's Well That Ends Well," Act 1, Scene 1

We insert this section here because we want you to have these concepts firmly planted in your mind even before you begin addressing your business assumptions. Your Payback/Exit strategy of your Financial Plan explains to your potential funders exactly how, when, and in what form you plan to repay their investment.

Investors want 100x on their money

Investors are interested in a cash return on their investment over time. If you are dealing with multiple investors, you need to be sensitive to each one's specific needs and have a strategy that covers them all, including the order of payback. To help you write this part of the plan, ask yourself these primary questions from the point of view of your prospective investor:

"How do I get out of this investment and make money?"

Investors have an interest in cash. Let's say they invest $100,000. If we assume they're looking for 30% per year for three years, they're going to be looking to get $219,700 back, in cash. Having $219,700 worth of equity [stock] in your company doesn't let them finance their next deal; they want cash.

"Is the net income here going to offer a return that makes sense for the investment required on a risk adjusted basis?"

If you're going to offer someone a $5,000 return on a $100,000 investment every year and there is some risk, it doesn't make any sense for them financially. They could do almost as well at a bank or with government guaranteed securities.

Most likely you will be able to sell your business – and this is what investors are most likely going to believe. The problem is that you may not want to sell a hot, profitable business. However, we've heard enough stories of offers to buy companies, owners wanting more, the world changes, the deal goes away and the next best thing is a struggling company short on prospects only to eventually sell at 1/10 the original offer. You may do well to get some help with the math at the moment of truth and strongly consider selling as a viable strategy you can embrace. (Investors can tell if you are sincere about the exit…) The PowerPoint show in BizPlanBuilder has you show some potential buyers and prices they may pay.

Another creative option, perhaps better suited for an angel investor might be something like this:

Using a convertible note*, offer 20% interest on the invested money if you pay it back in full within 12 months… after that, the investor gets x% of the profit (or revenue) going forward, plus warrants (options) to buy x number of shares at a certain price. You can vary the ownership, revenue-share any way you like.

Interest compounds for year two, but if paid back by the end of year two, calculate the interest due by the

20% compounded. And so on…

*Investor can choose to convert the loan to an equity investment, based upon a predetermined stock pricing formula (say 2x revenue / shares outstanding = price/share)

The idea here is to make an attractive short-term offer to an angel investor with an obvious incentive for you to pay him/her back ASAP, plus they share in the upside down the road. (Angels hate risking their capital, but can be flexible with the upside reward—so show them how they will get their original investment back soon as well as enjoy some fun down the road. We're just being creative here… you must remember that if you do a wacky deal to get your business off the ground (you won't be the first!), that you must leave room for follow-on investors to come in and take you to the next level. Included with your angel deal, say something like, "with the first institutional round of $500K+, angel agrees to abide by the terms and conditions of the…" For any angel, having professional venture capitalists come in, it's a beautiful thing. VCs, while they may appreciate the angel funding your start-up, sometimes find that angels can be a problem going forward. Make sure that your attorney drafts your deal with your angel investor to accommodate future investors.

Lenders want their money back plus interest

Lenders need to see that the use of the loan funds will allow you to generate sufficient profits to pay back both the principle and the interest within the terms of the loan. Your payback plan tells them how and when you will be able to pay them back. It must be backed up by your financial projections.

In high growth businesses, the cash flow is frequently too low to repay lenders or buy-out investors, or there may be no positive cash flow at all. Other options available include finding other investors that specialize in later-stage investments; `going public' with an initial public offering; selling or merging with another company for cash or publicly traded stock; or finding larger lenders once your company is profitable and established. Financing a business is an ongoing process, not a one-time project.

As a final note, keep in mind that once profitability has been achieved, it can be prudent to try to reorganize some expenses if it helps to maintain profitability. A continuous history of profitability can make borrowing from traditional banks and completing a successful initial public offering (IPO) much easier.

Conclusion

The conclusion is where you summarize your Financial Plan. This is the time and the place to ask for the cash. Be concise, be direct, be professional, be sincere, and ask for either a signature or a list of additional items to be provided or steps to be completed to get a signature. Be specific.

Making Your Financial Assumptions

All business proceeds on beliefs, or judgments of probabilities, and not on certainties.
~ Charles Eliot

This section walks you through the BizPlanBuilder Comprehensive Financial Model financial assumptions worksheets and provides definitions of key accounting terms and the factors to take into consideration when making your assumptions that form the foundation of your financial projections.

➢ *A WORD TO THE WISE: PROJECT YOUR BUDGET FIRST - The best place to begin preparing your projected financial statements is with your start-up Capital Requirements. Start with fixed operating expenses. Research your monthly expenses: electricity, telephone, water and sewer, rent, insurance, and other basic expenses. These are called fixed, not because they do not change, but because they do not change based on sales volume. Variable expenses such as material and labor are frequently estimated as a percentage of sales.*

Operating expenses are commonly grouped into Sales & Marketing, Research & Development, and General & Administrative categories. These categories represent all of the expenses involved in the day-to-day operations of a company other than what is included in the Cost of Goods Sold section.

Your financial assumptions provide the foundation for projecting all of your financial statements. Your assumption numbers entered into each assumptions worksheet page flow via links and formulas throughout the entire financial model financial statements. The following pages define the terms found in the assumptions worksheets and offer suggestions for making your assumptions. You may also want to refer to the on-line help.

A unique aspect if BizPlanBuilder is your ability to project your numbers from both the “Top-Down” as well as “Bottom-Up” perspectives.

Top-Down Projection

Most of the Assumptions pages include a table at the top of each one enabling you to enter a cost assumption based upon a percentage of your overall revenue. This way, except for the HR Assumptions (because you want to manage your staffing a little more personally than other expenses), all of your expenses can ‘float’ depending upon your revenue projections. If you are a start-up, you will likely not yet have revenue and must enter your numbers from the bottom-up – those numbers will override the numbers generated from the percentages tables.

Bottom-Up Projection

While you will want to start with the top-down approach, you can then make adjustments from the bottom-up—enter actual numbers for expenses you will need to achieve certain objectives. These can be certain investments in product development, inventory, marketing, etc. which may not be included in the Capital Requirements page. Simply click on a cell in the assumptions worksheet and enter the number. For example you may want to budget a key-word ad campaign in Google starting in Jan, click cell B46 on the “Assumptions – Marketing” page and enter $1,000.

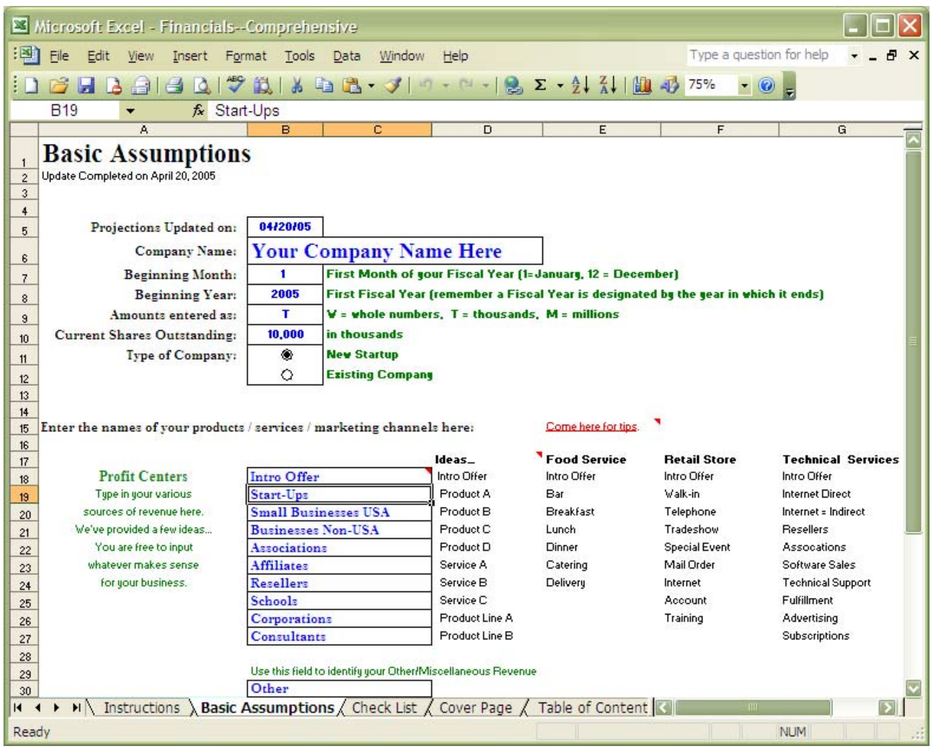
What if I overwrite a formula and want to get it back?

Yes. If you type over or modify a cell formula and wish to return the cell to its original state, simply copy the formula from an adjacent cell and paste it into the cell you want to return to its original state.

Basic Assumptions

The demand for certainty is one which is natural to man,
but is nevertheless an intellectual vice.
~ Bertrand Russell

This is where you set-up your financial model. As with all BizPlanBuilder financial models, we include many onscreen instructions as well as useful comments embedded in cells (with the little red triangles).



We recommend thinking in terms of "profit centers" that are appropriate for the management of your business because you can project sales and costs tied to each one. Keep in mind that, while you want detail, you also want to keep this simple enough for an investor or lender to immediately understand.

For example, if your company sells and services pumps, you may want to show sales separately for pumps, spare and replacement parts, and service. If you have two basic types of pumps, it may be helpful to show two product lines for pump sales. Having pump sales itemized for each pump type does not necessarily mean that parts and service should also be itemized by the pump type they relate to. In this scenario, you would probably want to show four product lines: two for pump sales, one for parts, and one for service. On-screen you will see several examples and suggestions – you can start and change it later!

Amounts entered as:

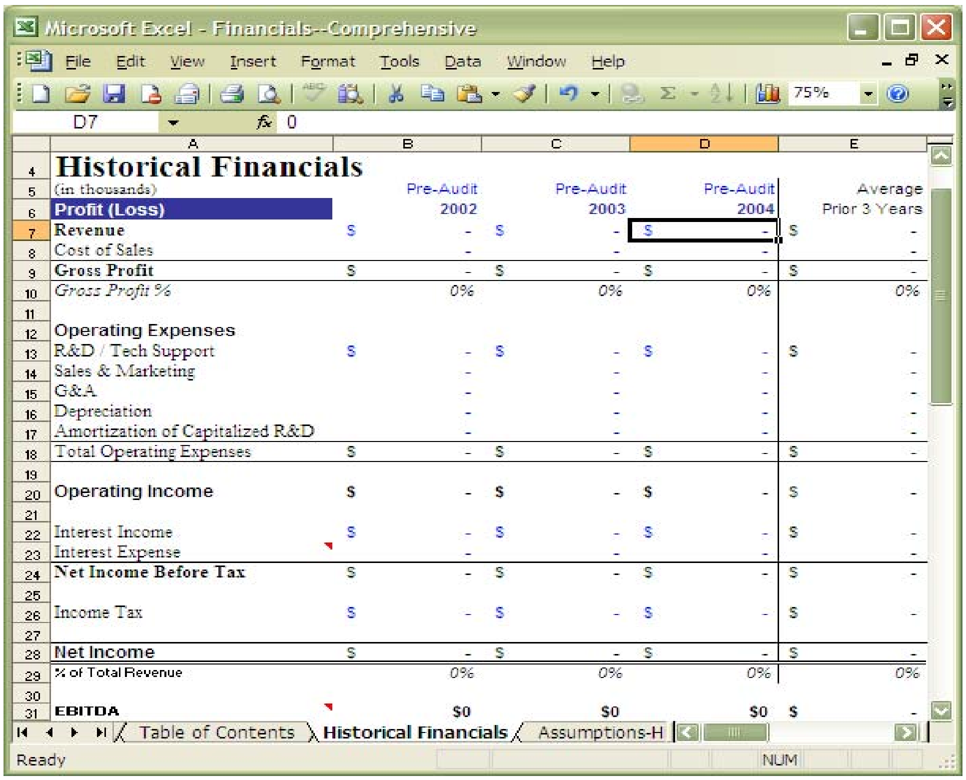
To make your financials easier to read, <u>we recommend entering your numbers in thousands</u> (1=1,000). It makes it much easier for you to mentally check your numbers for accuracy and reality (you should, your investors and lenders sure will!). Also, we <u>highly recommend eliminating pennies</u> and just use round dollar numbers. ($1,500.32 = $1.5 or 1,500.) When you see a page full of numbers, we believe that you will appreciate this advice.

Historical Financials

Human history becomes more and more a race between education and catastrophe.
~ H.G. Wells

If you have financial information from the recent past (last 1-3 years) enter it on this page. As you can see, there are not many numbers to enter. Please feel free to edit the heading to match your business requirements.

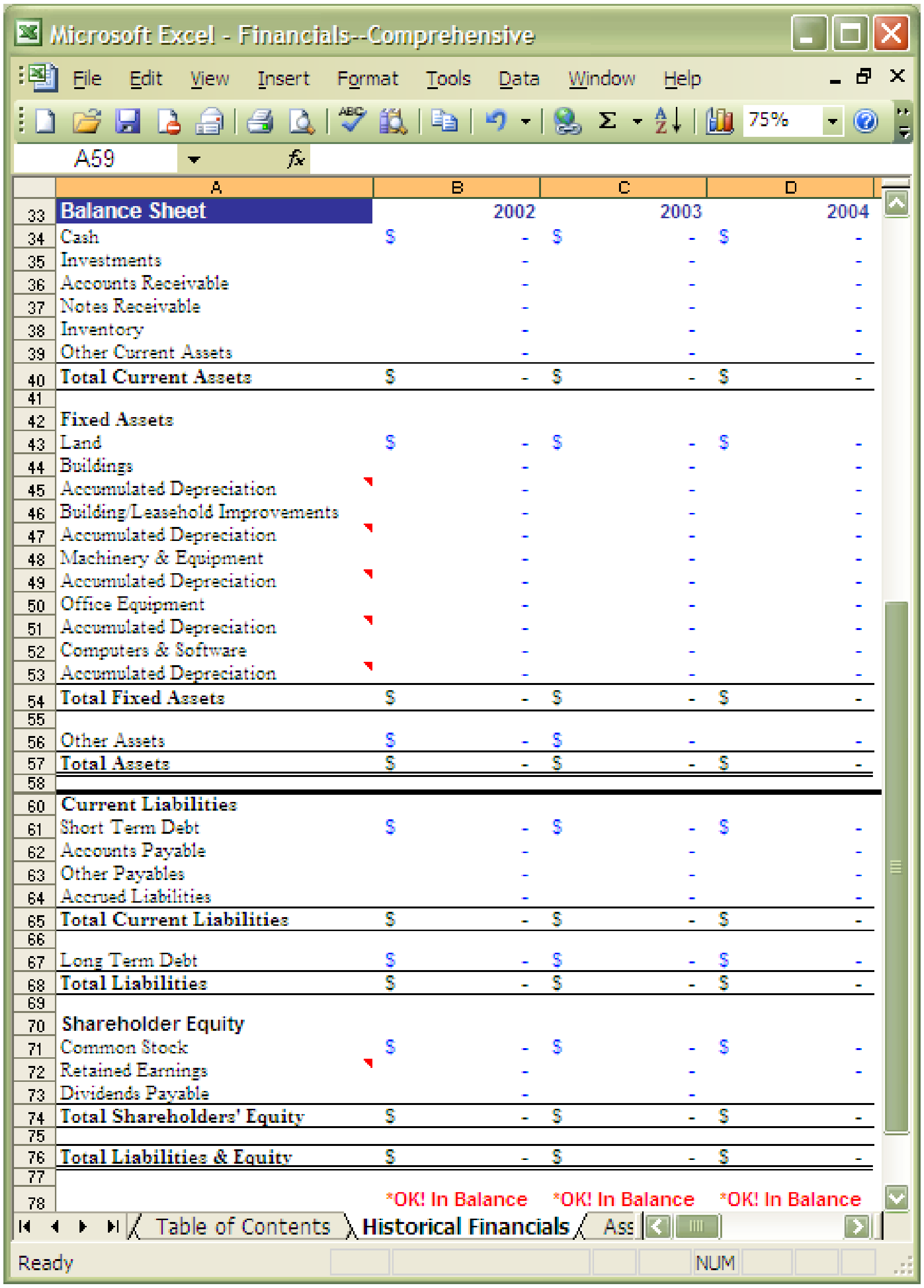
(We researched having these automatically entered from some of the popular accounting programs, but the programming complexities – mostly to do with the unlimited number of ways people can set up their charts of accounts – would likely generate more problems for you than just typing in these few figures.)



Historical Financials				
(in thousands)	Pre-Audit	Pre-Audit	Pre-Audit	Average
Profit (Loss)	2002	2003	2004	Prior 3 Years
Revenue	$ -	$ -	$ -	$ -
Cost of Sales	-	-	-	-
Gross Profit	$ -	$ -	$ -	$ -
Gross Profit %	0%	0%	0%	0%
Operating Expenses				
R&D / Tech Support	$ -	$ -	$ -	$ -
Sales & Marketing	-	-	-	-
G&A	-	-	-	-
Depreciation	-	-	-	-
Amortization of Capitalized R&D	-	-	-	-
Total Operating Expenses	$ -	$ -	$ -	$ -
Operating Income	$ -	$ -	$ -	$ -
Interest Income	$ -	$ -	$ -	$ -
Interest Expense	-	-	-	-
Net Income Before Tax	$ -	$ -	$ -	$ -
Income Tax	$ -	$ -	$ -	$ -
Net Income	$ -	$ -	$ -	$ -
% of Total Revenue	0%	0%	0%	0%
EBITDA	$0	$0	$0	$ -

EBITDA stands for Earnings Before deducting for Interest, Taxes, Depreciation and Allowances. This is a more true measure of a company's performance in terms of generating profits and provides any would-be financier or acquirer with a more accurate picture of the business as a "money-making machine." It removes the effects of any financing structures (schemes…) and the resulting interest the company may be saddled with, it takes out taxes which an acquirer may be able to restructure, God knows what assets you own and how you are writing them off (depreciating them), and what else are you making allowances for? EBITDA is 'just the facts' ma'am.

The rest of your Historical Financials can easily be taken from your accounting system in just a few minutes.



	A	B	C	D
33	Balance Sheet	2002	2003	2004
34	Cash	$ -	$ -	$ -
35	Investments	-	-	-
36	Accounts Receivable	-	-	-
37	Notes Receivable	-	-	-
38	Inventory	-	-	-
39	Other Current Assets	-	-	-
40	Total Current Assets	$ -	$ -	$ -
41				
42	Fixed Assets			
43	Land	$ -	$ -	$ -
44	Buildings	-	-	-
45	Accumulated Depreciation	-	-	-
46	Building/Leasehold Improvements	-	-	-
47	Accumulated Depreciation	-	-	-
48	Machinery & Equipment	-	-	-
49	Accumulated Depreciation	-	-	-
50	Office Equipment	-	-	-
51	Accumulated Depreciation	-	-	-
52	Computers & Software	-	-	-
53	Accumulated Depreciation	-	-	-
54	Total Fixed Assets	$ -	$ -	$ -
55				
56	Other Assets	$ -	$ -	-
57	Total Assets	$ -	$ -	$ -
58				
60	Current Liabilities			
61	Short Term Debt	$ -	$ -	$ -
62	Accounts Payable	-	-	-
63	Other Payables	-	-	-
64	Accrued Liabilities	-	-	-
65	Total Current Liabilities	$ -	$ -	$ -
66				
67	Long Term Debt	$ -	$ -	$ -
68	Total Liabilities	$ -	$ -	$ -
69				
70	Shareholder Equity			
71	Common Stock	$ -	$ -	$ -
72	Retained Earnings	-	-	-
73	Dividends Payable	-	-	
74	Total Shareholders' Equity	$ -	$ -	$ -
75				
76	Total Liabilities & Equity	$ -	$ -	$ -
77				
78		*OK! In Balance	*OK! In Balance	*OK! In Balance

Notice: At the bottom of the page, we include a quick check to make sure that your balance sheet is indeed balanced. It compares your Total Assets with your Total Liabilities + Equity. Taken from your financial statements, they should already be in balance. If they're not in balance, it's likely a mistake was made when they were entered into this page. (This line won't print.)

Assumptions HR

Smart boss + smart employee = profit
Smart boss + dumb employee = production
Dumb boss + smart employee = promotion
Dumb boss + dumb employee = overtime

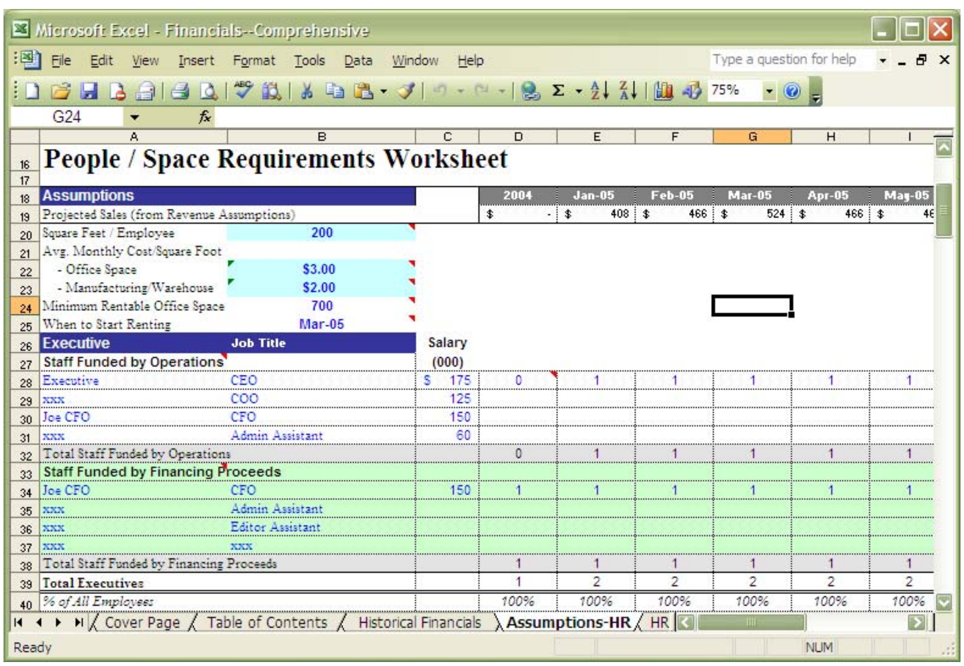
How much space should you lease and for how long? How will your requirements change? Among other things, this worksheet helps you answer these questions.

Use this worksheet to account for your present and future employees and contractors and to calculate the office space you will need to accommodate your entire operation. While most of the assumptions pages can be driven by a percentage of sales (and overwritten in the case of start-ups), this page enables you to plan ahead for the number of people you will need in each position.

Each section is divided into two parts—one for people paid from the ongoing operation of your business and one for people paid from the proceeds of an investment or loan. An employee may be paid initially from financing proceeds, then shift to being paid from operations. This enables you to show an investor or lender that you plan to hire your initially team with their money, then shift to begin paying them through the business.

You can change any/all of the labels to suit your business.

The HR budget numbers are automatically filled into the subsequent expense assumptions pages – Use only this page to plan all of your hiring and staffing.



	A	B	C	D	E	F	G	H	I
18	Assumptions			2004	Jan-05	Feb-05	Mar-05	Apr-05	May-05
19	Projected Sales (from Revenue Assumptions)			$ -	$ 408	$ 466	$ 524	$ 466	$ 46
20	Square Feet / Employee	200							
21	Avg. Monthly Cost/Square Foot								
22	- Office Space	$3.00							
23	- Manufacturing/Warehouse	$2.00							
24	Minimum Rentable Office Space	700							
25	When to Start Renting	Mar-05							
26	Executive	Job Title	Salary						
27	Staff Funded by Operations		(000)						
28	Executive	CEO	$ 175	0	1	1	1	1	1
29	xxx	COO	125						
30	Joe CFO	CFO	150						
31	xxx	Admin Assistant	60						
32	Total Staff Funded by Operations			0	1	1	1	1	1
33	Staff Funded by Financing Proceeds								
34	Joe CFO	CFO	150	1	1	1	1	1	1
35	xxx	Admin Assistant							
36	xxx	Editor Assistant							
37	xxx	xxx							
38	Total Staff Funded by Financing Proceeds			1	1	1	1	1	1
39	Total Executives			1	2	2	2	2	2
40	% of All Employees			100%	100%	100%	100%	100%	100%

1. Input your estimated square footage required per employee. Usually this is from 140 to 250 square feet per employee. (Your commercial real estate representative can help you here.)

2. Enter your area's typical cost per square foot and the minimum rentable office space for your area, again checking with your commercial real estate representative for assistance.

3. Enter the month-year during the first fiscal year of your plan when you expect to start paying rent on office space.

4. Enter your staffing needs by individual or job title as appropriate.

You can add more rows, click where you want to add a row (click/hold and pull-down to highlight as many rows as you want…) Pull-down under Insert and click Rows. You will need to add rows in the same places on the next worksheet as well—more later.

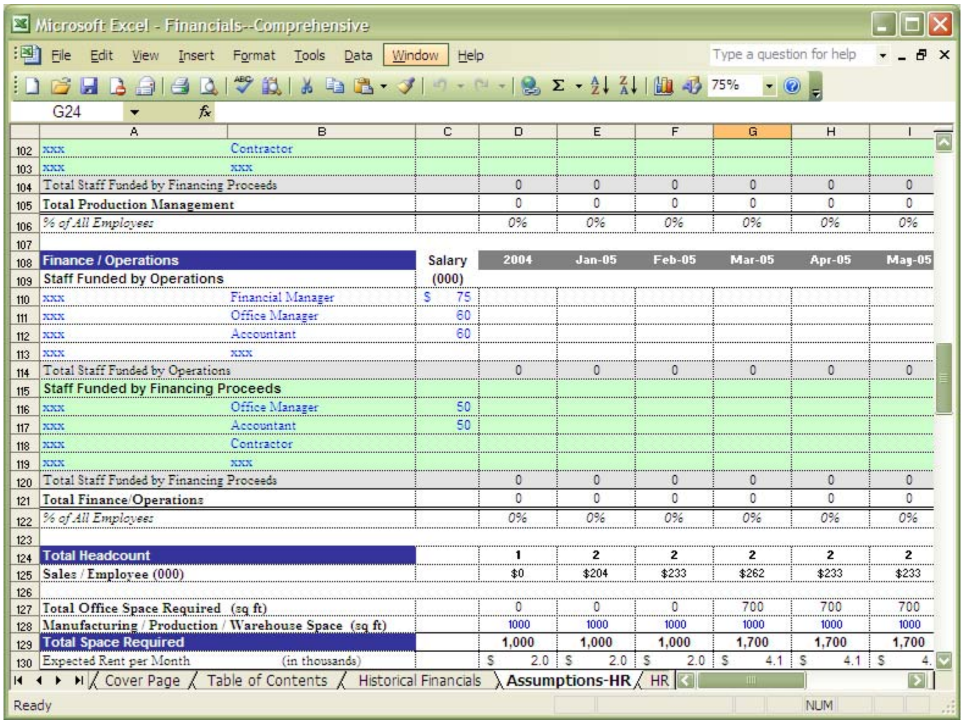
- Use the sections titled "Staff Funded by Operations" for employees whose costs (salaries & benefits) are funded from operations.

- Use the sections titled "Staff Funded by Financing Proceeds" for employees whose costs (salaries & benefits) are funded from financing proceeds (i.e., venture capital, business loans, sale of stock, etc.)

- As in the examples, enter the number of individuals for each job title and salary combination for each period that those individuals will work for you.

- When an employee originally designated as being Funded by Financing Proceeds begins to be funded from operations, stop showing the employee in the "Staff Funded by Financing Proceeds" section and begin showing the employee in the "Staff Funded by Operations" section. For example, take a look at the "CFO" in the "Executive" section - rows 30 and 34 - note what happens in the middle of year 1.

4. Enter manufacturing, product or warehouse space requirements at the bottom.



	A	B	C	D	E	F	G	H	I
102	xxx	Contractor							
103	xxx	xxx							
104	Total Staff Funded by Financing Proceeds			0	0	0	0	0	0
105	Total Production Management			0	0	0	0	0	0
106	% of All Employees			0%	0%	0%	0%	0%	0%
107									
108	Finance / Operations		Salary	2004	Jan-05	Feb-05	Mar-05	Apr-05	May-05
109	Staff Funded by Operations		(000)						
110	xxx	Financial Manager	$ 75						
111	xxx	Office Manager	60						
112	xxx	Accountant	60						
113	xxx	xxx							
114	Total Staff Funded by Operations			0	0	0	0	0	0
115	Staff Funded by Financing Proceeds								
116	xxx	Office Manager	50						
117	xxx	Accountant	50						
118	xxx	Contractor							
119	xxx	xxx							
120	Total Staff Funded by Financing Proceeds			0	0	0	0	0	0
121	Total Finance/Operations			0	0	0	0	0	0
122	% of All Employees			0%	0%	0%	0%	0%	0%
123									
124	Total Headcount			1	2	2	2	2	2
125	Sales / Employee (000)			$0	$204	$233	$262	$233	$233
126									
127	Total Office Space Required (sq ft)			0	0	0	700	700	700
128	Manufacturing / Production / Warehouse Space (sq ft)			1000	1000	1000	1000	1000	1000
129	Total Space Required			1,000	1,000	1,000	1,700	1,700	1,700
130	Expected Rent per Month	(in thousands)		$ 2.0	$ 2.0	$ 2.0	$ 4.1	$ 4.1	$ 4.

The very bottom of this worksheet shows the total amount of office as well as warehouse space you will require. (You can change any/all of the labels to suit your business.)

The ‘Expected Rent per Month’ will be automatically included in the “Assumptions – General &

Administrative" page.

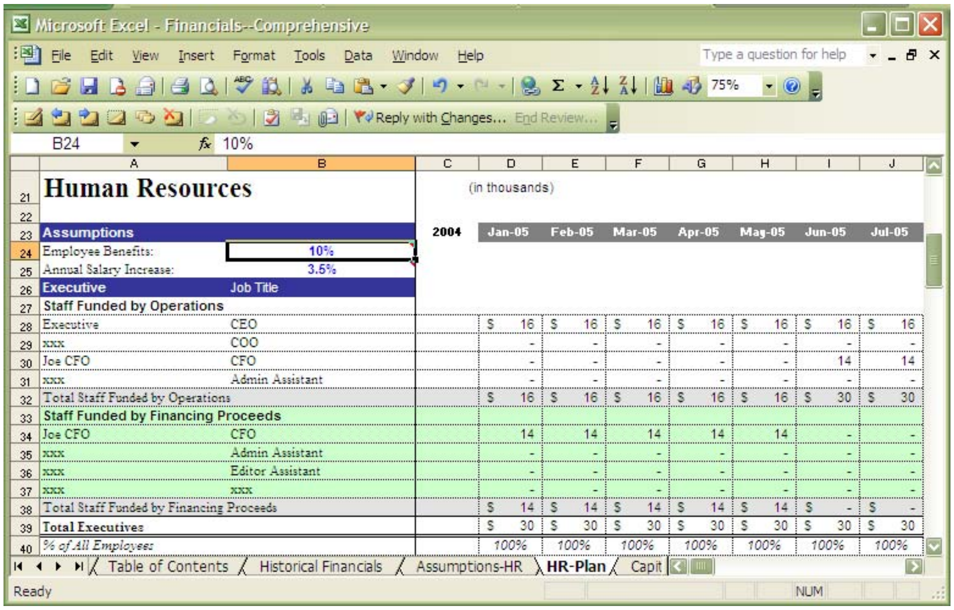
On the next page (HR-Plan), the Salary entered below is multiplied by the number of people for each time period to produce an HR budget

HR Plan

Hard work spotlights the character of people:
some turn up their sleeves, some turn up their noses, and some don't turn up at all.
~ Sam Ewing

This page multiplies the number of people in each position by the salary input on the previous page then adds the costs of benefits. Enter your employee benefits percent this includes all employer taxes and benefits costs and is calculated as a percent of salaries.

If you add more categories/people on the previous (Assumptions-HR) page, you will need to add the corresponding lines on this page. (We added, then hid, extra lines at the top of this page to make the row numbers align with the Assumptions-HR page to help you check your work.)



	A	B	C	D	E	F	G	H	I	J
21	Human Resources			(in thousands)						
22										
23	Assumptions		2004	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05
24	Employee Benefits:	10%								
25	Annual Salary Increase:	3.5%								
26	Executive	Job Title								
27	Staff Funded by Operations									
28	Executive	CEO		$ 16	$ 16	$ 16	$ 16	$ 16	$ 16	$ 16
29	xxx	COO		-	-	-	-	-	-	-
30	Joe CFO	CFO		-	-	-	-	-	14	14
31	xxx	Admin Assistant		-	-	-	-	-	-	-
32	Total Staff Funded by Operations			$ 16	$ 16	$ 16	$ 16	$ 16	$ 30	$ 30
33	Staff Funded by Financing Proceeds									
34	Joe CFO	CFO		14	14	14	14	14	-	-
35	xxx	Admin Assistant		-	-	-	-	-	-	-
36	xxx	Editor Assistant		-	-	-	-	-	-	-
37	xxx	xxx		-	-	-	-	-	-	-
38	Total Staff Funded by Financing Proceeds			$ 14	$ 14	$ 14	$ 14	$ 14	$ -	$ -
39	Total Executives			$ 30	$ 30	$ 30	$ 30	$ 30	$ 30	$ 30
40	*% of All Employees*			*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*

While you get your company off the ground, you may want to offer reduced benefits.

Typical benefits seem to average about 35%.

To enter additional/increased benefits for subsequent years, scroll to the right and update the percentages under the appropriate year.

Using just one percentage number for everyone for an entire year may seem simplistic, but it does enable you estimate salary increases without getting too complicated on this issue.

To enter additional increases for subsequent years, scroll to the right and update the increase percentages under the appropriate year.

Several studies indicate that 87% of employees in the United States should receive an increase in their base pay. In 2005, employers planned to grant average pay increases of 3.3% which is comparable to 2004's increase. 2008 budgets call for an average increase in base pay of approximately 3.5%.

Capital Requirements

Money is better than poverty, if only for financial reasons.
~ Woody Allen

How will you apply the proceeds of debt or equity financing? Use this sheet to determine your financing needs. While many investors or lenders may be satisfied with a summary listing of what you will do with the (their) money (See "Use of Funds Summary" (next worksheet)), often they will want a detailed list of what you intend to purchase. You will also likely want to list everything you will need.

The amounts entered here will automatically flow into the appropriate assumption pages and will be included on your financial statements.

All of the screens in this section belong to one spreadsheet page.

Note: Removing Rows

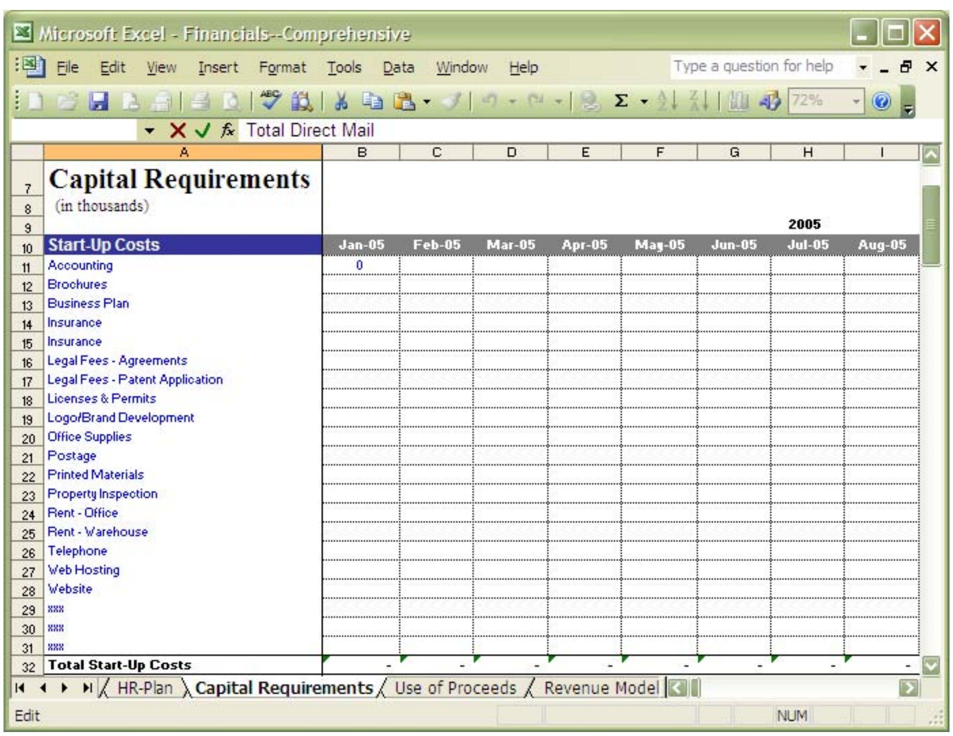
If any of these sections or rows are unnecessary, please HIDE them (First highlight the row(s) you don't want, then pull-down under Format to Row, then click Hide. Deleting them may cause formula problems elsewhere in the model.)

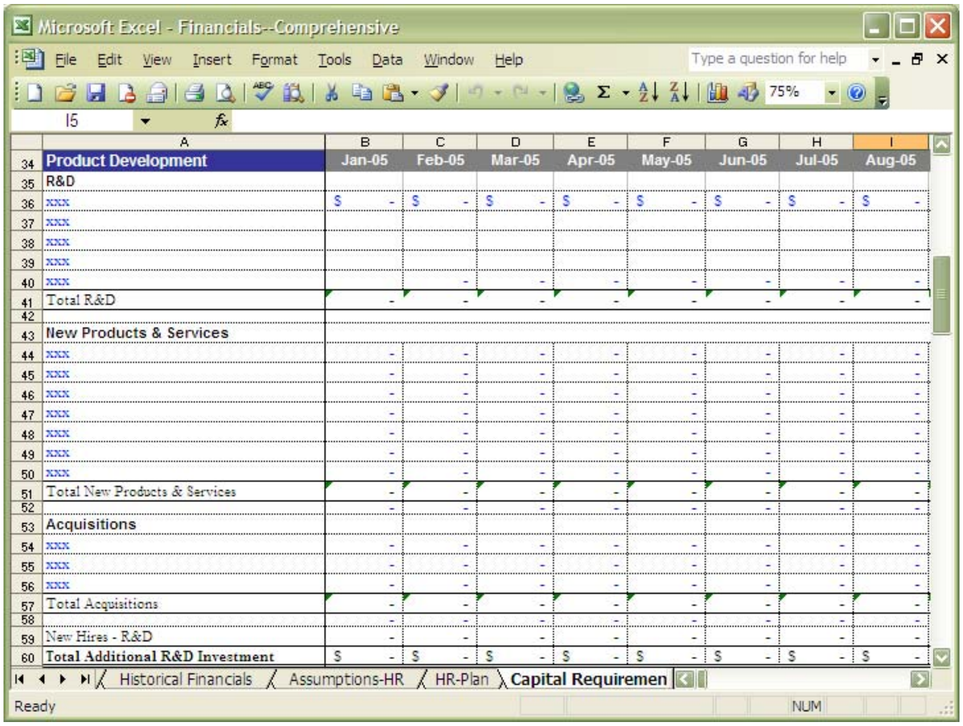
Start-Up Costs

This section can easily be changed to **Expansion Costs** for a growing company.

You may add line item by simply inserting rows (Pull-down under Insert (above) and let go on Rows).

Just be sure that the Total at the bottom of the section includes all rows in the section. (The Total numbers are the ones carried throughout the model.)





You can change this entire section – add or remove sub-sections. (For example, change "Product Development" to "Services Development" or anything else that will work for your business.)

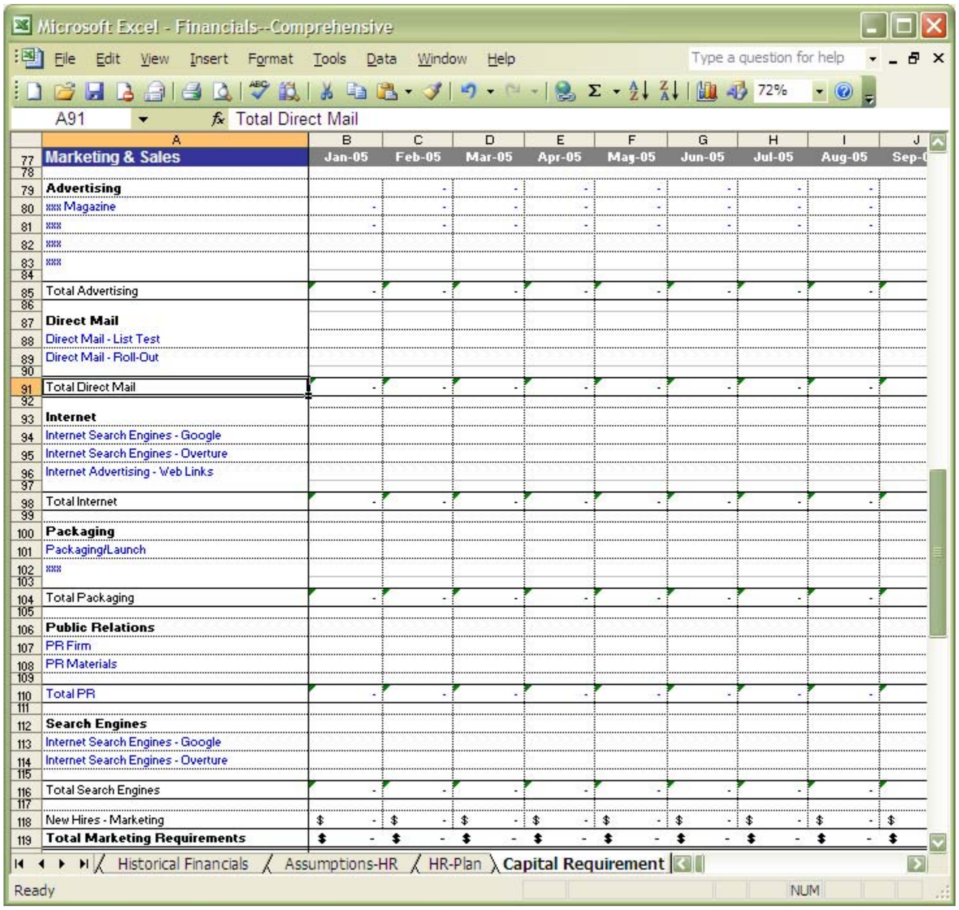
Just make sure that the Total at the bottom of this section includes everything in this section.

The "New Hires" at the bottom will automatically roll-up from the HR pages and continue to carry forward. Always manage your HR planning from the "Assumptions – HR" page.

On the "Use of Proceeds" summarizes everything from this page — the table will be picked up by your Financing Requirements page in the text of BizPlanBuilder.

Sales & Marketing

Sales & Marketing costs can add up quickly. Smart investors realize that you will need to spend money on marketing in order to be successful. Use this page to itemize your launch costs—we recommend listing at least 9 months worth of sales and marketing budget items to get your "pump primed."

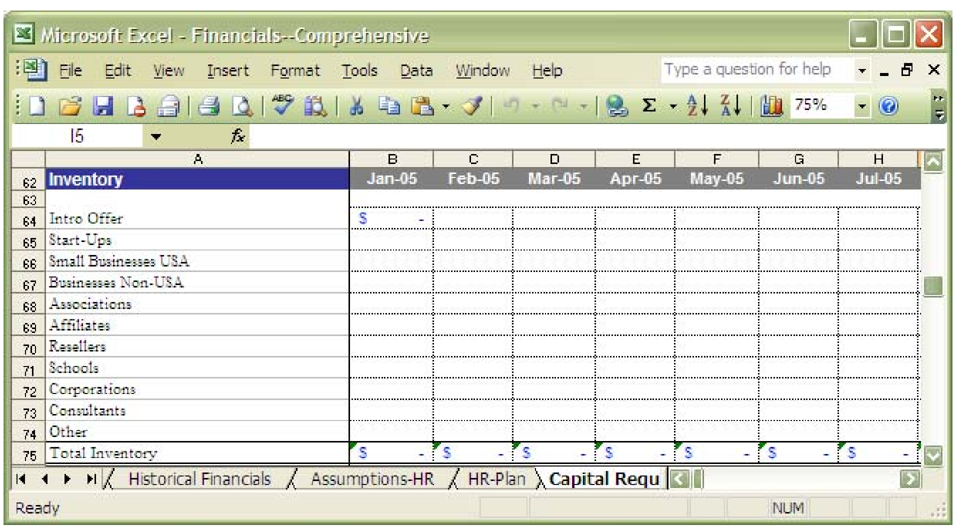


Marketing & Sales	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05
Advertising		-	-	-	-	-	-	-
xxx Magazine	-	-	-	-	-	-	-	-
xxx	-	-	-	-	-	-	-	-
xxx								
xxx								
Total Advertising	-	-	-	-	-	-	-	-
Direct Mail								
Direct Mail - List Test								
Direct Mail - Roll-Out								
Total Direct Mail	-	-	-	-	-	-	-	-
Internet								
Internet Search Engines - Google								
Internet Search Engines - Overture								
Internet Advertising - Web Links								
Total Internet	-	-	-	-	-	-	-	-
Packaging								
Packaging/Launch								
xxx								
Total Packaging	-	-	-	-	-	-	-	-
Public Relations								
PR Firm								
PR Materials								
Total PR	-	-	-	-	-	-	-	-
Search Engines								
Internet Search Engines - Google								
Internet Search Engines - Overture								
Total Search Engines	-	-	-	-	-	-	-	-
New Hires - Marketing	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Marketing Requirements	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Sales & Marketing costs will be carried to the "Use of Proceeds - Summary" page by sub-total of the bold-heading sections. *If you change a bold heading here, it will automatically change on the Use of Proceeds page*. You can add sub-sections… just make sure you add matching sub-sections on the "Use of Proceeds – Summary page."

The "New Hires" at the bottom will automatically roll-up from the HR pages and continue to carry forward. Always manage your HR planning from the "Assumptions – HR" page.

Inventory



Inventory	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05
Intro Offer	$ -						
Start-Ups							
Small Businesses USA							
Businesses Non-USA							
Associations							
Affiliates							
Resellers							
Schools							
Corporations							
Consultants							
Other							
Total Inventory	$ -	$ -	$ -	$ -	$ -	$ -	$ -

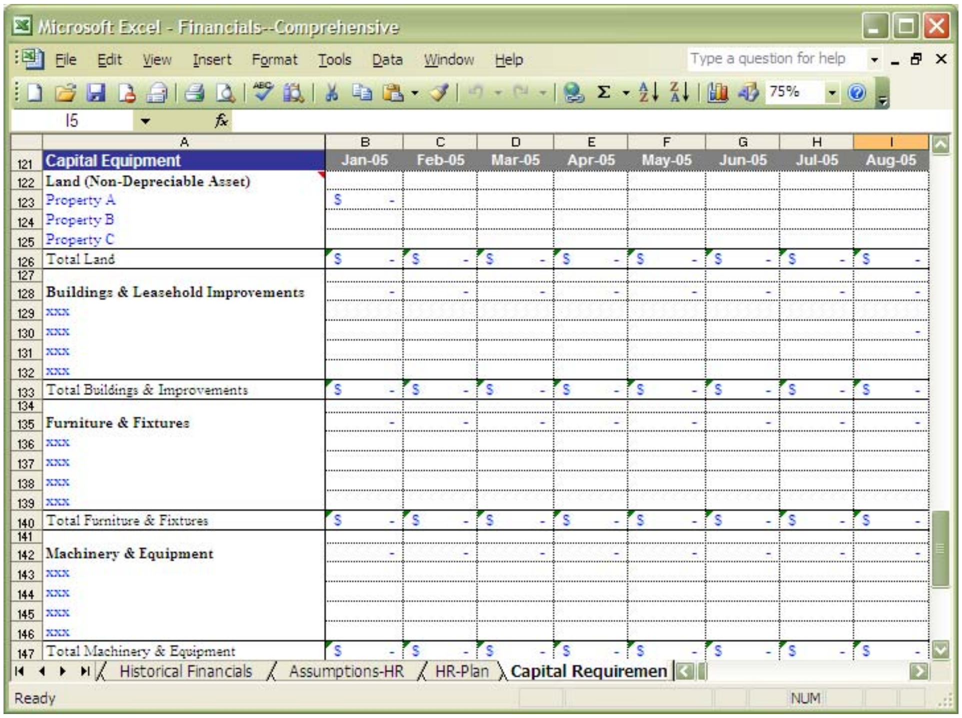
Inventory will be carried to the "Use of Proceeds – Summary" page as a single line item.

Capital Equipment

The bold headings are common accounting terminology—we recommend using them as they are. Go ahead and change the blue headings to suit yourself.

You can add as many rows as you like (remember to HIDE the rows that you don't want).

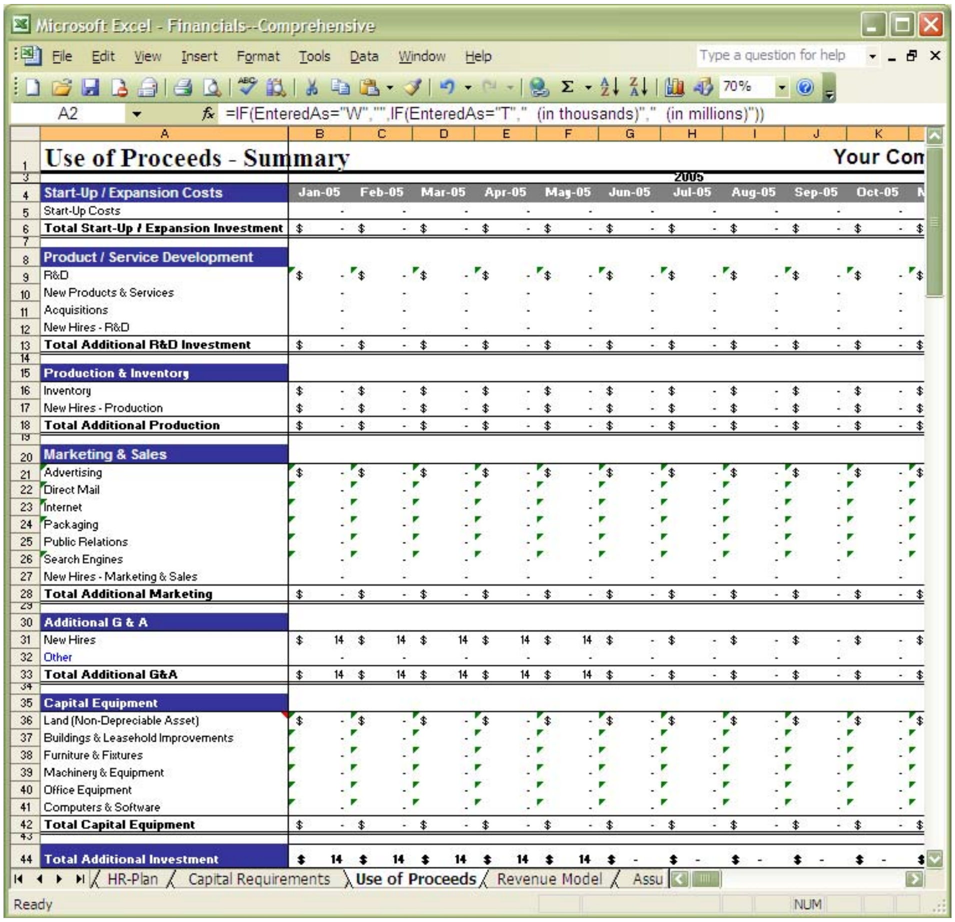
Also, remember to make sure that the total in each section include all of the rows you have added.



Use of Proceeds - Summary

The highest use of capital is not to make more money,
but to make money do more for the betterment of life.
~ Henry Ford

This is a page for investors and lenders will want to see. This page rolls up and summarizes everything you entered on the previous "Capital Requirements" page. The only things you may need to customize are the addition of any matching sections to incorporate what you added on the previous page.



Use of Proceeds - Summary	2005									Your Con
Start-Up / Expansion Costs	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05
Start-Up Costs	-	-	-	-	-	-	-	-	-	-
Total Start-Up / Expansion Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Product / Service Development										
R&D	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
New Products & Services	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-
New Hires - R&D	-	-	-	-	-	-	-	-	-	-
Total Additional R&D Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production & Inventory										
Inventory	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
New Hires - Production	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Additional Production	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Marketing & Sales										
Advertising	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Direct Mail	-	-	-	-	-	-	-	-	-	-
Internet	-	-	-	-	-	-	-	-	-	-
Packaging	-	-	-	-	-	-	-	-	-	-
Public Relations	-	-	-	-	-	-	-	-	-	-
Search Engines	-	-	-	-	-	-	-	-	-	-
New Hires - Marketing & Sales	-	-	-	-	-	-	-	-	-	-
Total Additional Marketing	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additional G & A										
New Hires	$ 14	$ 14	$ 14	$ 14	$ 14	$ -	$ -	$ -	$ -	$ -
Other	-	-	-	-	-	-	-	-	-	-
Total Additional G&A	$ 14	$ 14	$ 14	$ 14	$ 14	$ -	$ -	$ -	$ -	$ -
Capital Equipment										
Land (Non-Depreciable Asset)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Buildings & Leasehold Improvements	-	-	-	-	-	-	-	-	-	-
Furniture & Fixtures	-	-	-	-	-	-	-	-	-	-
Machinery & Equipment	-	-	-	-	-	-	-	-	-	-
Office Equipment	-	-	-	-	-	-	-	-	-	-
Computers & Software	-	-	-	-	-	-	-	-	-	-
Total Capital Equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Additional Investment	$ 14	$ 14	$ 14	$ 14	$ 14	$ -	$ -	$ -	$ -	$ -

Often, investors will ask if you can "sharpen your pencil" to see if you can do more with less. Ugh! Nevertheless, be mindful of trying to buy your way out of problems. Investors and lenders are usually astute business people and want to see money spent only on things that really require money. We have a customer who needed jet aircraft. Plan A was to raise capital and buy them. Plan B was to find a person who owned jets who liked our customer's proposition to lease them when he needed them. With that deal in place, a lot of capital was saved and any investment money could be applied to other things (instead of buying jets, many other things!). Also, this kind of financial creativity sends a very positive message to investors and lenders—you will be careful, creative and conscious with their money.

Another way of thinking about your investment requirements

At the very bottom of the "Use of Proceeds – Summary" page is this unique table. It summarizes this screen ever further. (The actual table will make more sense with your numbers filled in.)

What if you were to adjust what you want to do with what money you have for a 9 month, 12 month, 18 month, etc. intervals? If investors were to put more in, they would finance the further depth and breadth of development.

They should be set at stages / milestones of evolution / development (prototype, complete construction, roll-out, expansion) – each milestone brings the company a higher valuation. This concept also serves to focus your priorities for using the financing to build your business. The farther you go, the more value you will build – where is the optimum investment point for you and your investor(s)? "Fund our operation for X months. This is what we can do…"

You can copy & paste [part of] this table into your business plan text in the Capital Requirements section. That way, when you change your numbers here, they will automatically update in your plan narrative.

Use of Investment Proceeds	9 months	12 months	18 months	24 months	36 months	48 months	60 months
Start-Up / Expansion Costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Product/Service Development	-	-	-	-	-	-	-
Production & Inventory	-	-	-	-	-	-	-
Marketing & Sales	-	-	-	-	-	-	-
Additional G & A	843	843	843	843	843	843	843
Capital Equipment	-	-	-	-	-	-	-
Working Capital	250	300	500	500	750	750	750
Total	$ 1,093	$ 1,143	$ 1,343	$,343	$ 593	$ 1,593	$ 1,593

Revenue/Demand Model

Extraordinary claims demand extraordinary proof.
There are many examples of outsiders who eventually overthrew entrenched scientific orthodoxies, but they prevailed with irrefutable data.
~ Barry L. Beyerstein

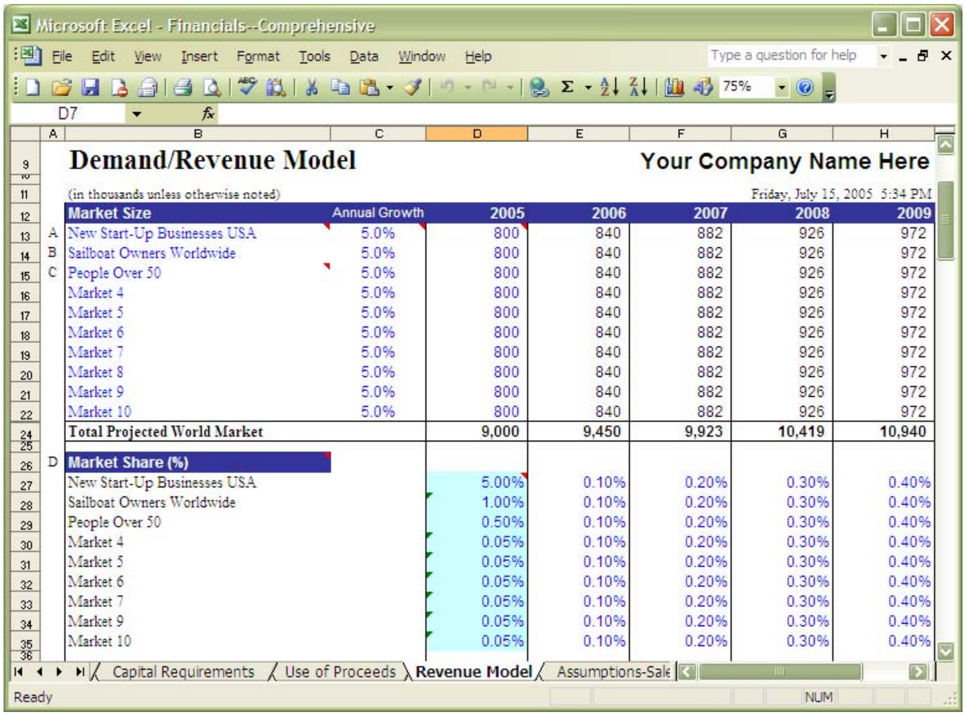
How Big Can Your Company Become?

One of the first things you must demonstrate to your investors is the overall potential for your company. How big can it get? Completing this section and revising your assumptions, if necessary, will help to justify and defend your sales assumptions to a potential lender or investor. This worksheet will help you do this as well as explain / prove it.

The Revenue/Demand Model is unique to BizPlanBuilder. Remember, if you are seeking financing, you are creating a brochure, of sorts, to sell your business concept to investors and lenders – let's make sure that you prove your point, yet keep this simple enough for any investor or lender to follow.

If you are reorganizing your company, hopefully we have added enough sections to provide the detail you need. This Revenue/Demand Model page enables you to demonstrate the growth your business can achieve given a set of reasonable assumptions. (It is more believable when you build from a set of smaller, believable numbers…)

- First, enter your market segments
- Project the response by category
- Calculate the number of customers
- Enter your planned prices
- Project response to additional products & services
- Calculate total revenue (this feeds the entire model)



Demand/Revenue Model — **Your Company Name Here**

(in thousands unless otherwise noted) — Friday, July 15, 2005 5:34 PM

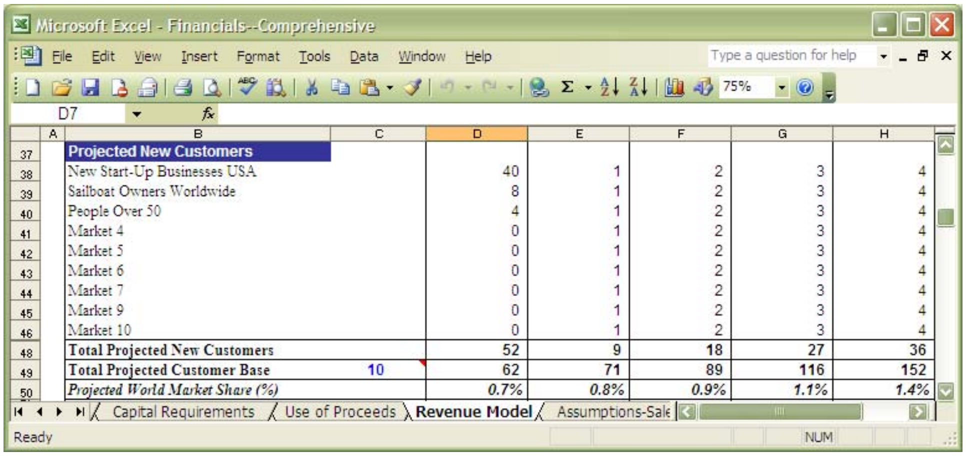
	Market Size	Annual Growth	2005	2006	2007	2008	2009
A	New Start-Up Businesses USA	5.0%	800	840	882	926	972
B	Sailboat Owners Worldwide	5.0%	800	840	882	926	972
C	People Over 50	5.0%	800	840	882	926	972
	Market 4	5.0%	800	840	882	926	972
	Market 5	5.0%	800	840	882	926	972
	Market 6	5.0%	800	840	882	926	972
	Market 7	5.0%	800	840	882	926	972
	Market 8	5.0%	800	840	882	926	972
	Market 9	5.0%	800	840	882	926	972
	Market 10	5.0%	800	840	882	926	972
	Total Projected World Market		**9,000**	**9,450**	**9,923**	**10,419**	**10,940**
D	**Market Share (%)**						
	New Start-Up Businesses USA		5.00%	0.10%	0.20%	0.30%	0.40%
	Sailboat Owners Worldwide		1.00%	0.10%	0.20%	0.30%	0.40%
	People Over 50		0.50%	0.10%	0.20%	0.30%	0.40%
	Market 4		0.05%	0.10%	0.20%	0.30%	0.40%
	Market 5		0.05%	0.10%	0.20%	0.30%	0.40%
	Market 6		0.05%	0.10%	0.20%	0.30%	0.40%
	Market 7		0.05%	0.10%	0.20%	0.30%	0.40%
	Market 9		0.05%	0.10%	0.20%	0.30%	0.40%
	Market 10		0.05%	0.10%	0.20%	0.30%	0.40%

Setting up the sections.

Edit the blue headings to suit yourself. They will automatically update calculations elsewhere throughout the model.

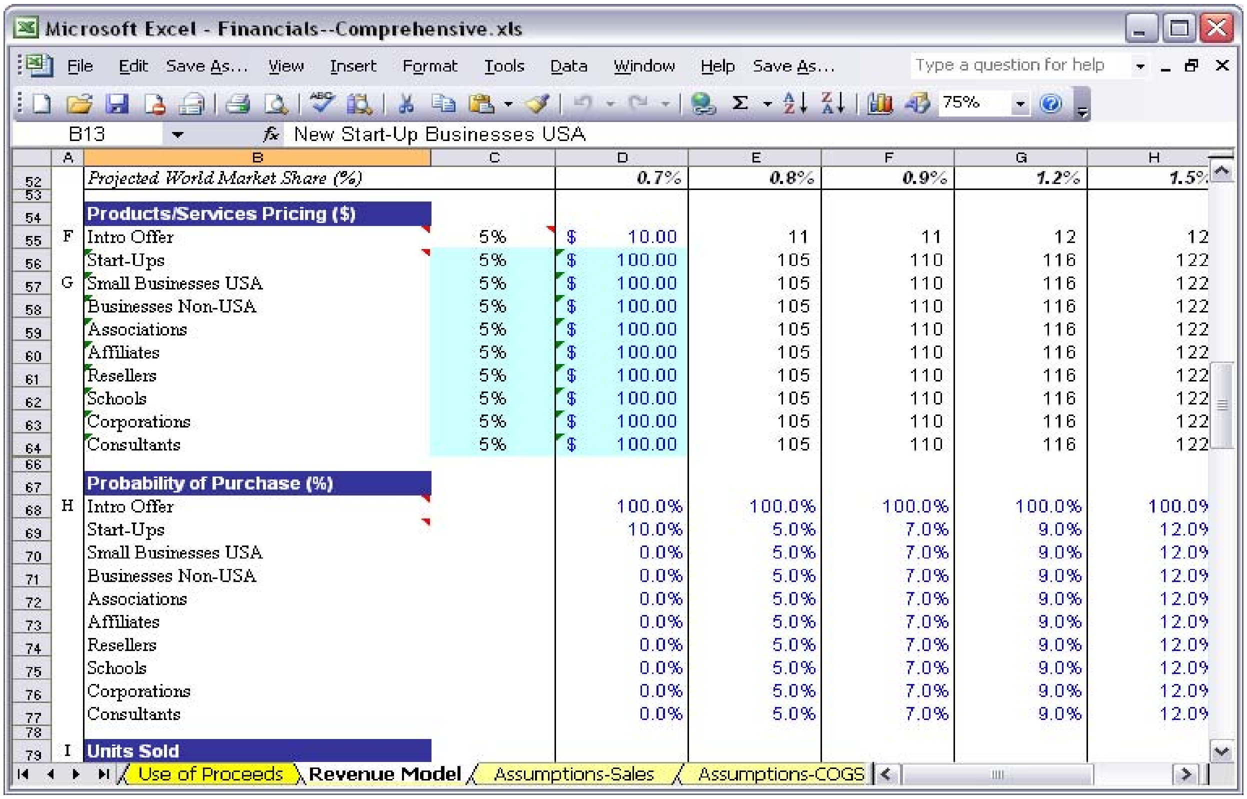
1) The first thing to research and show is how many people exist in a particular market segment. Who experiences the pain for which you provide relief and how many of them are there? (You will need some qualified market/research reports. For example, the US Small Business Administration recently released figures estimating the number of small businesses in the USA to be approximately 24.7 million.) A good place to look, for example, would be with industry trade associations.

Annual Growth is your assumption as to how fast this market segment is growing. The market segment growth will be a part of the overall compounding effect of your own growth.



Projected New Customers		D	E	F	G	H
New Start-Up Businesses USA		40	1	2	3	4
Sailboat Owners Worldwide		8	1	2	3	4
People Over 50		4	1	2	3	4
Market 4		0	1	2	3	4
Market 5		0	1	2	3	4
Market 6		0	1	2	3	4
Market 7		0	1	2	3	4
Market 9		0	1	2	3	4
Market 10		0	1	2	3	4
Total Projected New Customers		**52**	**9**	**18**	**27**	**36**
Total Projected Customer Base	10	**62**	**71**	**89**	**116**	**152**
Projected World Market Share (%)		***0.7%***	***0.8%***	***0.9%***	***1.1%***	***1.4%***

2) Next, building upon the projected percentages of market-share for each segment, you can reasonably establish how many actual customers you will have.



Microsoft Excel - Financials--Comprehensive.xls

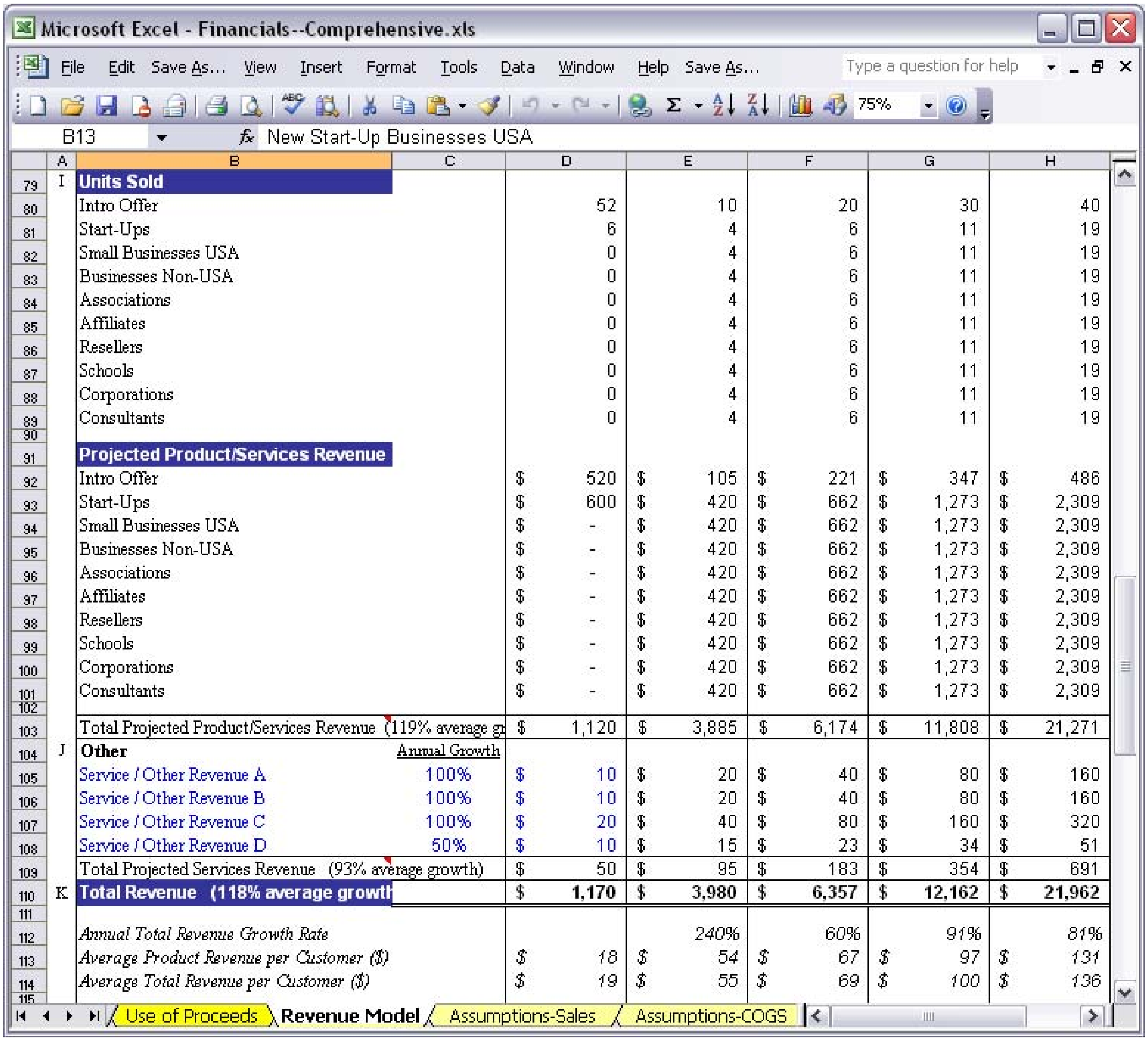
B13 — New Start-Up Businesses USA

	A	B	C	D	E	F	G	H
52		*Projected World Market Share (%)*		*0.7%*	*0.8%*	*0.9%*	*1.2%*	*1.5%*
54		**Products/Services Pricing ($)**						
55	F	Intro Offer	5%	$ 10.00	11	11	12	12
56		Start-Ups	5%	$ 100.00	105	110	116	122
57	G	Small Businesses USA	5%	$ 100.00	105	110	116	122
58		Businesses Non-USA	5%	$ 100.00	105	110	116	122
59		Associations	5%	$ 100.00	105	110	116	122
60		Affiliates	5%	$ 100.00	105	110	116	122
61		Resellers	5%	$ 100.00	105	110	116	122
62		Schools	5%	$ 100.00	105	110	116	122
63		Corporations	5%	$ 100.00	105	110	116	122
64		Consultants	5%	$ 100.00	105	110	116	122
67		**Probability of Purchase (%)**						
68	H	Intro Offer		100.0%	100.0%	100.0%	100.0%	100.0%
69		Start-Ups		10.0%	5.0%	7.0%	9.0%	12.0%
70		Small Businesses USA		0.0%	5.0%	7.0%	9.0%	12.0%
71		Businesses Non-USA		0.0%	5.0%	7.0%	9.0%	12.0%
72		Associations		0.0%	5.0%	7.0%	9.0%	12.0%
73		Affiliates		0.0%	5.0%	7.0%	9.0%	12.0%
74		Resellers		0.0%	5.0%	7.0%	9.0%	12.0%
75		Schools		0.0%	5.0%	7.0%	9.0%	12.0%
76		Corporations		0.0%	5.0%	7.0%	9.0%	12.0%
77		Consultants		0.0%	5.0%	7.0%	9.0%	12.0%
79	I	**Units Sold**						

Use of Proceeds | Revenue Model | Assumptions-Sales | Assumptions-COGS

3) List your profit centers (which may be individual products, services, product lines or marketing channels) and enter their respective selling prices. If it is an annual subscription/membership, then use an annualized number – whatever the likely quantity per year would calculate to be. You can automatically increase or decrease the selling prices by changing the growth percentage. (If you will add value or if you must drive prices and costs down.)

4) Next, estimate the probability of customers purchasing additional follow-on products/services at given prices. We presume that the initial product/service is at 100% because by definition this is what makes them a paying customer. (It takes about 1/6th the cost to sell an existing customer another product.)



	A	B	C	D	E	F	G	H
79	I	**Units Sold**						
80		Intro Offer		52	10	20	30	40
81		Start-Ups		6	4	6	11	19
82		Small Businesses USA		0	4	6	11	19
83		Businesses Non-USA		0	4	6	11	19
84		Associations		0	4	6	11	19
85		Affiliates		0	4	6	11	19
86		Resellers		0	4	6	11	19
87		Schools		0	4	6	11	19
88		Corporations		0	4	6	11	19
89		Consultants		0	4	6	11	19
90								
91		**Projected Product/Services Revenue**						
92		Intro Offer		$ 520	$ 105	$ 221	$ 347	$ 486
93		Start-Ups		$ 600	$ 420	$ 662	$ 1,273	$ 2,309
94		Small Businesses USA		$ -	$ 420	$ 662	$ 1,273	$ 2,309
95		Businesses Non-USA		$ -	$ 420	$ 662	$ 1,273	$ 2,309
96		Associations		$ -	$ 420	$ 662	$ 1,273	$ 2,309
97		Affiliates		$ -	$ 420	$ 662	$ 1,273	$ 2,309
98		Resellers		$ -	$ 420	$ 662	$ 1,273	$ 2,309
99		Schools		$ -	$ 420	$ 662	$ 1,273	$ 2,309
100		Corporations		$ -	$ 420	$ 662	$ 1,273	$ 2,309
101		Consultants		$ -	$ 420	$ 662	$ 1,273	$ 2,309
102								
103		Total Projected Product/Services Revenue (119% average gr		$ 1,120	$ 3,885	$ 6,174	$ 11,808	$ 21,271
104	J	**Other**	Annual Growth					
105		Service / Other Revenue A	100%	$ 10	$ 20	$ 40	$ 80	$ 160
106		Service / Other Revenue B	100%	$ 10	$ 20	$ 40	$ 80	$ 160
107		Service / Other Revenue C	100%	$ 20	$ 40	$ 80	$ 160	$ 320
108		Service / Other Revenue D	50%	$ 10	$ 15	$ 23	$ 34	$ 51
109		Total Projected Services Revenue (93% average growth)		$ 50	$ 95	$ 183	$ 354	$ 691
110	K	**Total Revenue (118% average growth**		**$ 1,170**	**$ 3,980**	**$ 6,357**	**$ 12,162**	**$ 21,962**
111								
112		*Annual Total Revenue Growth Rate*			*240%*	*60%*	*91%*	*81%*
113		*Average Product Revenue per Customer ($)*		*$ 18*	*$ 54*	*$ 67*	*$ 97*	*$ 131*
114		*Average Total Revenue per Customer ($)*		*$ 19*	*$ 55*	*$ 69*	*$ 100*	*$ 136*

At the bottom of the page, it all adds up. Reviewing these assumptions in a logical, orderly format enables you to double check and revise your sales projections, if necessary, and to provide your investors with a financial justification for your assumptions that is based on a logical progression of believable assumptions.

The Total Gross Revenue is carried over to the next page (Assumptions – Sales); however, this page can be used as a One-Page Trial Feasibility Analysis for your business. (You will need to change the 'Set Print Area' (pull-down under File) to include the lower portion of the page in a printed document.)

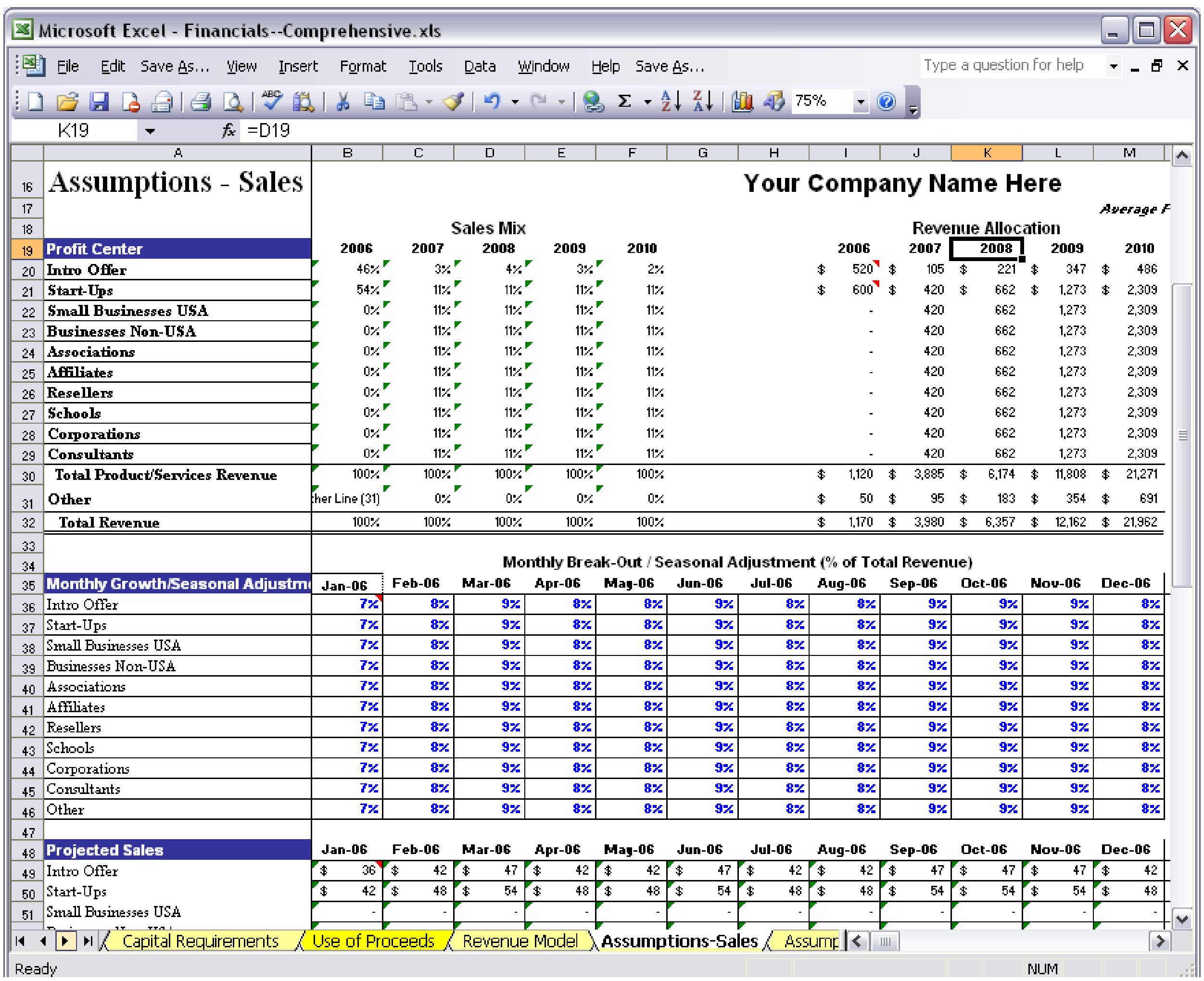
The assumptions that you enter into this Revenue/Demand Model are absolutely critical. These are also the assumptions most likely to be questioned by your investors!

Assumptions - Sales

Art is making something out of nothing and selling it.
~ Frank Zappa

Sales are the revenues you generate from selling your products or services, and are generally recorded when your product is shipped or your service is provided. This section of the Assumptions Worksheet allows you to estimate revenues for up to ten product/service sales items.

Use this method if you want to enter specific revenue values for sales for each month of the budget year. This is the best method if you are a start-up business, where your sales may be zero for the first few months and then grow rapidly, or if your business has seasonal sales cycles, where certain months of the year generate more revenue than others.



Assumptions - Sales

Your Company Name Here

Profit Center	Sales Mix 2006	2007	2008	2009	2010	Revenue Allocation 2006	2007	2008	2009	2010
Intro Offer	46%	3%	4%	3%	2%	$ 520	$ 105	$ 221	$ 347	$ 486
Start-Ups	54%	11%	11%	11%	11%	$ 600	$ 420	$ 662	$ 1,273	$ 2,309
Small Businesses USA	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Businesses Non-USA	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Associations	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Affiliates	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Resellers	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Schools	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Corporations	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Consultants	0%	11%	11%	11%	11%	-	420	662	1,273	2,309
Total Product/Services Revenue	100%	100%	100%	100%	100%	$ 1,120	$ 3,885	$ 6,174	$ 11,808	$ 21,271
Other	her Line (31)	0%	0%	0%	0%	$ 50	$ 95	$ 183	$ 354	$ 691
Total Revenue	100%	100%	100%	100%	100%	$ 1,170	$ 3,980	$ 6,357	$ 12,162	$ 21,962

Monthly Break-Out / Seasonal Adjustment (% of Total Revenue)

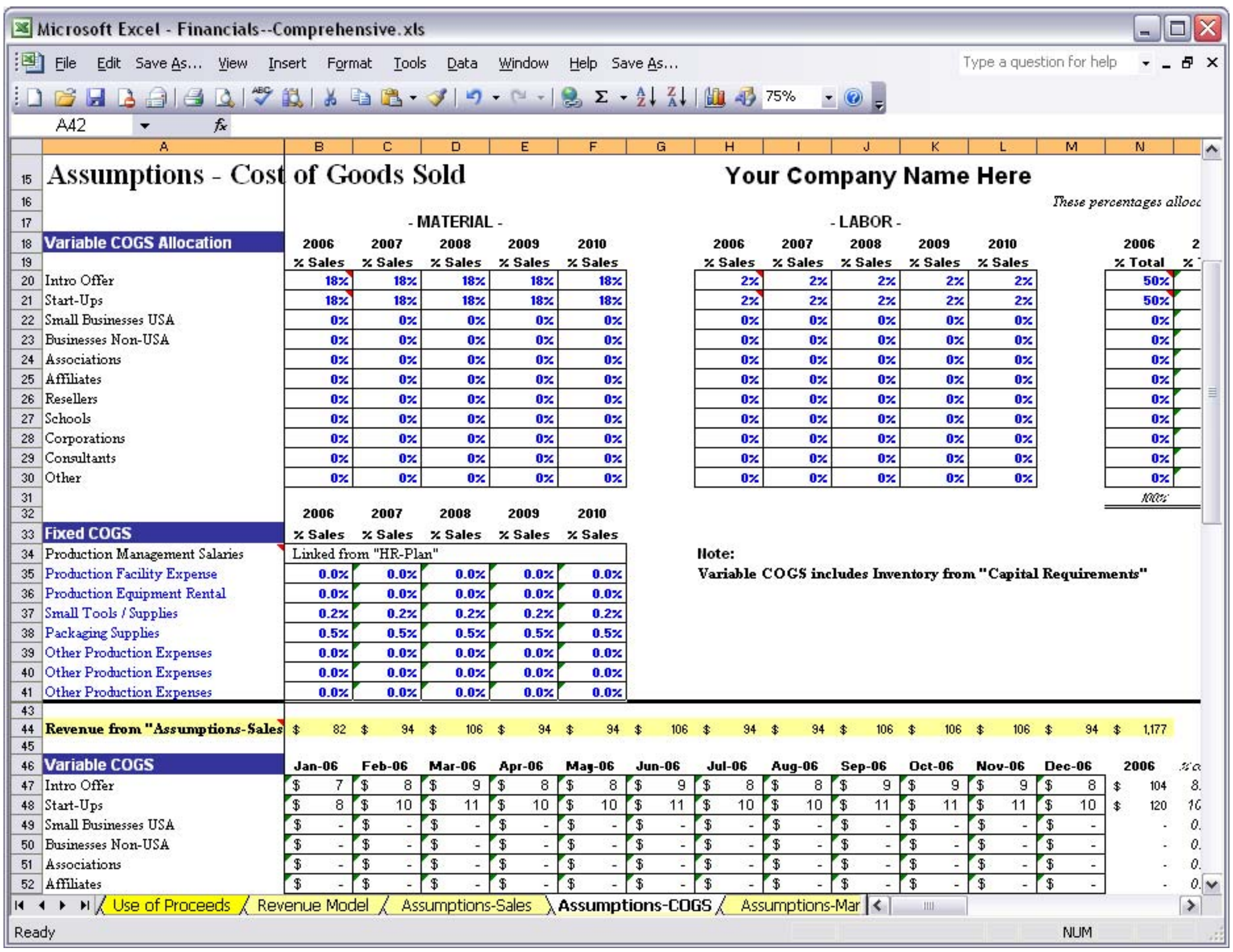
Monthly Growth/Seasonal Adjustm	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Intro Offer	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Start-Ups	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Small Businesses USA	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Businesses Non-USA	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Associations	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Affiliates	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Resellers	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Schools	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Corporations	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Consultants	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%
Other	7%	8%	9%	8%	8%	9%	8%	8%	9%	9%	9%	8%

Projected Sales	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Intro Offer	$ 36	$ 42	$ 47	$ 42	$ 42	$ 47	$ 42	$ 42	$ 47	$ 47	$ 47	$ 42
Start-Ups	$ 42	$ 48	$ 54	$ 48	$ 48	$ 54	$ 48	$ 48	$ 54	$ 54	$ 54	$ 48
Small Businesses USA	-	-	-	-	-	-	-	-	-	-	-	-

Assumptions - Cost of Goods Sold (COGs)

Cheat me in the price, but not in the goods.
~ Thomas Fuller

The costs of goods sold are recorded in the same time period (monthly or annually) as the sales revenue. In other words, you always record the sale and the costs associated with the products sold together. Cost of Goods Sold consists of Material, Labor and Fixed Cost of Goods Sold expenses.



Assumptions - Cost of Goods Sold

Your Company Name Here

These percentages alloc

Variable COGS Allocation	- MATERIAL - 2006 % Sales	2007 % Sales	2008 % Sales	2009 % Sales	2010 % Sales	- LABOR - 2006 % Sales	2007 % Sales	2008 % Sales	2009 % Sales	2010 % Sales	2006 % Total
Intro Offer	18%	18%	18%	18%	18%	2%	2%	2%	2%	2%	50%
Start-Ups	18%	18%	18%	18%	18%	2%	2%	2%	2%	2%	50%
Small Businesses USA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Businesses Non-USA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Associations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Affiliates	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Resellers	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Schools	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Corporations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Consultants	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
											100%

Fixed COGS	2006 % Sales	2007 % Sales	2008 % Sales	2009 % Sales	2010 % Sales
Production Management Salaries	Linked from "HR-Plan"				
Production Facility Expense	0.0%	0.0%	0.0%	0.0%	0.0%
Production Equipment Rental	0.0%	0.0%	0.0%	0.0%	0.0%
Small Tools / Supplies	0.2%	0.2%	0.2%	0.2%	0.2%
Packaging Supplies	0.5%	0.5%	0.5%	0.5%	0.5%
Other Production Expenses	0.0%	0.0%	0.0%	0.0%	0.0%
Other Production Expenses	0.0%	0.0%	0.0%	0.0%	0.0%
Other Production Expenses	0.0%	0.0%	0.0%	0.0%	0.0%

Note:
Variable COGS includes Inventory from "Capital Requirements"

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	2006	%
Revenue from "Assumptions-Sales	$ 82	$ 94	$ 106	$ 94	$ 94	$ 106	$ 94	$ 94	$ 106	$ 106	$ 106	$ 94	$ 1,177	
Variable COGS														
Intro Offer	$ 7	$ 8	$ 9	$ 8	$ 8	$ 9	$ 8	$ 8	$ 9	$ 9	$ 9	$ 8	$ 104	8.
Start-Ups	$ 8	$ 10	$ 11	$ 10	$ 10	$ 11	$ 10	$ 10	$ 11	$ 11	$ 11	$ 10	$ 120	10
Small Businesses USA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	0.
Businesses Non-USA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	0.
Associations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	0.
Affiliates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	0.

Cost of Goods Sold: - Material -

This expense category is for materials purchased from other companies that are assembled or processed to become part of your product. Frequently, a percentage such as 2% to 5% is added to the material costs to allocate "freight in," the charges for shipping the material to your factory.

Cost of Goods Sold: - Labor -

This expense category is for the cost of the salaries for people directly involved with the assembly and manufacture of your products or the providing of your services. Frequently, a percentage such as 40% to 100% is added to the labor costs to allocate the employee benefit expenses for these people.

Labor and material are considered variable costs, meaning that they vary directly with the volume of sales or production.

Cost of Goods Sold: - Fixed -

Fixed costs of goods sold are the costs associated with producing your products that tend to remain the same whether your sales volume increases or decreases. This additional table enables you to allocate, by percentages, your Fixed COGS amongst your Products/Services/Product Lines/Marketing Channels – some products/services may have no fixed COGs, therefore you would enter zero here. While overall Variable COGS and Fixed COGs are listed as separate line items on your Income Statement as expected, this allocation of Fixed COGs by Products / Services / Product Lines / Marketing Channels distinction is picked up in the Gross Profit analysis pages – more accurately reflecting your true costs involved with each Product / Service / Product Line / Marketing Channel.

The following are common fixed cost of goods sold expenses:

Fixed COGS: Production Management Salaries

These are salaries of personnel who hold "permanent" production management positions. These positions exist independent of sales volume, unlike positions that are regularly added or eliminated as sales volume fluctuates. This includes most supervisor and foreman positions and may include functions such as shipping or receiving, that remain fairly constant regardless of sales volume.

Fixed COGS: Production Facility Expense

These are the costs to operate production related facilities, including warehouse space and distribution centers. If you have a single facility where both your production and business office staffs operate, you may want to estimate the portion of your facility expenses that apply to your production operations, and allocate that portion here as a fixed cost of goods sold.

Fixed COGS: Production Equipment Rental

These are the costs for production equipment that you rent or lease rather than purchase.

Fixed COGS: Small Tools/Supplies

These are the costs of small tools and production supplies that are consumed in the production process or are inexpensive, and therefore are not capitalized as fixed assets.

Fixed COGS: Packaging Supplies

These are the costs of the supplies used to prepare and/or box your product for shipment to your customers.

Fixed COGS: Other Production Expenses

Any other production related expenses that were not covered by the previous categories could be summarized in a general category such as this.

➢ *NOTE ON COST OF GOODS SOLD: All costs associated with producing your products or providing your services should be included in the "Cost of Good Sold" section of your Assumptions. Any significant cost that is variable in nature should be allocated on a percent-age basis to material, labor or both. Costs that are not significant may be easier to include in the Fixed COGS section, even if they are variable in nature.*

Assumptions - Marketing

Nothing happens until somebody sells something.
~ (not sure)

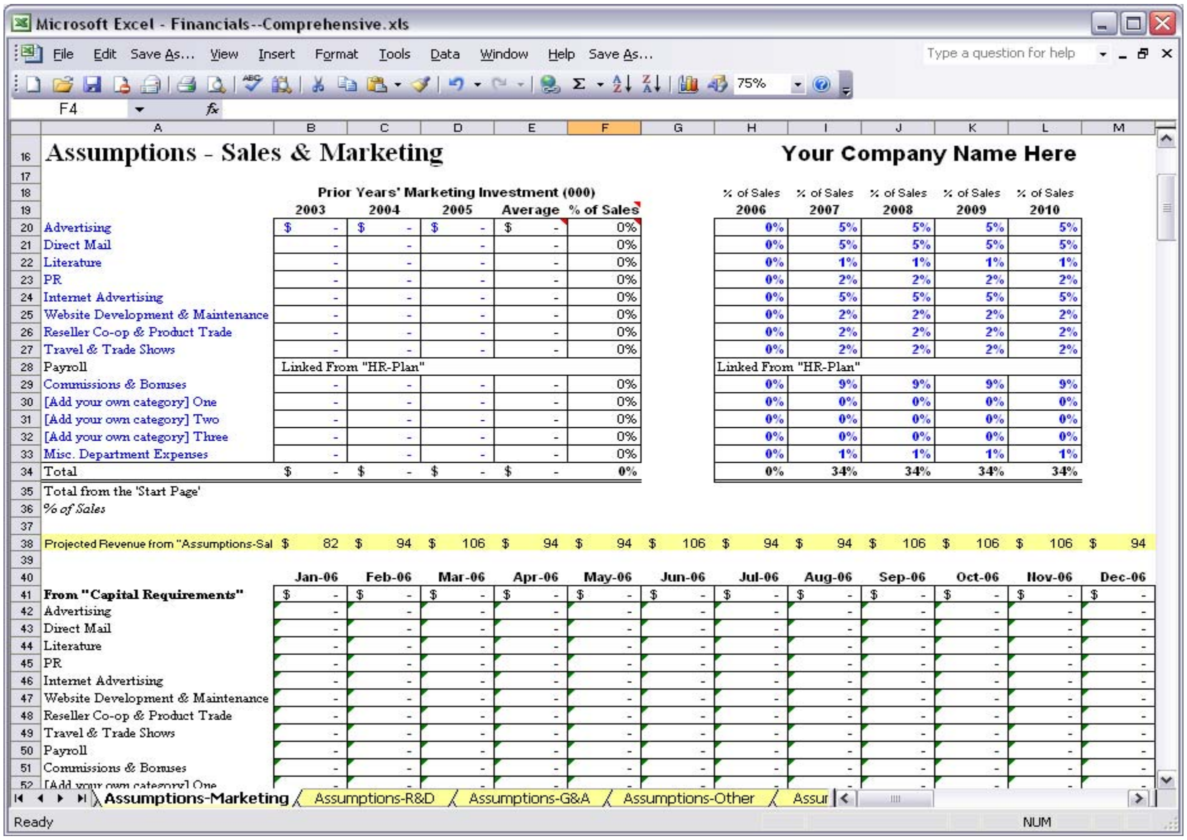
Here you can estimate your marketing budget and see the entire projection over the next 5 years.

Enter your projected Sales & Marketing Expense as a % of sales. Each monthly budget number below (Including years 2-3 quarterly and 4, 5 annually) is calculated by multiplying the appropriate annual "% of Sales" by 'Projected Revenue' from the "Assumptions-Sales" page.

The “From Capital Requirements” line includes the marketing line items you listed in that previous section. You may want to reduce the additional marketing expenses on this page to avoid duplication.

Even though the text in the Sales & Marketing Expense sections are black, you can overwrite the formulas without un-protecting the sheet. This was done to allow you to account for start-up/extraordinary/seasonal costs that may occur from time to time.

The Prior Years' Marketing Investment section can be used to refine your future budget projections. The Average percentage of sales will be a good guideline for future marketing investments.


Microsoft Excel - Financials--Comprehensive.xls

Assumptions - Sales & Marketing

Your Company Name Here

	Prior Years' Marketing Investment (000) 2003	2004	2005	Average	% of Sales	% of Sales 2006	% of Sales 2007	% of Sales 2008	% of Sales 2009	% of Sales 2010
Advertising	$ -	$ -	$ -	$ -	0%	0%	5%	5%	5%	5%
Direct Mail	-	-	-	-	0%	0%	5%	5%	5%	5%
Literature	-	-	-	-	0%	0%	1%	1%	1%	1%
PR	-	-	-	-	0%	0%	2%	2%	2%	2%
Internet Advertising	-	-	-	-	0%	0%	5%	5%	5%	5%
Website Development & Maintenance	-	-	-	-	0%	0%	2%	2%	2%	2%
Reseller Co-op & Product Trade	-	-	-	-	0%	0%	2%	2%	2%	2%
Travel & Trade Shows	-	-	-	-	0%	0%	2%	2%	2%	2%
Payroll	Linked From "HR-Plan"					Linked From "HR-Plan"				
Commissions & Bonuses	-	-	-	-	0%	0%	9%	9%	9%	9%
[Add your own category] One	-	-	-	-	0%	0%	0%	0%	0%	0%
[Add your own category] Two	-	-	-	-	0%	0%	0%	0%	0%	0%
[Add your own category] Three	-	-	-	-	0%	0%	0%	0%	0%	0%
Misc. Department Expenses	-	-	-	-	0%	0%	1%	1%	1%	1%
Total	$ -	$ -	$ -	$ -	0%	0%	34%	34%	34%	34%
Total from the 'Start Page'										
% of Sales										

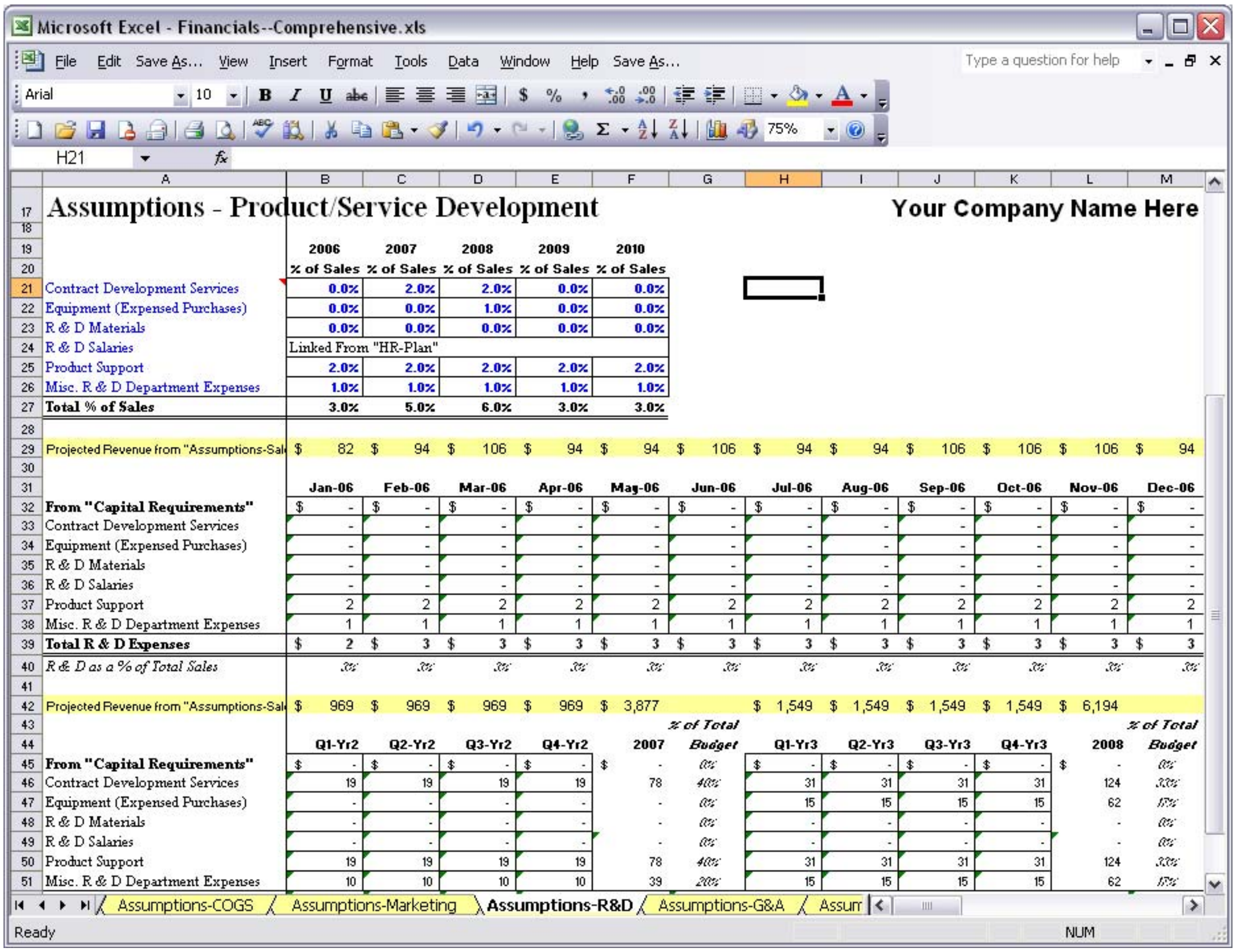
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Projected Revenue from "Assumptions-Sal	$ 82	$ 94	$ 106	$ 94	$ 94	$ 106	$ 94	$ 94	$ 106	$ 106	$ 106	$ 94
From "Capital Requirements"	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Advertising	-	-	-	-	-	-	-	-	-	-	-	-
Direct Mail	-	-	-	-	-	-	-	-	-	-	-	-
Literature	-	-	-	-	-	-	-	-	-	-	-	-
PR	-	-	-	-	-	-	-	-	-	-	-	-
Internet Advertising	-	-	-	-	-	-	-	-	-	-	-	-
Website Development & Maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Reseller Co-op & Product Trade	-	-	-	-	-	-	-	-	-	-	-	-
Travel & Trade Shows	-	-	-	-	-	-	-	-	-	-	-	-
Payroll	-	-	-	-	-	-	-	-	-	-	-	-
Commissions & Bonuses	-	-	-	-	-	-	-	-	-	-	-	-
[Add your own category] One	-	-	-	-	-	-	-	-	-	-	-	-

Assumptions-Marketing / Assumptions-R&D / Assumptions-G&A / Assumptions-Other / Assur

Assumptions – Product/Service Development

"That the automobile has practically reached the limit of its development is suggested by the fact that during the past year no improvements of a radical nature have been introduced."
~ Scientific American, January 2, 1909

This expense category includes all the costs associated with the research, development, prototyping and maintenance of your products or services.



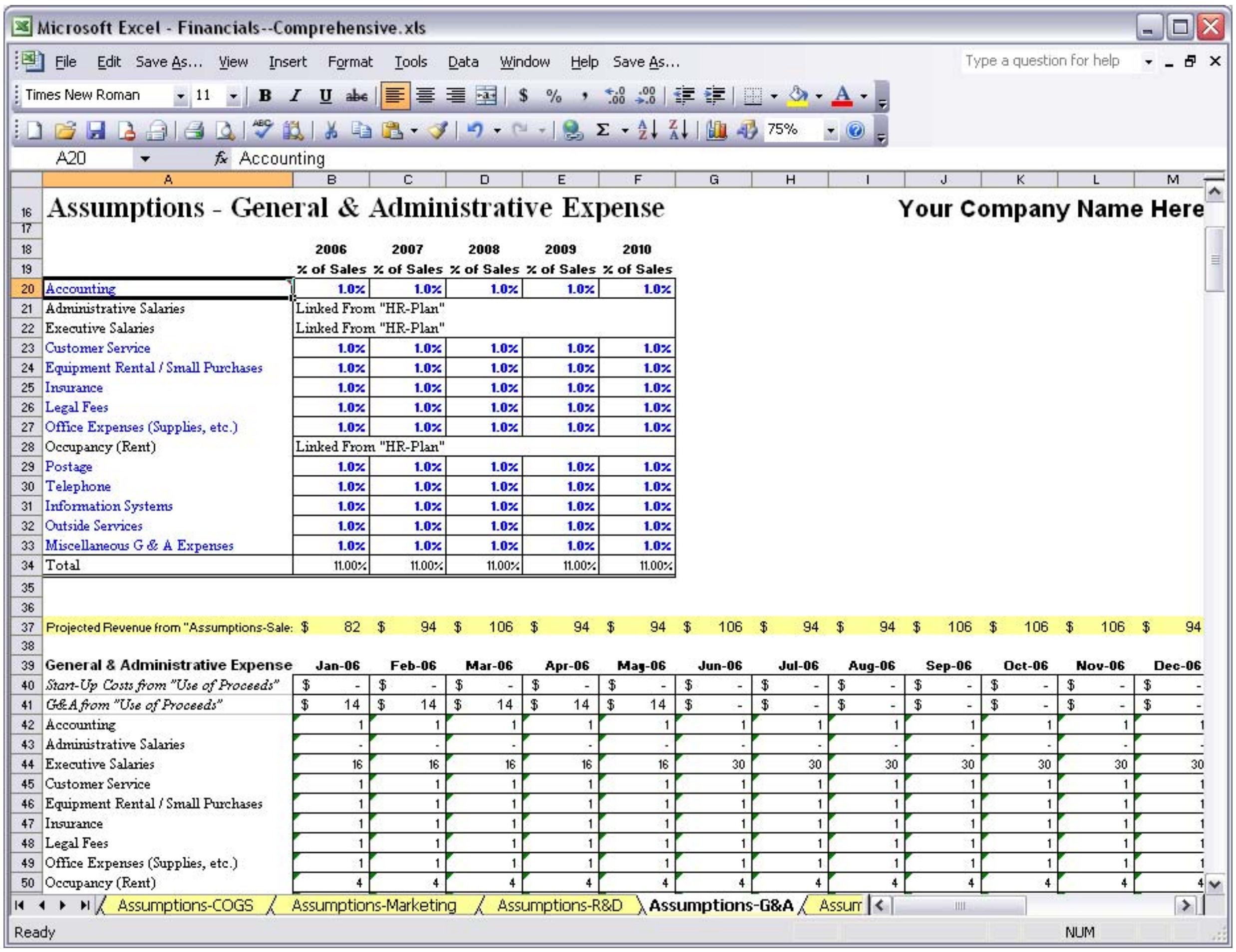
	A	B	C	D	E	F	G	H	I	J	K	L	M
17	Assumptions - Product/Service Development										Your Company Name Here		
19		2006	2007	2008	2009	2010							
20		% of Sales	% of Sales	% of Sales	% of Sales	% of Sales							
21	Contract Development Services	0.0%	2.0%	2.0%	0.0%	0.0%							
22	Equipment (Expensed Purchases)	0.0%	0.0%	1.0%	0.0%	0.0%							
23	R & D Materials	0.0%	0.0%	0.0%	0.0%	0.0%							
24	R & D Salaries	Linked From "HR-Plan"											
25	Product Support	2.0%	2.0%	2.0%	2.0%	2.0%							
26	Misc. R & D Department Expenses	1.0%	1.0%	1.0%	1.0%	1.0%							
27	Total % of Sales	3.0%	5.0%	6.0%	3.0%	3.0%							
29	Projected Revenue from "Assumptions-Sal	$ 82	$ 94	$ 106	$ 94	$ 94	$ 106	$ 94	$ 94	$ 106	$ 106	$ 106	$ 94
31		Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
32	From "Capital Requirements"	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
33	Contract Development Services	-	-	-	-	-	-	-	-	-	-	-	-
34	Equipment (Expensed Purchases)	-	-	-	-	-	-	-	-	-	-	-	-
35	R & D Materials	-	-	-	-	-	-	-	-	-	-	-	-
36	R & D Salaries	-	-	-	-	-	-	-	-	-	-	-	-
37	Product Support	2	2	2	2	2	2	2	2	2	2	2	2
38	Misc. R & D Department Expenses	1	1	1	1	1	1	1	1	1	1	1	1
39	Total R & D Expenses	$ 2	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
40	R & D as a % of Total Sales	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
42	Projected Revenue from "Assumptions-Sal	$ 969	$ 969	$ 969	$ 969	$ 3,877		$ 1,549	$ 1,549	$ 1,549	$ 1,549	$ 6,194	
43							% of Total						% of Total
44		Q1-Yr2	Q2-Yr2	Q3-Yr2	Q4-Yr2	2007	Budget	Q1-Yr3	Q2-Yr3	Q3-Yr3	Q4-Yr3	2008	Budget
45	From "Capital Requirements"	$ -	$ -	$ -	$ -	$ -	0%	$ -	$ -	$ -	$ -	$ -	0%
46	Contract Development Services	19	19	19	19	78	40%	31	31	31	31	124	33%
47	Equipment (Expensed Purchases)	-	-	-	-	-	0%	15	15	15	15	62	17%
48	R & D Materials	-	-	-	-	-	0%	-	-	-	-	-	0%
49	R & D Salaries	-	-	-	-	-	0%	-	-	-	-	-	0%
50	Product Support	19	19	19	19	78	40%	31	31	31	31	124	33%
51	Misc. R & D Department Expenses	10	10	10	10	39	20%	15	15	15	15	62	17%

➢ *NOTE ON CAPITALIZING DEVELOPMENT COSTS: In some cases, a portion of your development costs can be capitalized rather than expensed on your budget. This means that they are added to the balance sheet as an asset and amortized over the expected useful life of the feature or product. For a new or growing company, this tends to decrease expenses, increase profitability, and increase the total assets owned by the company-all good things. However, it also tends to increase income taxes, decrease cash, and make outsiders question your projections-all bad things. There is also additional accounting that must be done to properly calculate and defend the amount capitalized and then the amount amortized. If you are considering capitalizing a portion of your development costs, we suggest you consult your tax and financial advisors for assistance.*

Assumptions - General & Administrative

***The trouble with doing something right the first time
is that nobody appreciates how difficult it was.***
~ Anonymous

This expense category includes all the costs associated with the general management and administration of your company, including human relations and finance. Salaries should be increased by a percentage, typically 30% to 50%, to allocate the cost of employee benefits for general and administrative personnel.


Microsoft Excel - Financials--Comprehensive.xls

A20 Accounting

Assumptions - General & Administrative Expense — **Your Company Name Here**

	2006 % of Sales	2007 % of Sales	2008 % of Sales	2009 % of Sales	2010 % of Sales
Accounting	1.0%	1.0%	1.0%	1.0%	1.0%
Administrative Salaries	Linked From "HR-Plan"				
Executive Salaries	Linked From "HR-Plan"				
Customer Service	1.0%	1.0%	1.0%	1.0%	1.0%
Equipment Rental / Small Purchases	1.0%	1.0%	1.0%	1.0%	1.0%
Insurance	1.0%	1.0%	1.0%	1.0%	1.0%
Legal Fees	1.0%	1.0%	1.0%	1.0%	1.0%
Office Expenses (Supplies, etc.)	1.0%	1.0%	1.0%	1.0%	1.0%
Occupancy (Rent)	Linked From "HR-Plan"				
Postage	1.0%	1.0%	1.0%	1.0%	1.0%
Telephone	1.0%	1.0%	1.0%	1.0%	1.0%
Information Systems	1.0%	1.0%	1.0%	1.0%	1.0%
Outside Services	1.0%	1.0%	1.0%	1.0%	1.0%
Miscellaneous G & A Expenses	1.0%	1.0%	1.0%	1.0%	1.0%
Total	11.00%	11.00%	11.00%	11.00%	11.00%

Projected Revenue from "Assumptions-Sale:	$ 82	$ 94	$ 106	$ 94	$ 94	$ 106	$ 94	$ 94	$ 106	$ 106	$ 106	$ 94
General & Administrative Expense	**Jan-06**	**Feb-06**	**Mar-06**	**Apr-06**	**May-06**	**Jun-06**	**Jul-06**	**Aug-06**	**Sep-06**	**Oct-06**	**Nov-06**	**Dec-06**
Start-Up Costs from "Use of Proceeds"	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
G&A from "Use of Proceeds"	$ 14	$ 14	$ 14	$ 14	$ 14	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounting	1	1	1	1	1	1	1	1	1	1	1	1
Administrative Salaries	-	-	-	-	-	-	-	-	-	-	-	-
Executive Salaries	16	16	16	16	16	30	30	30	30	30	30	30
Customer Service	1	1	1	1	1	1	1	1	1	1	1	1
Equipment Rental / Small Purchases	1	1	1	1	1	1	1	1	1	1	1	1
Insurance	1	1	1	1	1	1	1	1	1	1	1	1
Legal Fees	1	1	1	1	1	1	1	1	1	1	1	1
Office Expenses (Supplies, etc.)	1	1	1	1	1	1	1	1	1	1	1	1
Occupancy (Rent)	4	4	4	4	4	4	4	4	4	4	4	4

Assumptions-COGS / Assumptions-Marketing / Assumptions-R&D / Assumptions-G&A

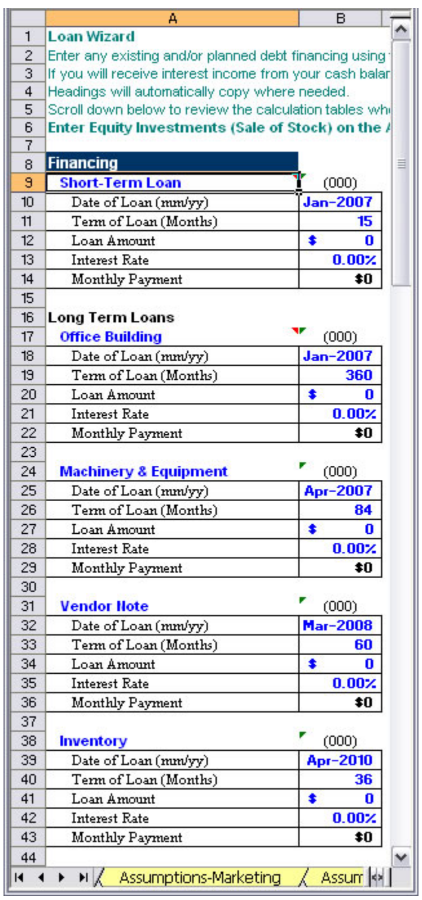
➢ *NOTE ON DEPRECIATION: Though depreciation ordinarily appears as a General and Administrative Expense, because BizPlanBuilder automatically calculates depreciation from your assumptions, it does not appear as a line item in your Assumptions Worksheet. It will appear on your Income Statement and all other appropriate financial statements. In ordinary usage, depreciation means a decline in value. For accountants, depreciation is the application of the cost of fixed assets like buildings, equipment, furniture and fixtures, and cars and trucks to the sales they help generate. Unlike inventory, which is sold fairly quickly, these assets usually last for a number of years. Depreciation, therefore, is a method for expensing (prorating) the cost of the asset over its expected lifetime.*

Assumptions - Financing

On the other hand, you have different fingers.
~ Stephen Wright

This section of your budget includes non-operating costs such as interest income and interest expense. These items relate to the financing of a business and not to the operations of a business. Separating these costs makes it easier to evaluate the fundamental profitability of your business without regard to whether the company is financed with debt or equity or both.

Loan Wizard



	A	B
1	Loan Wizard	
2	Enter any existing and/or planned debt financing using	
3	If you will receive interest income from your cash balar	
4	Headings will automatically copy where needed.	
5	Scroll down below to review the calculation tables whi	
6	Enter Equity Investments (Sale of Stock) on the /	
7		
8	Financing	
9	Short-Term Loan	(000)
10	Date of Loan (mm/yy)	Jan-2007
11	Term of Loan (Months)	15
12	Loan Amount	$ 0
13	Interest Rate	0.00%
14	Monthly Payment	$0
15		
16	Long Term Loans	
17	Office Building	(000)
18	Date of Loan (mm/yy)	Jan-2007
19	Term of Loan (Months)	360
20	Loan Amount	$ 0
21	Interest Rate	0.00%
22	Monthly Payment	$0
23		
24	Machinery & Equipment	(000)
25	Date of Loan (mm/yy)	Apr-2007
26	Term of Loan (Months)	84
27	Loan Amount	$ 0
28	Interest Rate	0.00%
29	Monthly Payment	$0
30		
31	Vendor Note	(000)
32	Date of Loan (mm/yy)	Mar-2008
33	Term of Loan (Months)	60
34	Loan Amount	$ 0
35	Interest Rate	0.00%
36	Monthly Payment	$0
37		
38	Inventory	(000)
39	Date of Loan (mm/yy)	Apr-2010
40	Term of Loan (Months)	36
41	Loan Amount	$ 0
42	Interest Rate	0.00%
43	Monthly Payment	$0
44		

Enter the loan start date, amount, and interest rate.

Interest expenses, cash flow and balance sheet line items are all automatically calculated — showing on separate line listings for each one on each statement for added clarity.

The blue text is variable so you can also label each loan with the title of your choice. These headings will also automatically copy to the Income Statement, Balance Sheet and Cash Flow statements where needed to identify their respective line-item calculations.

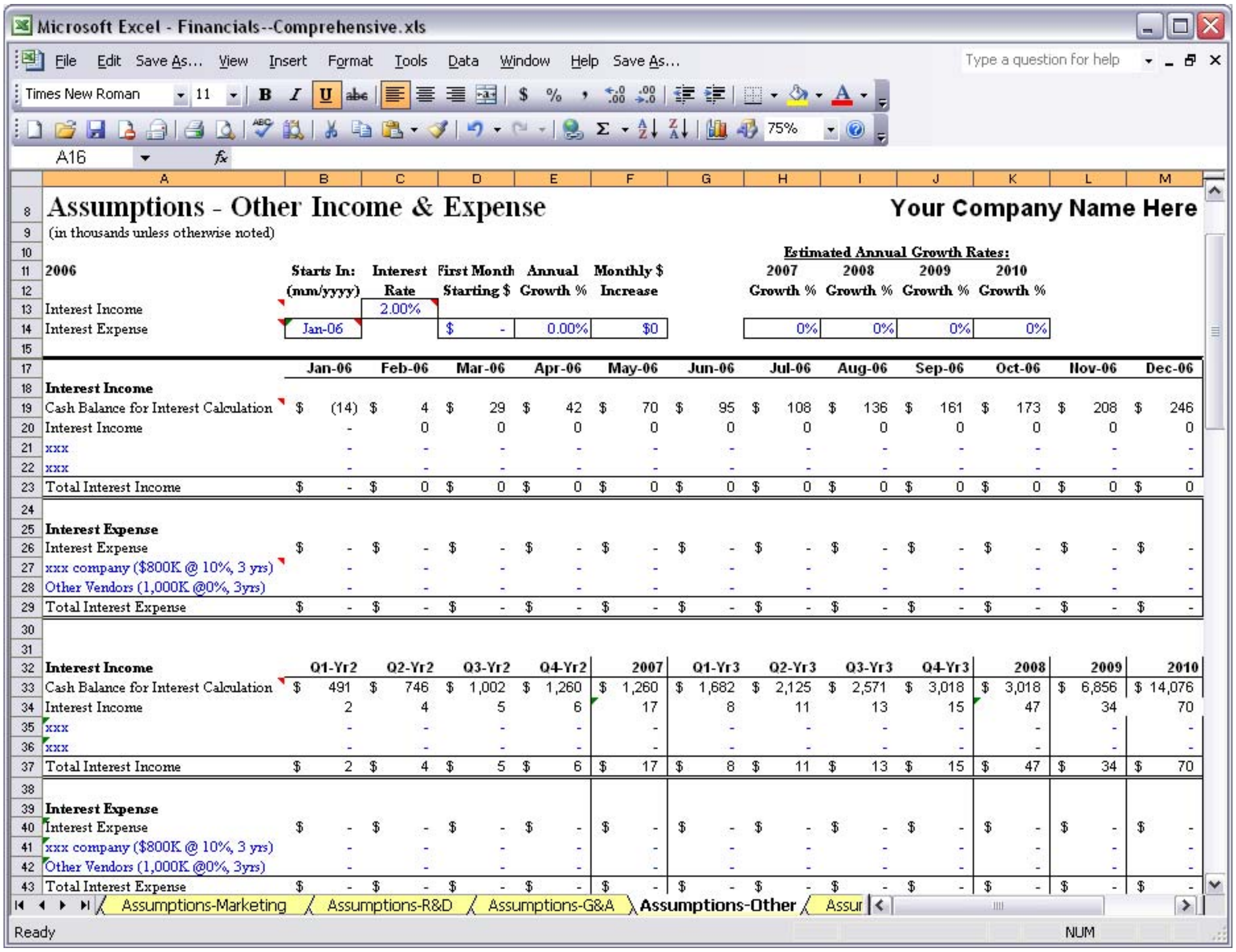
This helps dramatically to enable you to make adjustments where necessary and for investors and lenders to intuitively understand your plan.

Use this section to...
- Restructure debt to vendors.
- Purchase vehicles
- Borrow working capital
- Build up inventory

All loans are independently calculated so you can start them on any date from the beginning of your plan to any time in the future.

The Financing Assumptions screen below this “Loan Wizard” automatically summarizes all of your financing calculations here.

If / when you want to make a change, just update this page and everything else will recalculate and all changes will automatically appear in their proper places.



Microsoft Excel - Financials--Comprehensive.xls

Assumptions - Other Income & Expense — Your Company Name Here

(in thousands unless otherwise noted)

2006	Starts In: (mm/yyyy)	Interest Rate	First Month Starting $	Annual Growth %	Monthly $ Increase	2007 Growth %	2008 Growth %	2009 Growth %	2010 Growth %
Interest Income		2.00%							
Interest Expense	Jan-06		$ -	0.00%	$0	0%	0%	0%	0%

(Estimated Annual Growth Rates: 2007–2010)

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Interest Income												
Cash Balance for Interest Calculation	$ (14)	$ 4	$ 29	$ 42	$ 70	$ 95	$ 108	$ 136	$ 161	$ 173	$ 208	$ 246
Interest Income	-	0	0	0	0	0	0	0	0	0	0	0
xxx	-	-	-	-	-	-	-	-	-	-	-	-
xxx	-	-	-	-	-	-	-	-	-	-	-	-
Total Interest Income	$ -	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Interest Expense												
Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
xxx company ($800K @ 10%, 3 yrs)	-	-	-	-	-	-	-	-	-	-	-	-
Other Vendors (1,000K @0%, 3yrs)	-	-	-	-	-	-	-	-	-	-	-	-
Total Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Interest Income	Q1-Yr2	Q2-Yr2	Q3-Yr2	Q4-Yr2	2007	Q1-Yr3	Q2-Yr3	Q3-Yr3	Q4-Yr3	2008	2009	2010
Cash Balance for Interest Calculation	$ 491	$ 746	$ 1,002	$ 1,260	$ 1,260	$ 1,682	$ 2,125	$ 2,571	$ 3,018	$ 3,018	$ 6,856	$ 14,076
Interest Income	2	4	5	6	17	8	11	13	15	47	34	70
xxx	-	-	-	-	-	-	-	-	-	-	-	-
xxx	-	-	-	-	-	-	-	-	-	-	-	-
Total Interest Income	$ 2	$ 4	$ 5	$ 6	$ 17	$ 8	$ 11	$ 13	$ 15	$ 47	$ 34	$ 70
Interest Expense												
Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
xxx company ($800K @ 10%, 3 yrs)	-	-	-	-	-	-	-	-	-	-	-	-
Other Vendors (1,000K @0%, 3yrs)	-	-	-	-	-	-	-	-	-	-	-	-
Total Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Assumptions-Marketing / Assumptions-R&D / Assumptions-G&A / Assumptions-Other / Assur

Enter any existing and/or planned interest income or expenses.

You can also enter how much the initial interest expense will be and if it will grow, by what percentage, what dollar amount, both or neither. You choose.

This expanded choice only exists for Year 1, subsequent years allow adjustment only by percentage growth.

Warning! This field must be properly filled in for the interest expense calculations to work. Make sure that the starting date for your Interest Expense starts AFTER the date of your plan. If you do not expect to pay interest expense enter the first month of your first fiscal year. If you get a #VALUE! error, verify that this date falls within your first fiscal year. This is an easy oversight, but an easy fix.

Debt Restructuring

We also include a couple of lines enabling you to calculate and enter possible vendor or other debt restructuring. At the bottom is space for footnotes briefly explaining the nature of your payment plan(s).

Taxes

Death and taxes… taxes are actually a "high-class problem." You must be making a profit in order to pay taxes! BizPlanBuilder calculates your business income taxes based on the percent. In the income statement and elsewhere taxes are concerned, they will be automatically calculated. Fill in the Tax-Rate Look-up Table (at the bottom of the page), including the income break points between brackets and the appropriate percentages. These will depend on the state you pay taxes in, whether you have a local income tax on business and the latest federal business tax rates. You'll probably need to check with your financial advisor to get current information.

Corporate Income Tax Rates

(Taxable Years Beginning After Dec. 31, 1992)

If taxable income is:	The **tax** is:
Not over $50,000	15% of taxable income
Over $50,000 but not over $75,000	$7,500 plus 25% of the amount over $50,000
Over $75,000 but not over $100,000	$13,750 plus 34% of the amount over $75,000
Over $100,000 but not over $335,000	$22,250 plus 39% of the amount over $100,000
Over $335,000 but not over $10,000,000	$113,900 plus 34% of the amount over $335,000
Over $10,000,000 but not over $15,000,000	$3,400,000 plus 35% of the amount over $10,000,000
Over $15,000,000 but not over $18,333,333	$5,150,000 plus 38% of the amount over $15,000,000
Over $18,333,333	35% of taxable income

Qualified personal service corporations are taxed at a flat 35% **tax rate**.

NOL Carry-forward

In fact, we even include the Net Operating Loss (NOL) carry-forward calculation to provide an even more accurate picture of your true tax expense into the future. Here's something for your attorney and CPA… what if you were to possibly sell your NOL for much needed cash today? (In Hawaii, they encourage it for small companies, and by their law, you must be paid at least 75% of the tax value of the NOL!) Hmmm.

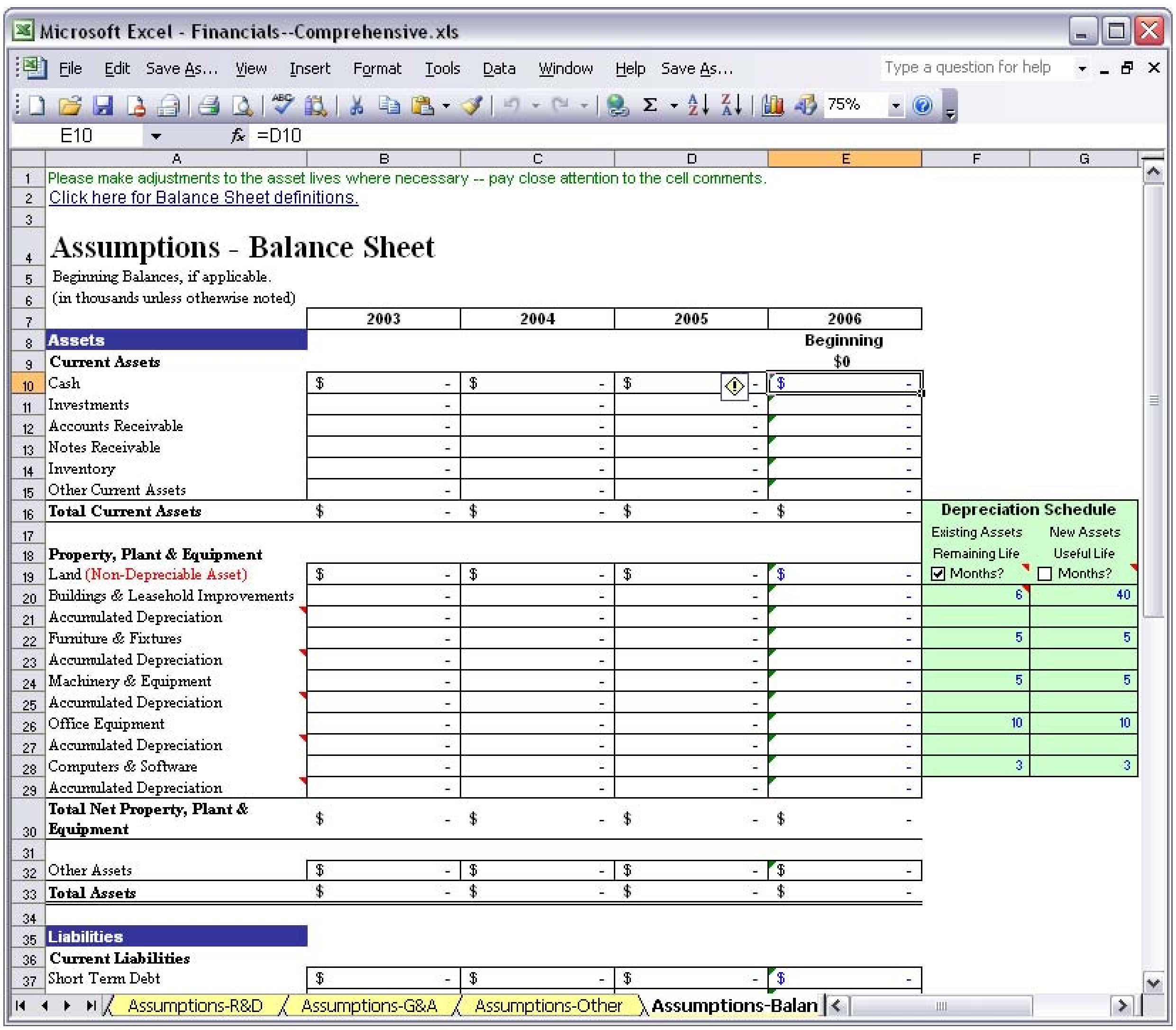
Assumptions - Balance Sheet

Obstacles are things a person sees when he takes his eyes off his goal.

~ E. Joseph Cossman

The Balance Sheet, also known as a Statement of Financial Position, reflects everything your company owns (assets), owes (liabilities) and the equity of the owner(s). The Balance Statement functions as a "snapshot" because it shows your financial position on a specific day, not what has occurred over a period of time.

The balance sheet is divided into two parts which must always equal each other: Assets = Liabilities + Equity.



Balance Sheet: Assets

Assets are those items your company owns. On a balance sheet, assets are commonly grouped into Current Assets, Fixed Assets, and Other Assets categories.

Balance Sheet: Current Assets

These are cash and other assets that you expect will turn into cash or be consumed within one year. These include investments; accounts receivable and notes receivable; inventory (including raw materials, work in process and finished goods); and other current assets. Other current assets include prepaid expenses, such as insurance premiums or advertising costs that must be paid in advance but are "used up" over a period of time.

Balance Sheet: Fixed Assets

Also called Plant and Equipment, these are assets which are of a durable nature and are expected to help generate revenue over a period of a year or longer. Fixed assets can include equipment, automobiles, furniture and fixtures, land, and buildings. They are listed at cost on the balance sheet and are depreciated over a period of years. Accumulated depreciation here is the total amount of depreciation that has already been recognized in periods prior to the business plan.

Balance Sheet: Other Assets

This asset category may include such accounts as patents, copyrights or goodwill.

On the other side of the balance sheet are liabilities and equity. Balance Sheet: Liabilities

Liabilities are those accounts or debts that your business owes others, and they are commonly grouped into Current Liabilities and Long Term Debt.

Balance Sheet: Current Liabilities

These are debts that are expected to be repaid within a year, including short term debt pay-able to the bank (including the portion of long term debt due within one year); accounts payable to suppliers for materials, supplies, etc.; other payables for items like payroll taxes or sales taxes; and accrued liabilities (such as bonuses or pension plans that are paid in the future but relate to performance over the current or prior fiscal period).

Balance Sheet: Long-Term Debt

These are those loans from a bank or other lenders that are due to be repaid over a period of a year or longer. Usually these loans are mortgages or were used to purchase fixed assets.

Balance Sheet: Equity

The final category on the balance sheet is equity. Although the exact listing of accounts is determined by what type of business you own (that is, a proprietorship, partnership, or corporation), the equity category summarizes the accumulated wealth of your company. This includes capital, which is the amount that has been invested in your company, retained earnings, which is the accumulated profits (or losses) the company has earned from operations less dividends declared, and dividends payable, which are dividends that have been declared but not yet paid to the shareholders. Equity is the value that is left after you've subtracted your total liabilities from your total assets.

Balance Sheet: Beginning Balances

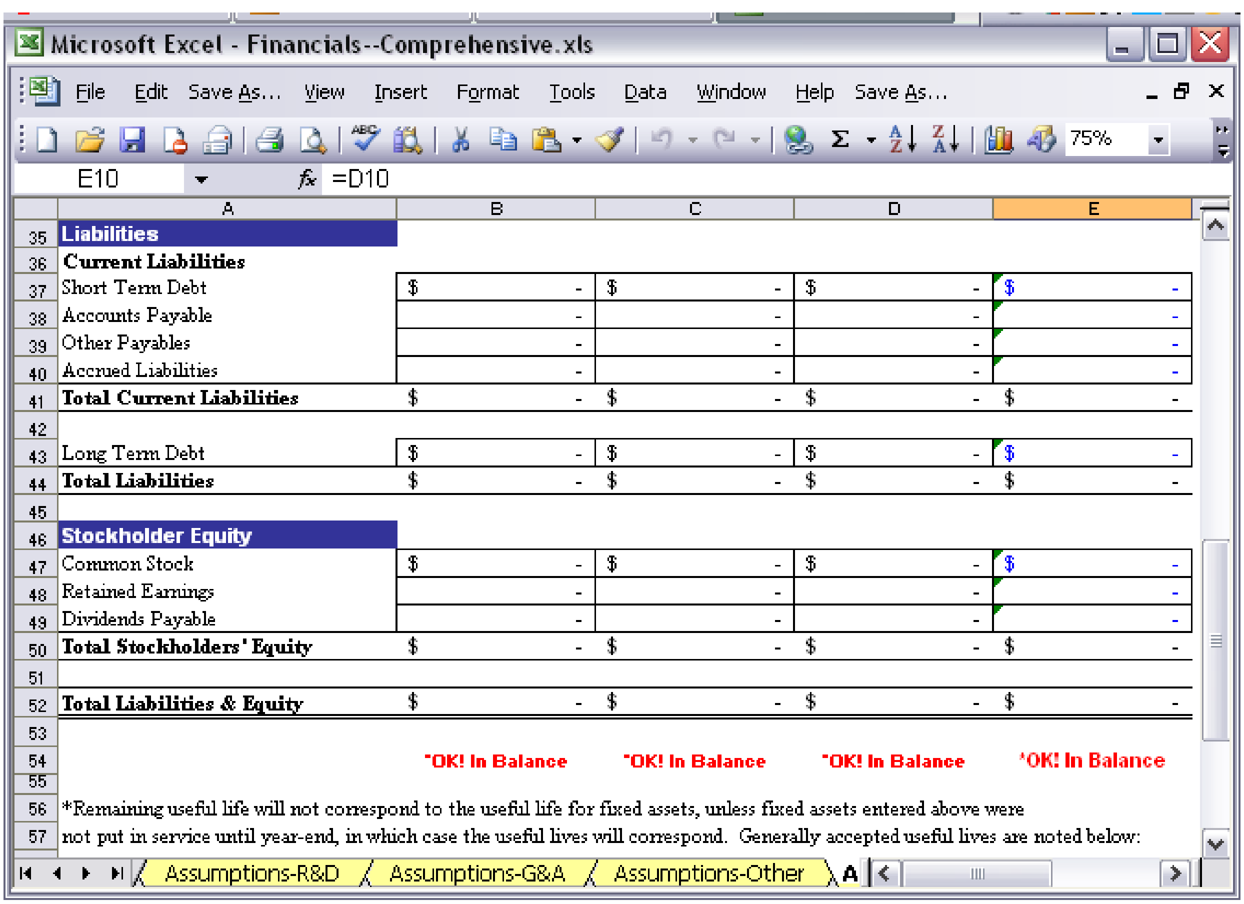
As soon as you spend or invest your first dollar, you have a financial position that can be presented on a balance sheet. The equity section should reflect your personal investment, as well as any money invested from other sources. Assets may have been purchased, liabilities may have been incurred, and expenses have probably been incurred, such as purchasing BizPlanBuilder.

Since a balance sheet reflects your cumulative financial position through a certain day, all activity that occurs prior to your first budget month must be added to the new activity for that month to accurately project your balance sheet as of the end of the first budget month.

Because of this, you will need to calculate what your beginning balance sheet balances are (what your balance sheet would show on the day before you start your budget period), so that these beginning balance sheet amounts can be incorporated into your projections.

If you have an established business, you may already have a balance sheet as of the day before your new budget period begins. If so, you may need to identify the best match between the balance sheet accounts used by your accountant and the accounts used in your projected balance sheet statement, then incorporate your beginning balances into the appropriate accounts.

If you are a start-up, you will need to identify and summarize all of the financial transactions associated with your business to create a balance sheet as of the day before your budget begins. Review your business activities and calculate or estimate the amounts for each balance sheet item that applies to your business (refer to the sections above for discussions of the balance sheet categories and accounts). Remember, the total of all your assets must equal your total liabilities plus owners' equity. When these do not match, you should review all of the accounts for errors or omissions. If there is still a difference and you think that there have been some unrecorded expenses, retained earnings should probably be reduced to resolve the difference.



Microsoft Excel - Financials--Comprehensive.xls

File Edit Save As... View Insert Format Tools Data Window Help Save As...

E10 =D10

	A	B	C	D	E
35	**Liabilities**				
36	**Current Liabilities**				
37	Short Term Debt	$ -	$ -	$ -	$ -
38	Accounts Payable	-	-	-	-
39	Other Payables	-	-	-	-
40	Accrued Liabilities	-	-	-	-
41	**Total Current Liabilities**	$ -	$ -	$ -	$ -
42					
43	Long Term Debt	$ -	$ -	$ -	$ -
44	**Total Liabilities**	$ -	$ -	$ -	$ -
45					
46	**Stockholder Equity**				
47	Common Stock	$ -	$ -	$ -	$ -
48	Retained Earnings	-	-	-	-
49	Dividends Payable	-	-	-	-
50	**Total Stockholders' Equity**	$ -	$ -	$ -	$ -
51					
52	**Total Liabilities & Equity**	$ -	$ -	$ -	$ -
53					
54		*OK! In Balance	*OK! In Balance	*OK! In Balance	*OK! In Balance
55					
56	*Remaining useful life will not correspond to the useful life for fixed assets, unless fixed assets entered above were				
57	not put in service until year-end, in which case the useful lives will correspond. Generally accepted useful lives are noted below:				

Assumptions-R&D Assumptions-G&A Assumptions-Other A

At the bottom, we include an automatic check to make sure your Balance Sheet is indeed balanced.

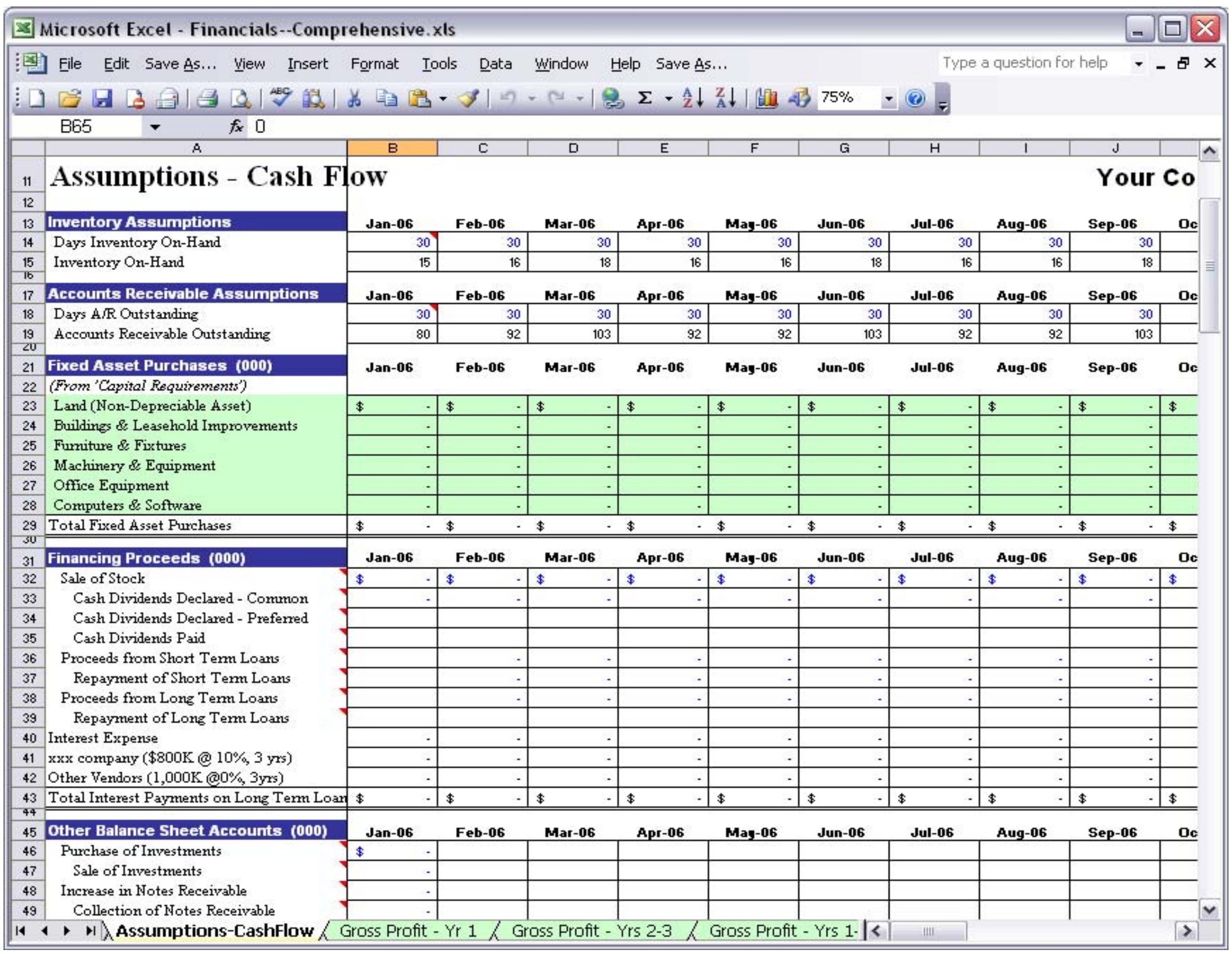
Assumptions - Cash Flow

I believe in Spinoza's God who reveals himself in the orderly harmony of what exists, not in a God who concerns himself with fates and actions of human beings.
~ Albert Einstein (1879-1955)

The Cash Flow Statement, also known as a Statement of Changes in Financial Position, summarizes your cash-related activities over a period of time and shows where your cash came from and where it went. One resulting figure is your net cash balance.

No matter how profitable your business, it is critical that you manage cash effectively. Profit does not pay the bills or the bankers—only cash does. The “burn rate” of cash is the net amount of cash you go through every month. Potential lenders and investors want to see positive cash flow that indicates your business can generate enough money to repay their investment.

The Cash Flow Assumptions section allows you to estimate non-operational cash transactions on a monthly basis for a year, as well as provide monthly Working Capital timing estimates for Accounts Receivable, Inventory, and Accounts Payable.



Microsoft Excel - Financials--Comprehensive.xls

	A	B	C	D	E	F	G	H	I	J	
11	Assumptions - Cash Flow										Your Co
12											
13	**Inventory Assumptions**	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oc
14	Days Inventory On-Hand	30	30	30	30	30	30	30	30	30	
15	Inventory On-Hand	15	16	18	16	16	18	16	16	18	
16											
17	**Accounts Receivable Assumptions**	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oc
18	Days A/R Outstanding	30	30	30	30	30	30	30	30	30	
19	Accounts Receivable Outstanding	80	92	103	92	92	103	92	92	103	
20											
21	**Fixed Asset Purchases (000)**	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oc
22	*(From 'Capital Requirements')*										
23	Land (Non-Depreciable Asset)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
24	Buildings & Leasehold Improvements	-	-	-	-	-	-	-	-	-	
25	Furniture & Fixtures	-	-	-	-	-	-	-	-	-	
26	Machinery & Equipment	-	-	-	-	-	-	-	-	-	
27	Office Equipment	-	-	-	-	-	-	-	-	-	
28	Computers & Software	-	-	-	-	-	-	-	-	-	
29	Total Fixed Asset Purchases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
30											
31	**Financing Proceeds (000)**	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oc
32	Sale of Stock	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
33	Cash Dividends Declared - Common	-	-	-	-	-	-	-	-	-	
34	Cash Dividends Declared - Preferred										
35	Cash Dividends Paid										
36	Proceeds from Short Term Loans		-	-	-	-	-	-	-	-	
37	Repayment of Short Term Loans		-	-	-	-	-	-	-	-	
38	Proceeds from Long Term Loans		-	-	-	-	-	-	-	-	
39	Repayment of Long Term Loans										
40	Interest Expense	-	-	-	-	-	-	-	-	-	
41	xxx company ($800K @ 10%, 3 yrs)	-	-	-	-	-	-	-	-	-	
42	Other Vendors (1,000K @0%, 3yrs)	-	-	-	-	-	-	-	-	-	
43	Total Interest Payments on Long Term Loan	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
44											
45	**Other Balance Sheet Accounts (000)**	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oc
46	Purchase of Investments	$ -									
47	Sale of Investments	-									
48	Increase in Notes Receivable	-									
49	Collection of Notes Receivable	-									

Assumptions-CashFlow / Gross Profit - Yr 1 / Gross Profit - Yrs 2-3 / Gross Profit - Yrs 1-

The Cash Balance from the Cashflow Statement runs through this page so you can immediately see the effects of any additions and changes made on this page. Here is where you will see when your cashflow may go negative, and is one of the best places to calculate how much money you will need to start, build and run your business. Enter amounts representing inflows and outflows of cash by category and period. You will also see many small “red triangles” on this page representing on-screen prompts that will give you ideas and tell what to do.

Inventory Assumption: Enter the total number of days of Inventory expected to be on-hand each month. If no inventory is to be maintained, type '0' (zero).

Accounts Receivable Assumption: Enter the total number of days of Accounts Receivable expected to be outstanding (e.g. days to turn).

Enter **Financing Proceeds** (sale of stock to Venture Capitalists, Angel Investors, etc.; SBA / Bank loans) below. (In which month will you deposit that $10 million investment?)

All values should be entered as positive numbers.

Working Capital Assumptions (In Days)

These values represent timing estimates (number of days) for cash flow purposes of the three Working Capital items described below.

Accounts Receivable

This is money owed to you by your customers for sales on account (when a sale has been made but payment has not been received).

Accounts Receivable Days are the number of days, on average, that it takes to collect payment for your sales. It is also referred to as Days of Sales Outstanding. One method to estimate this is to take your accounts receivable balance at the end of the year divided by your total sales for the year, and then multiply by 365 days.

If you are starting a new business and have no sales from a prior period, your Accounts Receivable number of days for the first month should not be greater than 30. (In this scenario, a number of days greater than 30 will project more money owed to you for the first month than the total sales you’ve projected for the first month, which is illogical for a new business.)

Inventory

This represents the value of materials, work in process and finished goods you have on hand ready for sale to your customers.

Inventory Days are the average number of days of cost of goods sold you have in inventory. One method to estimate this is to take your inventory dollar value at the end of the year divided by your total cost of goods sold for the year, and then multiply by 365 days. Another method is to calculate how many days your current inventory would last before you sold all of it, if you didn’t add any more inventory.

Cash Flow: Accounts Payable

This is money you owe to your suppliers for purchases on credit (when you purchase items but have not yet paid for them).

Accounts Payable Days are the number of days, on average, that you take to pay your sup-pliers. One method to estimate this is to take your accounts payable balance at the end of the year divided by your total cost of goods sold for the year, and then multiply by 365 days.

Break-Even Analysis Assumptions

The Break-Even Analysis section calls for you to estimate the average monthly portion of fixed costs that are to be reclassified to variable costs for the purposes of break-even analysis for the first year.

For simplicity sake, most categories are treated as fixed. However, think what would happen to your "fixed" production management salary expense or "fixed" telephone expense if your sales doubled. Salaries and the telephone bill might be higher but they would not double. Since sales rise and fall, it follows that a lot of "fixed' expenses are variable in nature.

The break-even analysis allows you to compensate for this characteristic. There is no set formula to apply. BizPlanBuilder recommends taking a percentage of overall fixed costs from 15% to 20% to convert to variable costs. Unlike the rest of accounting, this is a situation where your "gut feel" counts. The amount you choose depends upon the nature of your business, and your experience of what percent of your fixed costs might be considered variable in nature.

The Financial Statements in BizPlanBuilder

The happiest time in any man's life is when he is in red-hot pursuit of a dollar with a reasonable prospect of overtaking it.
~ Henry Wheeler Shaw

BizPlanBuilder uses all the assumptions you supply in the Assumptions Worksheets to calculate the financial statements you require. What follows in this section are the most common financial statements that BizPlanBuilder will generate for you. This section looks at what they can tell you and your potential lenders or investors about your business.

- Budget
- Income Statement
- Balance Sheet
- Cash-flow
- Ratios

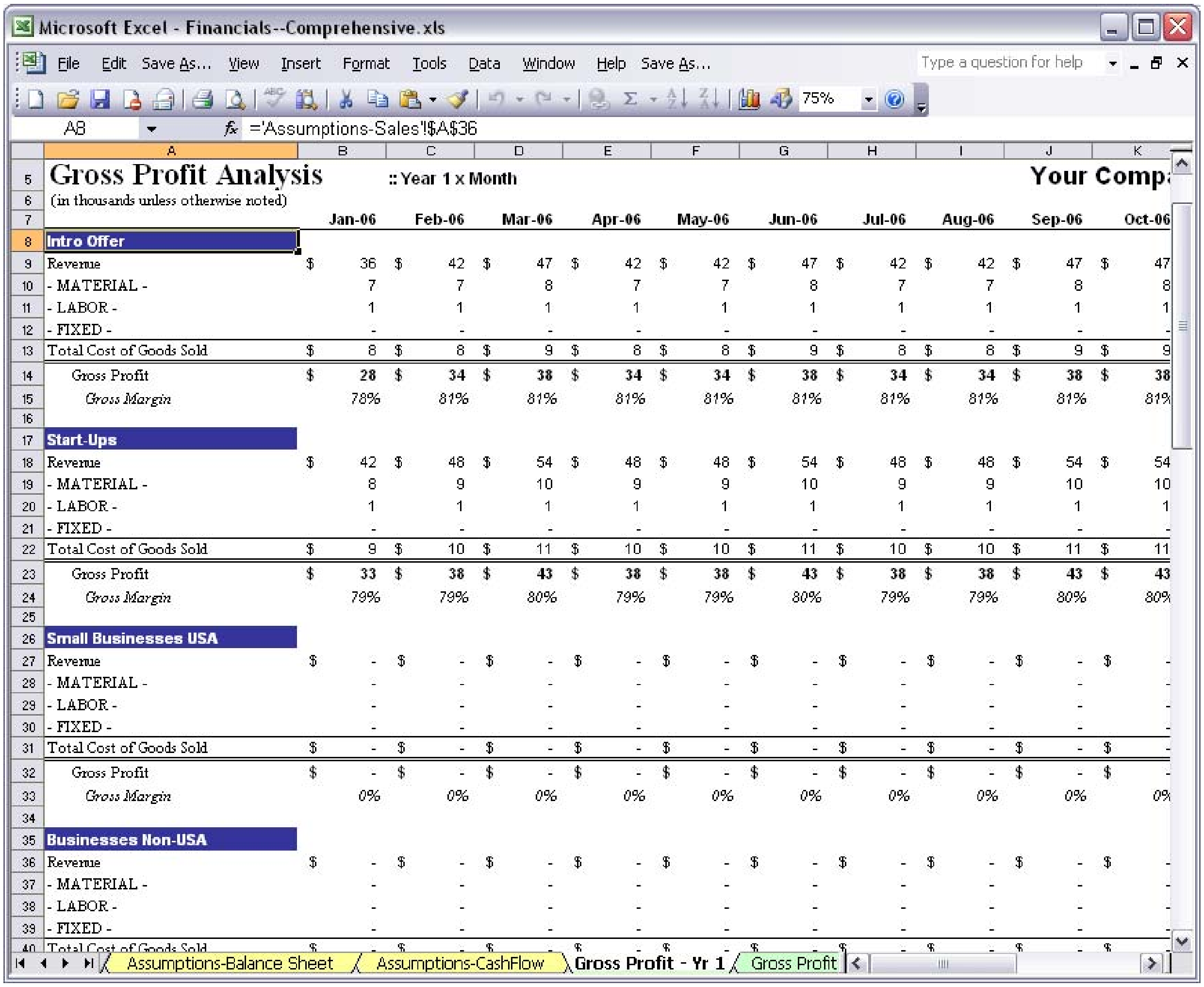
All BizPlanBuilder Financial models are available in three formats:

- Year 1 by months
- Years 2-3 by quarters
- Years 1-5 by years

Gross Profit Analysis

The worst crime against working people is a company which fails to operate at a profit.
~ Samuel Gompers

The Gross Profit Analysis presents a breakdown of the month-by-month sales, cost of goods sold, and gross profit for each product or product line. This statement is most appropriate for multi-product businesses, but it can often be adapted for use by mixed product/service and service only businesses.



Microsoft Excel - Financials--Comprehensive.xls

A8 =’Assumptions-Sales’!A36

Gross Profit Analysis :: Year 1 x Month **Your Comp**
(in thousands unless otherwise noted)

Row	A	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06
8	**Intro Offer**										
9	Revenue	$ 36	$ 42	$ 47	$ 42	$ 42	$ 47	$ 42	$ 42	$ 47	$ 47
10	- MATERIAL -	7	7	8	7	7	8	7	7	8	8
11	- LABOR -	1	1	1	1	1	1	1	1	1	1
12	- FIXED -	-	-	-	-	-	-	-	-	-	-
13	Total Cost of Goods Sold	$ 8	$ 8	$ 9	$ 8	$ 8	$ 9	$ 8	$ 8	$ 9	$ 9
14	Gross Profit	$ **28**	$ **34**	$ **38**	$ **34**	$ **34**	$ **38**	$ **34**	$ **34**	$ **38**	$ **38**
15	*Gross Margin*	*78%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*
16											
17	**Start-Ups**										
18	Revenue	$ 42	$ 48	$ 54	$ 48	$ 48	$ 54	$ 48	$ 48	$ 54	$ 54
19	- MATERIAL -	8	9	10	9	9	10	9	9	10	10
20	- LABOR -	1	1	1	1	1	1	1	1	1	1
21	- FIXED -	-	-	-	-	-	-	-	-	-	-
22	Total Cost of Goods Sold	$ 9	$ 10	$ 11	$ 10	$ 10	$ 11	$ 10	$ 10	$ 11	$ 11
23	Gross Profit	$ **33**	$ **38**	$ **43**	$ **38**	$ **38**	$ **43**	$ **38**	$ **38**	$ **43**	$ **43**
24	*Gross Margin*	*79%*	*79%*	*80%*	*79%*	*79%*	*80%*	*79%*	*79%*	*80%*	*80%*
25											
26	**Small Businesses USA**										
27	Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28	- MATERIAL -	-	-	-	-	-	-	-	-	-	-
29	- LABOR -	-	-	-	-	-	-	-	-	-	-
30	- FIXED -	-	-	-	-	-	-	-	-	-	-
31	Total Cost of Goods Sold	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
32	Gross Profit	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
33	*Gross Margin*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
34											
35	**Businesses Non-USA**										
36	Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
37	- MATERIAL -	-	-	-	-	-	-	-	-	-	-
38	- LABOR -	-	-	-	-	-	-	-	-	-	-
39	- FIXED -	-	-	-	-	-	-	-	-	-	-
40	Total Cost of Goods Sold	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Assumptions-Balance Sheet / Assumptions-CashFlow / Gross Profit - Yr 1 / Gross Profit

The Gross Profit Analysis enables you to pay special attention to what each product’s/service’s costs and profits are as a percentage of the sales revenue they generate. The results of this analysis may reveal a product line that’s very profitable, which may indicate that it should be promoted more. It may also reveal a product line that is not profitable and should be re-priced, repositioned, or dropped.

Budget

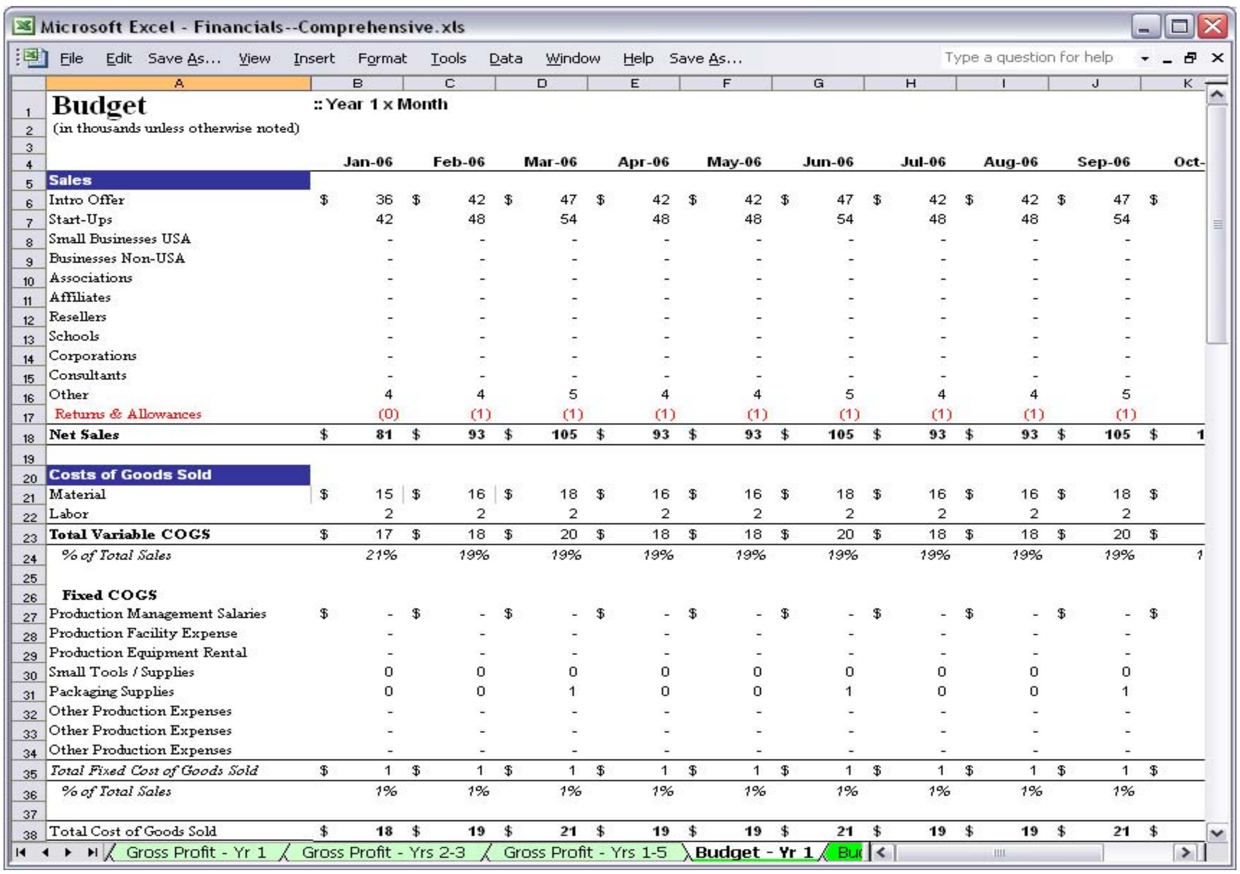
Budget: a mathematical confirmation of your suspicions.
~ A.A. Latimer

The Budget Statement is your projected revenues and expenses forecast monthly over a year. It is primarily an internal document and is sometimes not included in your financial plan. A standard budget is usually shown in detail in the following major categories:

- Sales - Cost of Goods Sold = Gross Profit
- Gross Profit - Operating Expenses = Income from Operations
- Income from Operations + Interest Income - Interest Expense -Taxes = Net Income After Taxes

This statement lists every line-item in all of your assumptions (the Income Statement reduces the complexity by summarizing by categories) This document takes up three pages to print!

➢ *NOTE ON SELECTED BUDGET ITEMS: Gross Profit, Income from Operations, Income Before Taxes, and Net Income After Taxes are calculated from sales and expense assumptions in the budget. They are included in the Income Statement*


Microsoft Excel - Financials--Comprehensive.xls

File Edit Save As... View Insert Format Tools Data Window Help Save As... Type a question for help

	A	B	C	D	E	F	G	H	I	J	K
1	**Budget**	:: Year 1 x Month									
2	(in thousands unless otherwise noted)										
3											
4		**Jan-06**	**Feb-06**	**Mar-06**	**Apr-06**	**May-06**	**Jun-06**	**Jul-06**	**Aug-06**	**Sep-06**	**Oct-**
5	**Sales**										
6	Intro Offer	$ 36	$ 42	$ 47	$ 42	$ 42	$ 47	$ 42	$ 42	$ 47	$
7	Start-Ups	42	48	54	48	48	54	48	48	54	
8	Small Businesses USA	-	-	-	-	-	-	-	-	-	
9	Businesses Non-USA	-	-	-	-	-	-	-	-	-	
10	Associations	-	-	-	-	-	-	-	-	-	
11	Affiliates	-	-	-	-	-	-	-	-	-	
12	Resellers	-	-	-	-	-	-	-	-	-	
13	Schools	-	-	-	-	-	-	-	-	-	
14	Corporations	-	-	-	-	-	-	-	-	-	
15	Consultants	-	-	-	-	-	-	-	-	-	
16	Other	4	4	5	4	4	5	4	4	5	
17	Returns & Allowances	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
18	**Net Sales**	**$ 81**	**$ 93**	**$ 105**	**$ 93**	**$ 93**	**$ 105**	**$ 93**	**$ 93**	**$ 105**	**$ 1**
19											
20	**Costs of Goods Sold**										
21	Material	$ 15	$ 16	$ 18	$ 16	$ 16	$ 18	$ 16	$ 16	$ 18	$
22	Labor	2	2	2	2	2	2	2	2	2	
23	**Total Variable COGS**	$ 17	$ 18	$ 20	$ 18	$ 18	$ 20	$ 18	$ 18	$ 20	$
24	*% of Total Sales*	*21%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*1*
25											
26	**Fixed COGS**										
27	Production Management Salaries	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
28	Production Facility Expense	-	-	-	-	-	-	-	-	-	
29	Production Equipment Rental	-	-	-	-	-	-	-	-	-	
30	Small Tools / Supplies	0	0	0	0	0	0	0	0	0	
31	Packaging Supplies	0	0	1	0	0	1	0	0	1	
32	Other Production Expenses	-	-	-	-	-	-	-	-	-	
33	Other Production Expenses	-	-	-	-	-	-	-	-	-	
34	Other Production Expenses	-	-	-	-	-	-	-	-	-	
35	*Total Fixed Cost of Goods Sold*	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$
36	*% of Total Sales*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	
37											
38	Total Cost of Goods Sold	**$ 18**	**$ 19**	**$ 21**	**$ 19**	**$ 19**	**$ 21**	**$ 19**	**$ 19**	**$ 21**	$

Gross Profit - Yr 1 / Gross Profit - Yrs 2-3 / Gross Profit - Yrs 1-5 / **Budget - Yr 1** / Bu

Income or Profit (Loss) Statement

It is a socialist idea that making profits is a vice.
I consider the real vice is making losses.
~ Winston Churchill

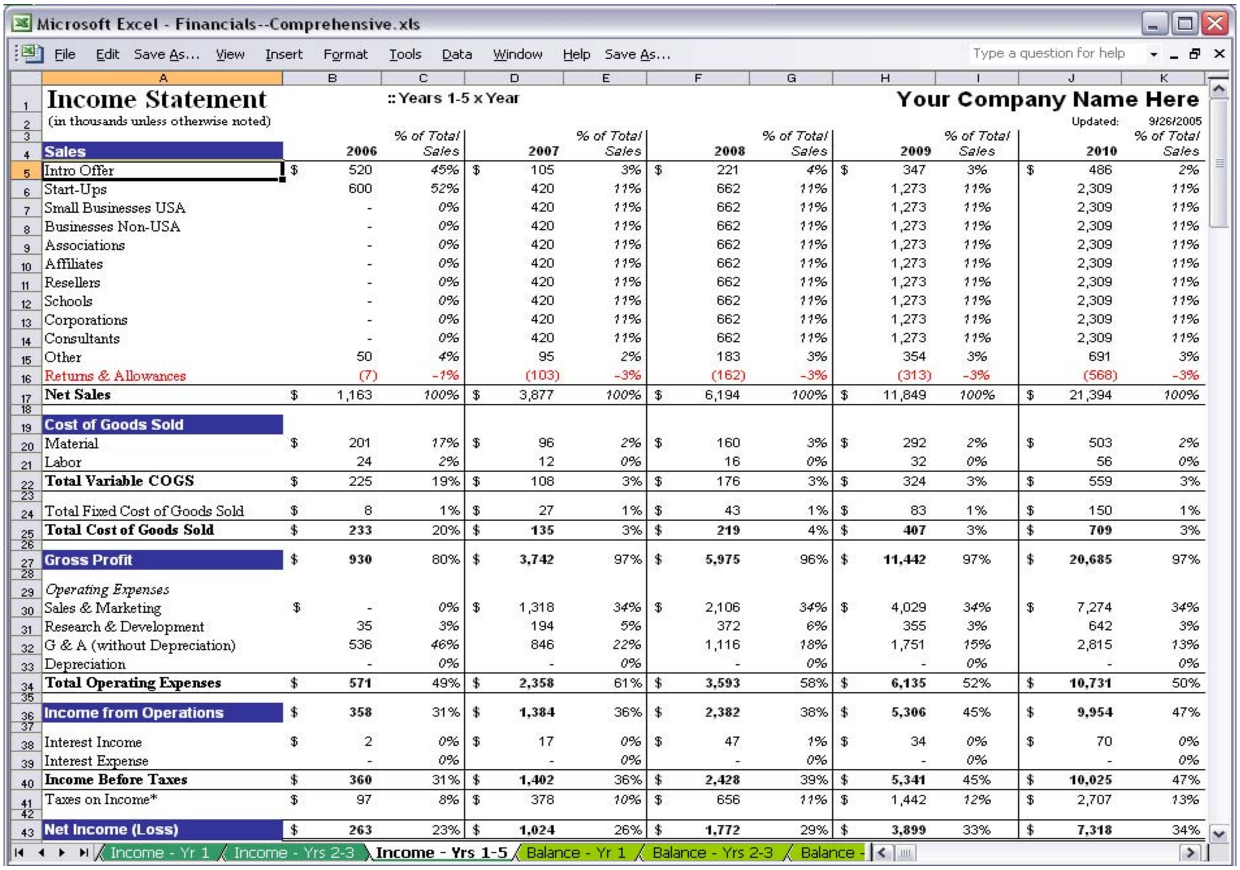
The Income Statement (aka a Statement of Operations or a Profit & Loss Statement) summarizes your revenue and expense projections on a monthly basis for one year, or on an annual basis for several years. The Income Statement shows you where your business is going by summarizing how much you are selling, spending, and earning from your operations.

When you review issues such as operating expenses with people outside your company, and whenever financial statements are issued to potential lenders and investors, the income statement is used in place of the budget. Its less detailed format focuses the discussion on general category expenses, instead of individual expenses.

The first thing potential lenders and investors usually look at in an Income Statement is the bottom line: net income. Is your business making money? If not, you may have priced your products or services improperly or you may not have your expenses under control.

Review your income statement and if you see an expense category that differs from your industry's average, explain it. It doesn't necessarily indicate a problem, but it is likely to raise questions you must be prepared to answer. Potential lenders and investors are less concerned with variances in your expense categories if your business has a high gross profit percent, because that indicates that the more your business grows, the faster you'll make money.

One format of the income statement has a column that shows percentage of sales values for each item for each year. This allows you to see what each of your expense categories are costing you as a percentage of total sales. Many companies have guidelines, based on their industry or their size, on how they want to allocate their operating dollars. For example, your company may want to allocate 8% of sales for research and development expenses.



Microsoft Excel - Financials--Comprehensive.xls

Income Statement :: Years 1-5 x Year **Your Company Name Here**

(in thousands unless otherwise noted) Updated: 9/26/2005

Sales	2006	% of Total Sales	2007	% of Total Sales	2008	% of Total Sales	2009	% of Total Sales	2010	% of Total Sales
Intro Offer	$ 520	45%	$ 105	3%	$ 221	4%	$ 347	3%	$ 486	2%
Start-Ups	600	52%	420	11%	662	11%	1,273	11%	2,309	11%
Small Businesses USA	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Businesses Non-USA	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Associations	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Affiliates	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Resellers	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Schools	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Corporations	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Consultants	-	0%	420	11%	662	11%	1,273	11%	2,309	11%
Other	50	4%	95	2%	183	3%	354	3%	691	3%
Returns & Allowances	(7)	-1%	(103)	-3%	(162)	-3%	(313)	-3%	(568)	-3%
Net Sales	$ 1,163	100%	$ 3,877	100%	$ 6,194	100%	$ 11,849	100%	$ 21,394	100%
Cost of Goods Sold										
Material	$ 201	17%	$ 96	2%	$ 160	3%	$ 292	2%	$ 503	2%
Labor	24	2%	12	0%	16	0%	32	0%	56	0%
Total Variable COGS	$ 225	19%	$ 108	3%	$ 176	3%	$ 324	3%	$ 559	3%
Total Fixed Cost of Goods Sold	$ 8	1%	$ 27	1%	$ 43	1%	$ 83	1%	$ 150	1%
Total Cost of Goods Sold	$ **233**	20%	$ **135**	3%	$ **219**	4%	$ **407**	3%	$ **709**	3%
Gross Profit	$ **930**	80%	$ **3,742**	97%	$ **5,975**	96%	$ **11,442**	97%	$ **20,685**	97%
Operating Expenses										
Sales & Marketing	$ -	0%	$ 1,318	34%	$ 2,106	34%	$ 4,029	34%	$ 7,274	34%
Research & Development	35	3%	194	5%	372	6%	355	3%	642	3%
G & A (without Depreciation)	536	46%	846	22%	1,116	18%	1,751	15%	2,815	13%
Depreciation	-	0%	-	0%	-	0%	-	0%	-	0%
Total Operating Expenses	$ **571**	49%	$ **2,358**	61%	$ **3,593**	58%	$ **6,135**	52%	$ **10,731**	50%
Income from Operations	$ **358**	31%	$ **1,384**	36%	$ **2,382**	38%	$ **5,306**	45%	$ **9,954**	47%
Interest Income	$ 2	0%	$ 17	0%	$ 47	1%	$ 34	0%	$ 70	0%
Interest Expense	-	0%	-	0%	-	0%	-	0%	-	0%
Income Before Taxes	$ **360**	31%	$ **1,402**	36%	$ **2,428**	39%	$ **5,341**	45%	$ **10,025**	47%
Taxes on Income*	$ 97	8%	$ 378	10%	$ 656	11%	$ 1,442	12%	$ 2,707	13%
Net Income (Loss)	$ **263**	23%	$ **1,024**	26%	$ **1,772**	29%	$ **3,899**	33%	$ **7,318**	34%

Balance Sheet

The national budget must be balanced. The public debt must be reduced; the arrogance of the authorities must be moderated and controlled. Payments to foreign governments must be reduced, if the nation doesn't want to go bankrupt. People must again learn to work, instead of living on public assistance.

~ Marcus Tullius Cicero, 55 BC

The Balance Sheet, also known as a Statement of Financial Position, reflects everything your company owns (assets), owes (liabilities) and the equity of the owner(s). It shows your financial position on a specific day, not what has occurred over a period of time.

Microsoft Excel - Financials--Comprehensive.xls

File Edit Save As... View Insert Format Tools Data Window Help Save As...

	A	B	C	D	E	F
1	**Balance Sheet**	:: Years 1-5 x Year			Your Company Name Here	
2	(in thousands)					
3	**Assets**	**2006**	**2007**	**2008**	**2009**	**2010**
4	**Current Assets**					
5	Cash	$ 222	$ 1,168	$ 2,855	$ 6,505	$ 13,428
6	Investments	-	-	-	-	-
7	Accounts Receivable	92	319	509	974	1,759
8	Notes Receivable	-	-	-	-	-
9	Inventory	16	8	13	24	41
10	Other Current Assets	-	-	-	-	-
11	**Total Current Assets**	$ 329	$ 1,495	$ 3,377	$ 7,504	$ 15,229
12						
13	**Property, Plant & Equipment**					
14	Land (Non-Depreciable Asset)	$ -	$ -	$ -	$ -	$ -
15	Buildings & Leasehold Improvements	-	-	-	-	-
16	Furniture & Fixtures	-	-	-	-	-
17	Machinery & Equipment	-	-	-	-	-
18	Office Equipment	-	-	-	-	-
19	Computers & Software	-	-	-	-	-
20	Accumulated Depreciation	-	-	-	-	-
21	**Total Net Property, Plant & Equipment**	$ -	$ -	$ -	$ -	$ -
22						
23	**Other Assets**	$ -	$ -	$ -	$ -	$ -
24	**Total Assets**	**$ 329**	**$ 1,495**	**$ 3,377**	**$ 7,504**	**$ 15,229**
25						
26	**Liabilities & Owners' Equity**					
27	**Current Liabilities**					
28	Short Term Debt	$ -	$ -	$ -	$ -	$ -
29	Accounts Payable	66	208	318	545	953
30	Other Payables	-	-	-	-	-
31	Accrued Liabilities	-	-	-	-	-
32	**Total Current Liabilities**	$ 66	$ 208	$ 318	$ 545	$ 953
33						
34	Long Term Debt	$ -	$ -	$ -	$ -	$ -
35	**Total Liabilities**	$ 66	$ 208	$ 318	$ 545	$ 953
36						
37	**Stockholder Equity**					
38	Common Stock	$ -	$ -	$ -	$ -	$ -
39	Retained Earnings	263	1,287	3,060	6,958	14,276
40	Dividends Payable	-	-	-	-	-
41	**Total Stockholders' Equity**	$ 263	$ 1,287	$ 3,060	$ 6,958	$ 14,276
42						
43	**Total Liabilities & Equity**	**$ 329**	**$ 1,495**	**$ 3,377**	**$ 7,504**	**$ 15,229**

Income - Yrs 2-3 / Income - Yrs 1-5 / Balance - Yr 1 / Balance - Yrs 2

The balance sheet shows your company's financial position, what it owns (assets) and what it owes (liabilities & net worth). The “bottom line” of a balance sheet must always balance (i.e. assets = liabilities + net worth). The individual elements of a balance sheet change from day to day and reflect the activities of the company. Analyzing how the balance sheet changes over time will reveal important information about the company’s business trends. Liabilities and net worth on the balance sheet represent the company’s sources of funds.

Liabilities and net worth are composed of creditors and investors who have provided cash or its equivalent to the company in the past. As a source of funds, they enable the company to continue in business or expand operations. If creditors and investors are unhappy and distrustful, the company's chances of survival are limited. Assets, on the other hand, represent the company's use of funds. The company uses cash or other funds provided by the creditor/investor to acquire assets. Assets include all the things of value that are owned or due to the business.

Liabilities represent a company's obligations to creditors while net worth represents the owner's investment in the company. In reality, both creditors and owners are "investors" in the company with the only difference being the degree of nervousness and the timeframe in which they expect repayment.

ASSETS

As noted previously, anything of value that is owned or due to the business is included under the Asset section of the Balance Sheet. Assets are shown at net book or net realizable value (more on this later), but appreciated values are not generally considered.

Current Assets

Current assets are those which mature in less than one year. They are the sum of the following categories:

- Cash
- Accounts Receivable (A/R)
- Inventory (Inv)
- Notes Receivable (N/R)
- Prepaid Expenses
- Other Current Assets

Cash

Cash is King—Cash is the only game in town. Cash pays bills and obligations. Inventory, receivables, land, building, machinery and equipment do not pay obligations even though they can be sold for cash and then used to pay bills. If cash is inadequate or improperly managed the company may become insolvent and be forced into bankruptcy. Include all checking, money market and short term savings accounts under Cash.

Accounts Receivable (A/R)

Accounts receivable are dollars due from customers. They arise as a result of the process of selling inventory or services on terms that allow delivery prior to the collection of cash. Inventory is sold and shipped, an invoice is sent to the customer, and later cash is collected. The receivable exists for the time period between the selling of the inventory and the receipt of cash Receivables are proportional to sales. As sales rise, the investment you must make in receivables also rises.

Inventory

Inventory consists of the goods and materials a company purchases to re-sell at a profit. In the process, sales and receivables are generated. The company purchases raw material inventory that is processed (aka work-in-process inventory) to be sold as finished goods inventory. For a company that sells a product, inventory is often the first use of cash. Purchasing inventory to be sold at a profit is the first step in the profit making cycle (operating cycle) as illustrated previously. Selling inventory does not bring cash back into the company — it creates a receivable. Only after a time lag equal to the receivables collection period will cash return to the company. Thus, it is very important that the level of inventory be well managed so that the business does not keep too much cash tied up in inventory as this will reduce profits. At the same time, a company must keep sufficient inventory on hand to prevent stock-outs (having nothing to sell) because this too will erode profits and may result in the loss of customers.

Notes Receivable

Notes Receivable is a receivable due the company, in the form of a promissory note, arising because the company made a loan. Making loans is the business of banks, not of operating business, and particularly not the business of a small company with limited financial resources. Notes receivable is probably a note due from one of three sources:

- Customers
- Employee
- Officers of the company

Customer notes receivable is when the customer who borrowed from the company probably borrowed because s/he could not meet the accounts receivable terms—when the customer failed to pay the invoice according to the agreed upon payment terms. The customer's obligation may have been converted to a promissory note. Employee notes receivable may be for legitimate reasons, such as a down payment on a home, but the company is neither a charity nor a bank. If the company wants to help the employee, it can co-sign on the loan advanced by a bank.

An officer or owner borrowing from the company is the worst form of note receivable. If an officer takes money from the company, it should be declared as a dividend or withdrawal and reflected as a reduction in net worth. Treating it in any other way leads to possible manipulation of the company's stated net worth, and banks and other lending institutions frown greatly upon it.

Other Current Assets

Other Current Assets consist of prepaid expenses and other miscellaneous and current assets.

Fixed Assets

Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year. They include assets such as:

- Land & Building(s)
- Machinery & Equipment
- Furniture & Fixtures
- Leasehold Improvements

Intangibles

Intangibles represent the use of cash to purchase assets with an undetermined life and they may never mature into cash. For most analysis purposes, intangibles are ignored as assets and are deducted from net worth because their value is difficult to determine. Intangibles consist of assets such as:

- Research & Development
- Patents
- Market Research
- Goodwill
- Organizational Expense

In several respects, intangibles are similar to prepaid expenses; the use of cash to purchase a benefit which will be expensed at a future date. Intangibles are recouped, like fixed assets, through incremental annual charges (amortization) against income. Standard accounting procedures require most intangibles to be expensed as purchased and never capitalized (put on the balance sheet). An exception to this is purchased patents that may be amortized over the life of the patent.

Other Assets

Other assets consist of miscellaneous accounts such as deposits and long-term notes receivable from third parties. They are turned into cash when the asset is sold or when the note is repaid. Total Assets represent the sum of all the assets owned by or due to the business.

Liabilities & Net Worth

Liabilities and Net Worth are sources of cash listed in descending order from the most nervous creditors and soonest to mature obligations (current liabilities), to the least nervous and never due obligations (net worth). There are two sources of funds: lender-investor and owner-investor. Lender-investor consist of trade suppliers, employees, tax authorities and financial institutions. Owner-investor consists of stockholders and principals who loan cash to the business. Both lender-investor and owner investors have invested cash or its equivalent into the company. The only difference between the investors is the maturity date of their obligations and the degree of their nervousness.

Current Liabilities

Current liabilities are those obligations that will mature and must be paid within 12 months. These are liabilities that can create a company's insolvency if cash is inadequate. A happy and satisfied set of current creditors is a healthy and important source of credit for short term uses of cash (inventory and receivables). An unhappy and dissatisfied set of current creditors can threaten the survival of the company. The best way to keep these creditors happy is to keep their obligations current.

Current liabilities consist of the following obligation accounts:

- Accounts Payable — Trade (A/P)
- Accrued Expenses
- Notes Payable — Bank (N/P Bank)
- Notes Payable — Other (N/P Other)
- Current Portion of Long term Debt

Proper matching of sources and uses of funds requires that short term (current) liabilities must be used only to purchase short term assets (inventory and receivables).

Notes Payable.

Notes payable are obligations in the form of promissory notes with short term maturity dates of less than 12 months. Often, they are demand notes (payable upon demand). Other times they have specific maturity dates (30, 60, 90, 180, 270, 360 days maturities are typical). The notes payable always include only the principal amount of the debt. Any interest owed is listed under accruals.

The proceeds of notes payable should be used to finance current assets (inventory and receivables). The use of funds must be short term so that the asset matures into cash prior to the obligation's maturation. Proper matching would indicate borrowing for seasonal swings in sales which cause swings in inventory and receivables, or to repay accounts payable when attractive discount terms are offered for early payment.

Accounts Payable

Accounts Payable are obligation due to trade suppliers who have provided inventory or goods and services used in operating the business. Suppliers generally offer terms (just like you do for your customers), since the supplier's competition offers payment term. Whenever possible you should take advantage of payment terms as this will help keep your costs down.

If your company is paying its suppliers in a timely fashion, days payable will not exceed the terms of payment.

Accrued Expenses are obligations owed but not billed such as wages and payroll taxes, or obligations accruing, but not yet due, such as interest on a loan. Accruals consist chiefly of wages, payroll taxes, interest payable and employee benefits accruals such as pension funds. As a labor related category, it should vary in accordance with payroll policy (i.e., if wages are paid weekly, the accrual category should seldom exceed one week's payroll and payroll taxes).

Non-Current Liabilities

Non-current liabilities are those obligations that will not become due and payable in the coming year. There are three types of non-current liabilities, only two of which are listed on the balance sheet:

- Non-Current Portion of Long Term Debt (LTD)
- Subordinated Officer Loans (Sub-Off)
- Contingent Liabilities

Non current portion of long term debt is the principal portion of a term loan not payable in the coming year. Subordinated officer loans are treated as an item that lies between debt and equity. Contingent liabilities listed in the footnotes are potential liabilities, which hopefully never become due. Non-Current Portion of Long Term Debt (LTD) is the portion of a term loan that is not due within the next 12 months. It is listed below the current liability section to demonstrate that the loan does not have to be fully liquidated in the coming year. Long-term debt (LTD) provides cash to be used for a long-term asset purchase, either permanent working capital or fixed assets.

Shareholder/Owner Loans (Subordinated)

Notes payable to officers, shareholders or owners represent cash which the shareholders or owners have put into the business. For tax reasons, owners may increase their equity investment, beyond the initial company capitalization, by making loans to the business rather than by purchasing additional stock. Any return on investment to the owners can therefore be paid as tax deductible interest expense rather than as non-tax deductible dividends.

When a business borrows from a financial institution, it is common for the officer loans to be subordinated or put on standby. The subordination agreement prohibits the officer from collecting his or her loan prior to the repayment of the institution's loan. When on standby, the loan will be considered as equity by the financial institution. Notice than notes receivable – officer are considered a bad sign to lenders, while notes payable – officer are considered to be reassuring.

Contingent Liabilities are potential liabilities that are not listed on the balance sheet. They are listed in the footnotes because they may never become due and payable. Contingent liabilities include:

- Lawsuits
- Warranties
- Cross Guarantees

If the company has been sued, but the litigation has not been initiated, there is no way of knowing whether or not the suit will result in a liability to the company. It will be listed in the footnotes because while not a real liability, it does represent a potential liability which may impair the ability of the company to meet future obligations. Alternatively, if the company guarantees a loan made by a third party to an affiliate, the liability is contingent because it will never become due as long as the affiliate remains healthy and meets its obligations.

Total Liabilities

Total liabilities represent the sum of all monetary obligations of a business and all claims creditors have on its assets.

EQUITY

Equity is represented by total assets minus total liabilities. Equity or Net Worth is the most patient and last to mature source of funds. It represents the owners' share in the financing of all the assets.

Cash Flow Statement

Nothing more clearly show how little God esteems his gift to men of wealth, money, position and other worldly goods, than the way he distributes these, and the sort of men who are most amply provided with them.
~ Jean De La Bruyere, "Of Worldly Goods" (1688)

The Cash Flow Statement summarizes your cash-related activities over a period of time and shows where your cash came from and where it went. One resulting figure is your net cash balance.

Many smart managers focus on this statement more than the others. Also, they prefer to use free cash flow (FCF) for valuation. FCF can also be manipulated, but it's more difficult to fake cash. Over the long term, a well-run company's FCF should be approximate to earnings.

Microsoft Excel - Financials--Comprehensive.xls

File Edit Save As... View Insert Format Tools Data Window Help Save As...

Cash Flow :: Years 1 - 5 **Your Company Name Here**
(in thousands)

Sources of Cash:	2006	2007	2008	2009	2010
Operating Activities					
Net Income (Loss)	$ 263	$ 1,024	$ 1,772	$ 3,899	$ 7,318
Adjustments to reconcile Net Income (Loss) used in operating activities:					
Depreciation & Amortization	$ -	$ -	$ -	$ -	$ -
Changes in Assets & Liabilities					
Accounts Receivable	$ (92)	$ (227)	$ (191)	$ (465)	$ (785)
Notes Receivable	-	-	-	-	-
Inventory	(16)	8	(5)	(11)	(17)
Other Current Assets	-	-	-	-	-
Other Assets	-	-	-	-	-
Accounts Payable	66	142	110	227	408
Other Payables	-	-	-	-	-
Accrued Liabilities	-	-	-	-	-
Net Cash Provided (Used) in Operations	**$ 222**	**$ 947**	**$ 1,687**	**$ 3,650**	**$ 6,923**
Investing Activities					
Purchases of Fixed Assets	$ -	$ -	$ -	$ -	$ -
Sale of Investments	-	-	-	-	-
Purchase of Investments	-	-	-	-	-
Net Cash Provided (Used) in Investing	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Financing Activities					
Sale of Stock	$ -	$ -	$ -	$ -	$ -
Payment of Dividends	-	-	-	-	-
Proceeds from Short Term Loans	-	-	-	-	-
Repayment of Short Term Loans	-	-	-	-	-
Proceeds from Long Term Loans	-	-	-	-	-
Repayment of Long Term Loans	-	-	-	-	-
Net Cash Provided (Used) in Financing	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Change in Cash Balance					
Net Increase (Decrease) in Cash	$ 222	$ 947	$ 1,687	$ 3,650	$ 6,923
Beginning Cash Balance (Deficit)	-	222	1,168	2,855	6,505
Ending Cash Balance (Deficit)	**$ 222**	**$ 1,168**	**$ 2,855**	**$ 6,505**	**$ 13,428**

Cash Flow - Yr 1 / Cash Flow - Yrs 2-3 / Cash Flow - Yrs 1-5 / Break-Ev

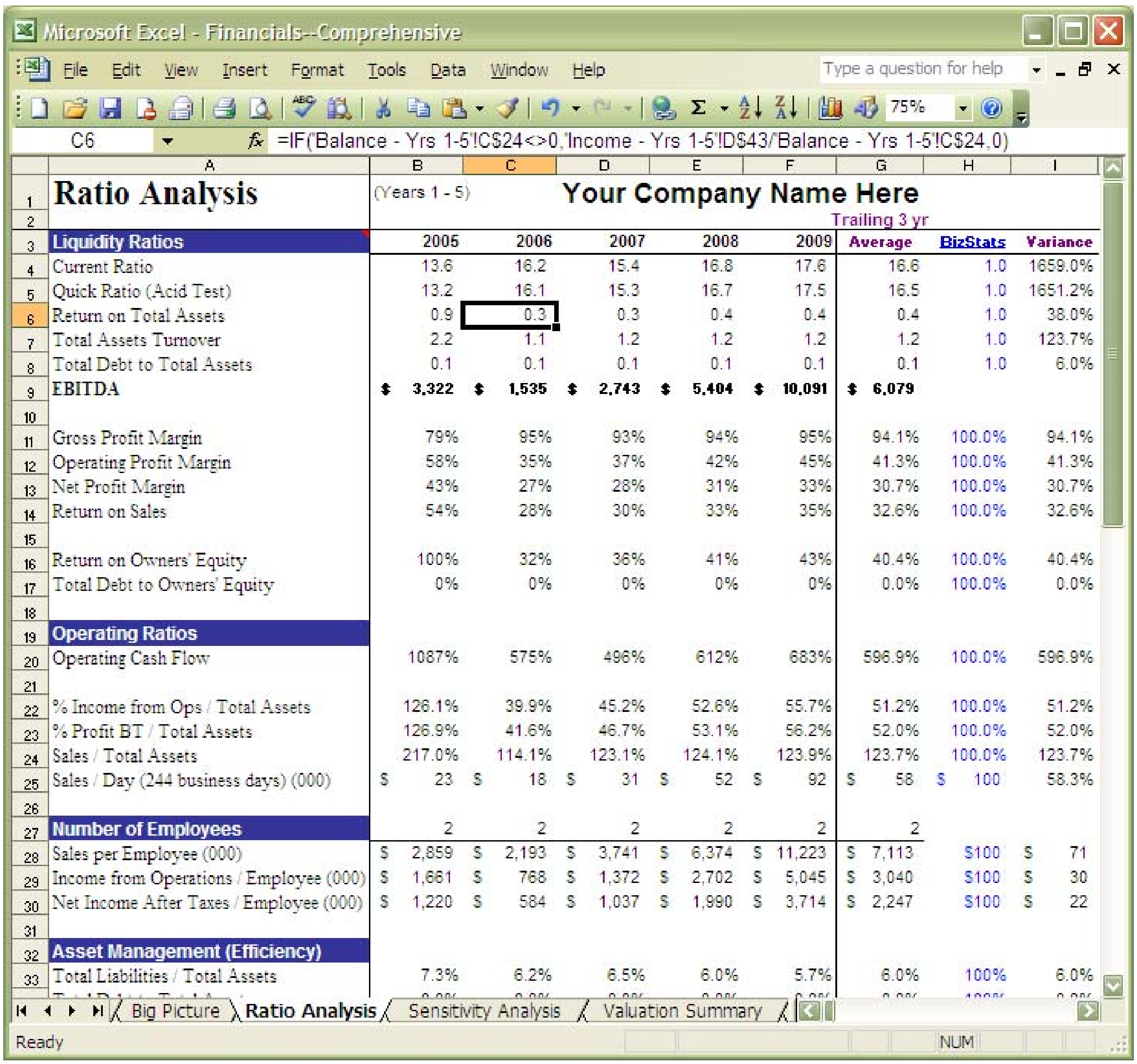
Ratio Analysis

Disciplined thinking focuses inspiration rather than constricts it.
~ Anonymous

Ratio Analysis compares significant numbers from your financial statements. Rather than focusing on specific volumes, ratios are indicators of the broad state of your business. What they indicate is dependent upon the nature of your company, comparisons to your company's historical ratio values, and comparisons to competitive companies in the same industry.

Financial ratios are useful to you and potential investors because they allow comparisons to be made between your business and others of the same type.

Standard ratios for many industries are available from on-line database services and are also published in various reference books available at most libraries.



Ratio Analysis	(Years 1 - 5)	Your Company Name Here				Trailing 3 yr		
Liquidity Ratios	2005	2006	2007	2008	2009	Average	BizStats	Variance
Current Ratio	13.6	16.2	15.4	16.8	17.6	16.6	1.0	1659.0%
Quick Ratio (Acid Test)	13.2	16.1	15.3	16.7	17.5	16.5	1.0	1651.2%
Return on Total Assets	0.9	0.3	0.3	0.4	0.4	0.4	1.0	38.0%
Total Assets Turnover	2.2	1.1	1.2	1.2	1.2	1.2	1.0	123.7%
Total Debt to Total Assets	0.1	0.1	0.1	0.1	0.1	0.1	1.0	6.0%
EBITDA	$ 3,322	$ 1,535	$ 2,743	$ 5,404	$ 10,091	$ 6,079		
Gross Profit Margin	79%	95%	93%	94%	95%	94.1%	100.0%	94.1%
Operating Profit Margin	58%	35%	37%	42%	45%	41.3%	100.0%	41.3%
Net Profit Margin	43%	27%	28%	31%	33%	30.7%	100.0%	30.7%
Return on Sales	54%	28%	30%	33%	35%	32.6%	100.0%	32.6%
Return on Owners' Equity	100%	32%	36%	41%	43%	40.4%	100.0%	40.4%
Total Debt to Owners' Equity	0%	0%	0%	0%	0%	0.0%	100.0%	0.0%
Operating Ratios								
Operating Cash Flow	1087%	575%	496%	612%	683%	596.9%	100.0%	596.9%
% Income from Ops / Total Assets	126.1%	39.9%	45.2%	52.6%	55.7%	51.2%	100.0%	51.2%
% Profit BT / Total Assets	126.9%	41.6%	46.7%	53.1%	56.2%	52.0%	100.0%	52.0%
Sales / Total Assets	217.0%	114.1%	123.1%	124.1%	123.9%	123.7%	100.0%	123.7%
Sales / Day (244 business days) (000)	$ 23	$ 18	$ 31	$ 52	$ 92	$ 58	$ 100	58.3%
Number of Employees	2	2	2	2	2	2		
Sales per Employee (000)	$ 2,859	$ 2,193	$ 3,741	$ 6,374	$ 11,223	$ 7,113	$100	$ 71
Income from Operations / Employee (000)	$ 1,661	$ 768	$ 1,372	$ 2,702	$ 5,045	$ 3,040	$100	$ 30
Net Income After Taxes / Employee (000)	$ 1,220	$ 584	$ 1,037	$ 1,990	$ 3,714	$ 2,247	$100	$ 22
Asset Management (Efficiency)								
Total Liabilities / Total Assets	7.3%	6.2%	6.5%	6.0%	5.7%	6.0%	100%	6.0%

As part of an agreement for financing, your lender or investor may require that you maintain certain ratios. Any ratio that must be maintained at a specific value as part of a financing agreement should be calculated and monitored on a timely basis. If you neglect to do this, you risk being out of compliance with your lender or investor, which could result in the debt being called for immediate repayment.

"…for the period"

We keep saying 'period' because you can and should measure these ratios for different periods (Months / Quarters / Years) and compare in order to see any trends that may be developing and that can be corrected if necessary.

Liquidity Ratios

Current Ratio

- Total Current Assets / Total Current Liabilities

These values come from your balance sheet and are a measure of your liquidity. Your current ratio indicates your ability to pay your current debt out of your current assets. The higher the ratio, the greater your "cushion." Although a satisfactory value for a current ratio varies from industry to industry, a general rule of thumb is that a current ratio of 2 to 1 or greater is fairly healthy. Thinking in terms of dollars, a 2 to 1 ratio means that you have $2 of current assets from which to pay every $1 of current bills. A smaller current ratio may mean that you have successfully negotiated to pay your suppliers later than the usual 30 days, which essentially gives your company an interest-free source of cash. Let's say your current assets are $15,000 and current liabilities are $10,000; this gives you a current ratio of 1.5 to 1. In this scenario, you could improve your current ratio to 2 to 1 by paying $5,000 of your current liabilities with your current assets, reducing both by $5,000. If your suppliers were willing to wait for payment without charging you interest, this would probably be a bad idea (unless your financing agreement requires you to maintain a current ratio of 2 to 1).

Quick Ratio

- (Cash + AR) / Total Current Liabilities

This is a slightly more conservative measure of liquidity because it uses only your available cash and accounts receivable in the equation.. A value < 1:1 implies "dependency" on inventory to liquidate short-term debt. Also called *Acid-Test* Ratio, this is very similar to your current ratio but it includes only those current assets that can be most readily used to pay bills today: cash and accounts receivable. The quick ratio excludes inventory, which must first be sold and the cash collected before it can be used to pay liabilities. It also excludes current assets like prepaid expenses, which are never converted to cash. They are simply assets you paid for in advance. As a result, the quick ratio is a good indication of how well you are able to meet your current liabilities in a crunch situation. In general, you should try to maintain a quick ratio of 1 to 1, which means you have $1 worth of cash and accounts receivable for every $1 dollar of total current liabilities.

Working Capital Cycle

Receivables Turnover

- Net Sales / Trade AR

(Sales/Receivables Ratio) Measures number of times AR turns over during the period. Higher the turn, shorter the time between sale and collection of the cash. Does not take into consideration seasonal fluctuations nor a large proportion of cash sales compared to total sales.

Days' Receivables

- Days in Period (usually 365) / Sales/Receivables Ratio

Average time in days that your receivables are outstanding. Measures your control of your credit and collections. Greater the days, greater probability for delinquencies.

Days' Sales Outstanding

- Days in period (91) / COGS / Payables Ratio

(aka Days' Payables) Average length of time trade debt is outstanding

Payables Turnover

- COGS / Payables for Inventory

Number of times AP turns during the period. A higher turn for your payables indicates a shorter the time between purchase and payment. If your payables turnover I lower than your industry, a lender or investor may wonder if you have a cash shortage, you are disputing invoices with vendors, enjoying extended terms or purposefully expanding your trade credit.

Inventory Turnover

- COGS / Inventory

Number of times inventory turns in period. High turn can indicate better liquidity or good merchandising or shortage of needed inventory for sales. Low turn can mean overstocking, obsolescence, builds to inaccurate sales forecast – can also a planned inventory build-up in anticipation of possible material shortages. You still need to take seasonal fluctuations into account.

Days' Inventory

- Days in period (91) / COGS / Inventory Ratio

Average length of time units are in inventory.

Sales / Working Capital

- Sales / (AR + Inventory - AP)

Net Working Capital equals current assets minus current liabilities. Working Capital measures the margin of protection for current creditors and reflects your ability to finance current operations. Comparing sales to working capital this way measures how efficiently your working capital is employed. Low ratio may mean ineffective use of WC. High ratio may mean "overtrading"— a vulnerable position for creditors.

Operating Ratios

Operating ratios help measure the effectiveness of management performance.

Gross Profit Margin

- (Gross Profit / Net Sales) x 100

This value measures the percent of money your company generated over the cost of producing your goods or services. In other words, gross profit margin (or percent) is the ratio of your net sales (gross sales minus your cost of goods sold) divided by your gross sales, expressed as a percentage. You can do very well here when you really understand the value your product or service bring to your customers – your prices need not be built upon your costs. Better to determine the *real value to your customers* and sell them on that. This way you will enjoy higher gross margins.

Operating Profit Margin (Return On Sales - ROS)

- ((Gross Profit - Operating Expenses) / Sales) x 100

This value measures the percent of revenue remaining after paying all operating expenses (Operating Income). The operating profit margin is your operating income (gross profit minus all operating expenses) divided by your gross sales expressed as a percentage.

Net Profit Margin

- Net Income (After Tax) / Net Sales

This is the profit you made on this business. The net income divided by your gross sales, expressed as a percentage. Your company's after-tax profit margin tells you (and investors) the percentage of money your company actually earns per dollar of sales. Interpretation is similar to your profit margin, the after-tax profit margin is more stringent as it takes into account taxes. Looking at the earnings of a company often doesn't tell the entire story… Profit can increase, but it does not mean that its profit margin is improving. For example, if your company increases sales, and if costs also rise, you'll have a lower profit margin then had been seen with a lower profit. This indicates that costs need to be better controlled.

All three of these above percentages should usually be included on your income statements. To analyze your profitability, compare these percentages to your industry's averages or those of your immediate competitors (if you can obtain this information). Of course, you'll always want to compare your current year's profitability percentages to the percentages from your company's previous years in order to determine how well you are progressing.

EBITDA

- Earnings Before Interest, Tax, Depreciation & Amortization

This is what your business really generates – often referred to by investors as a reality-check because it is separate from your loan payments, tax situation, asset history, etc. – all things they can/could do differently. EBITDA is used to compare the profitability between companies and industries, because it eliminates the effects of financing and accounting decisions.

Operating Cash Flow

- Cash from Operations / Current Liabilities

Your operating cash flow ratio can measure your company's liquidity in the short term—a measure of how well your current liabilities are covered by your company's operations. Using cash flow as opposed to income is often a better indication of liquidity simply because cash is what is required to pay bills.

Operating Ratio

- Operating Expense / Net Sales

This ratio shows management efficiency by comparing your operating expenses to your net sales. The smaller the ratio, the greater your company's ability to generate a profit if revenue decreases. This ratio; however, does not take into account any debt repayment or debt increase.

Sales / Day (000)

- Shows Average Sales per Day

(244 business days) Assists in the evaluation of management performance.

Marketing Efficiency

- Sales / Cost of Marketing + Sales

This is a unique ratio in BizPlanBuilder, and something worth measuring in the future. It gives an indication of the efficiencies of your marketing campaigns. How much money are you investing in marketing compared to the sales it generates? It should go up if your marketing is becoming more and more effective.

Sales / Employee (000)

Income from Operations / Employee (000)

Net Income After Taxes / Employee (000)

Are you using your employees effectively? Compare these figures with others in your industry. Ideally, your company wants the highest revenue per employee possible, as it means higher productivity. When I advised a company in trouble, I asked the CEO to draw his org chart on the board. Then I asked him to tell me what each person did and why they were important. (Don't expect this process to be comfortable.) It turned out, among other things, that 80% of his sales came from just 10 stores… how many salespeople did he require to manage 10 stores? A few red 'X's on your org chart may be a healthy thing.

Leverage Ratios

Leverage ratios help you evaluate your business' liabilities. Debt is associated with risk, so the more debt you have the higher the rate of return that will be expected. Highly leverage firms (those with heavy debt relative to net worth) are more vulnerable to business downturns than those businesses with lower debt to worth positions. If your liabilities are large compared to your equity or your assets, potential lenders and investors may feel you are already too indebted and your business is not a good investment risk.

Interest Coverage

- EBITDA / Interest Expense

Indicates what portion of debt interest is covered by your company's cash flow situation. A ratio below 1 means that your company is having problems generating enough cash-flow to pay its interest expenses. Ideally you want the ratio to be over 1.5.

Debt to Owners' Equity

- Total Liabilities / (Net Worth - Intangible Assets)

Also called Debt to Worth, this ratio compares the total liabilities of your business to your total owners' equity or net worth (the value of your total assets minus your total liabilities from your balance sheet). It indicates what proportion of equity and debt your company is using to finance assets. Also, it expresses a degree of protection provided by owners for creditors. Low indicates greater long-term financial safety and/or flexibility to borrow.

Total Debt to Total Assets

- Debt / Assets

Measures the leverage of your assets – what you owe on your assets. This is your total liabilities divided by your total assets (from your balance sheet). Unlike your current ratio, this compares all of your assets and all of your liabilities; in other words, it shows the ratio of what you owe to what you own.

Profitability Ratios

One of the primary reasons for operating most businesses is to generate profits. If you have outside investors, the return on their investment often comes from the net income the business generates (rather than from the sale of the business or some other form of pay back). There are many ways to measure Return on Investment (ROI). Return on Equity and Return on Assets, as shown below, are two easily calculated methods.

Return on Owners' Equity

- (Profit Before Tax / Tangible Net Worth) x 100

This ratio compares the net profit of your business to the equity (net worth) of your business. It expresses rate of return on capital employed. It is calculated as net income after taxes (from your income statement) divided by total owner's equity (from your balance sheet). High could mean effective management or undercapitalization. Low could mean ineffective management or high capitalization.

Total Debt to Owners' Equity

The debt to equity ratio is a common benchmark used to measure the leverage within a business. To relate Return on Equity to the Debt-to-Worth ratio, you need to remember that given a fixed total asset figure, the greater the debt, the lower the net worth. Therefore, given two companies of identical asset size and profitability, the company with the higher debt to worth ratio will also have a higher return on equity ratio. When potential lenders and investors consider the risks of investing in your business, they will look at your return on equity ratio. If the ratio is the same as lower risk investments such as certificates of deposit or US Treasury bills, it does not make sense for them to invest in your company.

Asset Management (Efficiency)

Liabilities to Assets

- Total Liabilities / Total Assets

Liabilities are claims on your company's assets by your creditors (the amount owed for interest, accounts payable, short-term loans, expenses incurred but unpaid, and other debts due within one year) – what percentage of your assets are owned by creditors?

Debt to Assets

- Total Debt / Total Assets

Percentage of your overall debt compared to your assets. A ratio below 1 means the majority of assets are financed through equity, above 1 means they are financed more by debt. You can interpret a high ratio as a "highly debt-leveraged firm."

Debt to Capitalization

- Total Debt / (Long-Term Debt + Preferred Stock + Common Stock)

A variation of the debt-to-equity ratio, this value computes the proportion of your company's long-term debt compared to your available capital. Investors use this ratio identify to amount of your leverage and compare it to others to help analyze your company's risk exposure. Generally, companies who finance a greater portion of their capital via debt are considered riskier than those with lower leverage ratios.

Return On Assets (ROA)

- Net income / Total Assets

This is a very useful indicator of how profitable your company is relative to your total assets. This is calculated as your net income after taxes (from your income statement) divided by your total assets (from your balance sheet). Assets are used to generate profits; the return on total assets is therefore a measure of how effectively you are employing the invested capital (assets) of your business for generating profits. ROA is displayed as a percentage. Sometimes ROA is referred to as "Return on Investment."

Assets Turnover

- Net Sales / Net Assets

This ratio measures your productive use of your fixed assets—the amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars. Asset turnover measures your company's efficiency at using its assets in generating sales or revenue; the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover; those with high profit margins have low asset turnover. Largely depreciated fixed assets or a labor-intensive operation may distort this ratio.

Return on Equity (ROE)

- Net Income / Shareholder Equity

Basically, ROE shows how much profit your company generates from a given level of shareholder investment. The ROE is useful for comparing the profitability of your company to that of other firms in your industry. ROE may also be calculated by dividing net income by *average* shareholders' equity. Calculate by adding the shareholders' equity at the beginning of the period to shareholders' equity at the end of the period, then divide by two. You may also want to calculate the change in ROE for a period, first by using shareholders' equity at the start of the period as the denominator and then using shareholders' equity at the end of the period as the denominator. Calculating both beginning and ending ROE enables you to determine the change in profitability over the period.

➢ *NOTE: Each industry and each business will have a set of ratios that are especially helpful to it. The point to remember is that ratios are a comparison of two numbers. So if you find a ratio that is helpful to you in the financial management of your firm, by all means use it. Standard ratio values for many* *industries are available from on-line database services, from organizations that collect financial data (such as BizStats, Dun & Bradstreet and Robert Morris Associates (RMA)), and from various reference books available at most libraries. Other ratios, often made up to suit a particular business can be useful as "Key Indicators."*

Other Key Indicators

I used to work for the Sharper Image Catalog. One thing they did was to add up all of their expenses—everything—for the entire year, then divide by the number of catalog pages they printed. Let's say their total annual expenses were $30 million and they printed 6 catalogs with 64 pages in each… $30 million divided by 6x64 = $78,215 cost per page. If you ran this catalog company, you would now know that you needed to earn something north of $80,000 (+ profit margin) on each page. If we "invested" a quarter of a page for one product, we knew we were invested nearly $20,000 in its promotion. Now, the idea is to come up with a few of your own "key indicators." Think simple. Sales/profit per employee. Revenue/profit per truckload. Test-tube usage per month, etc.

Percentage Analysis

Because of the standard procedures accountants follow, you can compare your company's performance to other companies in your industry, and to your own business' performance over time. Although a direct dollar-for-dollar comparison can be impractical, percentage comparisons are very useful.

Percentage analysis of your income statement focuses on how your gross profit, expenses, and net income relate to your gross sales. As sales grow or decline over the years, your expenses should also grow, which makes a direct dollar-for-dollar comparison impractical. However, the expenses should remain relatively stable as a percentage of sales, thus enabling your comparison.

Percentage comparisons can also be done on your balance sheet to see how each item relates to your total assets. To calculate your balance sheet percentages, the individual accounts, including the liability and equity accounts, are divided by the total asset figure. Now you can compare your company's performance to other companies in your industry and to your historical performance.

Industry Averages

As mentioned above, you can compare your business' ratios with the averages for your industry to evaluate your business' financial health. Industry averages can usually be obtained from industry associations, and from industry surveys and averages published by BizStats, Standard & Poor's, Moody's, and Robert Morris Associates (RMA), among others. These agencies solicit financial statements from numerous companies in a wide variety of industries. They compile these statements by industry and size to establish industry averages.

It is important to note that these are averages compiled from companies around the country in various economic environments. As such, they do not necessarily present a reliable comparison. You should use these averages only as a broad guideline to compare your company's performance.

You can learn more about ratios and financing terms & definitions at Investopedia

Supporting Financial Statements

Enough research will tend to support your theory.
~ Murphy's Law of Research

The following worksheets can be useful in creating your Supporting Documents. Consider including the Sensitivity Analysis, a presentation of the optimistic, pessimistic, and most likely case scenarios. Unique to BizPlanBuilder, it demonstrates that you have examined your assumptions and projections from multiple points of view. We also include several additional statements derived from your assumptions and financial projections.

- Break-Even Analysis
- Sensitivity Analysis (best/planned/worst case)

You may not want to include these documents when you make copies of your business plan or present it to investors.

- Valuation
- Capitalization Table
- Investor Analysis
- Personal Financial Statement

Assembling Your Financial Plan

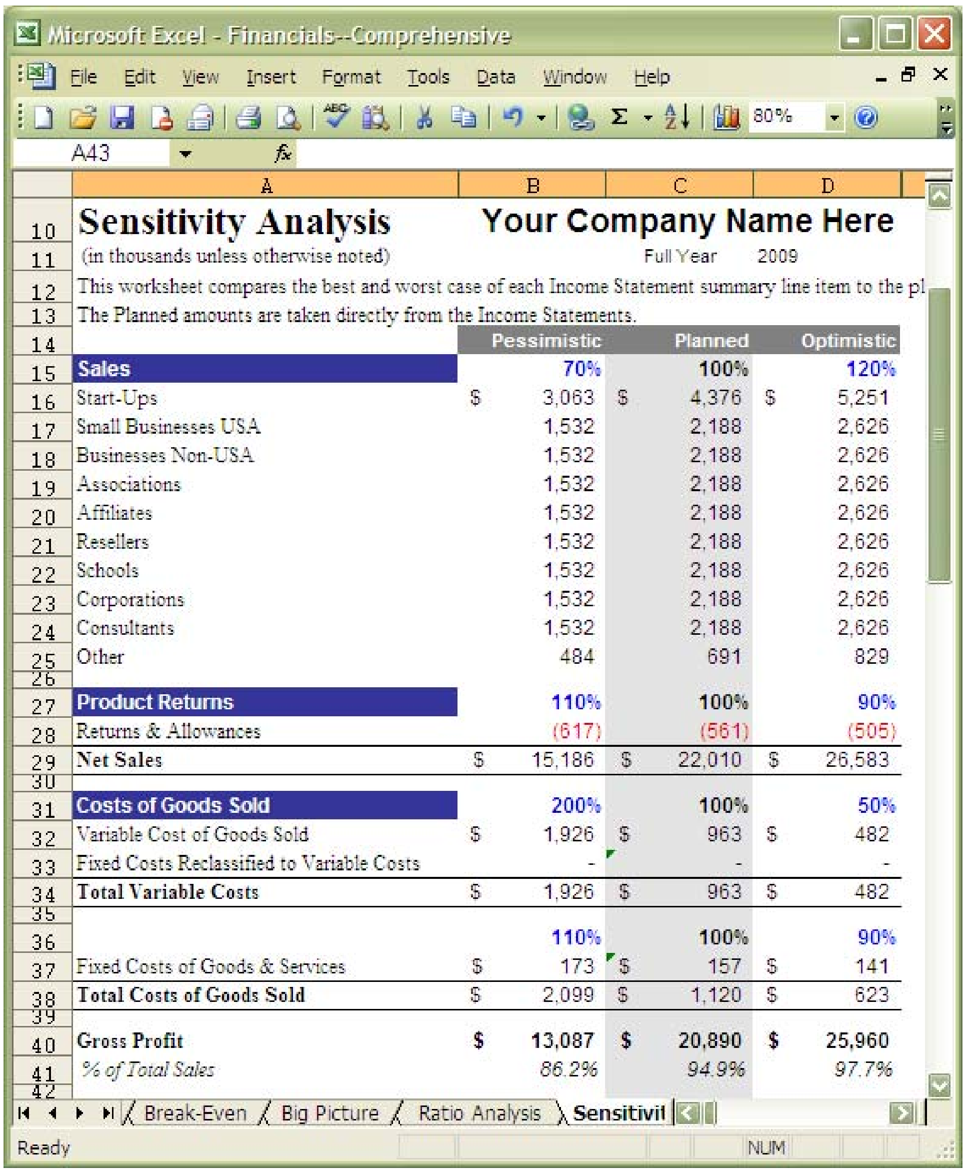
When you assemble your final plan, the system will show you a screen enabling to you to check boxes for the financial model pages that you want to include with your printed plan. (Behind the scenes, it makes a copy of your comprehensive model, hides the pages you did not select.) Together with the narrative portion of your plan, your financials will be saved in the “Business Plan” folder on your desktop.

Sensitivity Analysis

This analysis enables you to present a true picture of your potential for gain and loss. While the best case is what you hope for, the worst case is what you need to be prepared for; in the meantime, the most likely case will be the basis for many of your, and your investors', decisions.

In essence, the Sensitivity Analysis compares your Income Statement with worst/planned/best case scenarios. Instead of changing numbers throughout your financial model, with this unique page, you can play "what-if?" all in just one place.

It takes its base case numbers from the Income Statement (listed down the center of the model). In the columns to the left and right, you directly enter percentages (blue numbers) that project possible pessimistic and optimistic deviations from your original budgeted projections. Investors may want to enter their own assumptions about your business – here they can do it relatively quickly.



Sensitivity Analysis — **Your Company Name Here**

(in thousands unless otherwise noted) Full Year 2009

This worksheet compares the best and worst case of each Income Statement summary line item to the pl

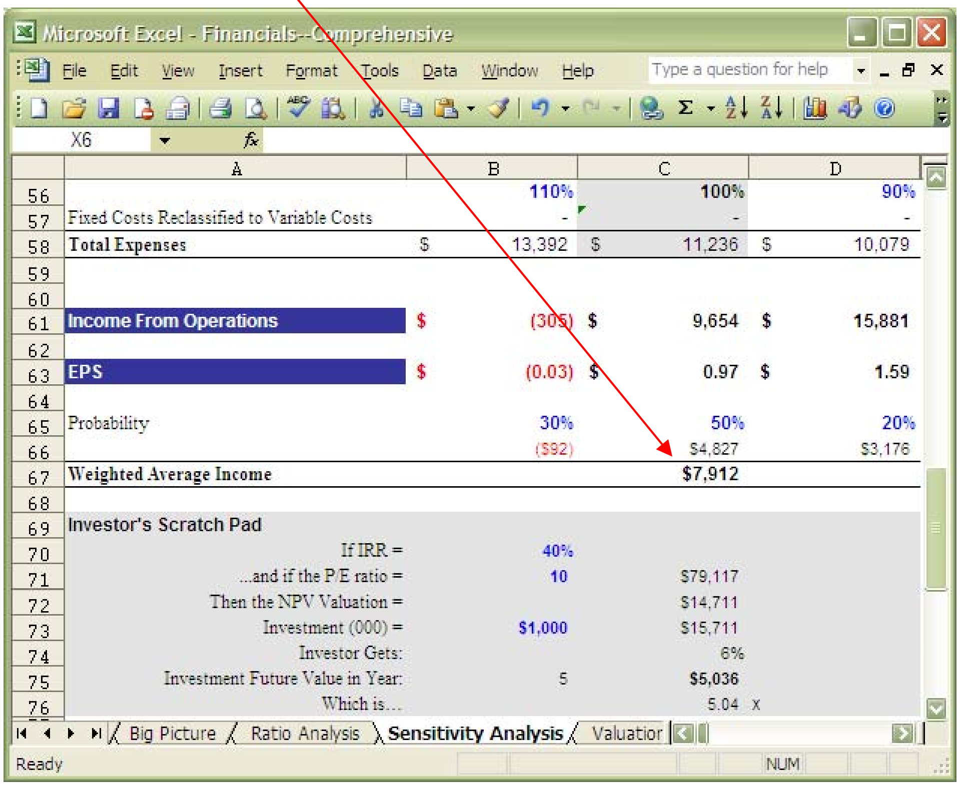
The Planned amounts are taken directly from the Income Statements.

	Pessimistic	Planned	Optimistic
Sales	70%	100%	120%
Start-Ups	$ 3,063	$ 4,376	$ 5,251
Small Businesses USA	1,532	2,188	2,626
Businesses Non-USA	1,532	2,188	2,626
Associations	1,532	2,188	2,626
Affiliates	1,532	2,188	2,626
Resellers	1,532	2,188	2,626
Schools	1,532	2,188	2,626
Corporations	1,532	2,188	2,626
Consultants	1,532	2,188	2,626
Other	484	691	829
Product Returns	110%	100%	90%
Returns & Allowances	(617)	(561)	(505)
Net Sales	$ 15,186	$ 22,010	$ 26,583
Costs of Goods Sold	200%	100%	50%
Variable Cost of Goods Sold	$ 1,926	$ 963	$ 482
Fixed Costs Reclassified to Variable Costs	-	-	-
Total Variable Costs	$ 1,926	$ 963	$ 482
	110%	100%	90%
Fixed Costs of Goods & Services	$ 173	$ 157	$ 141
Total Costs of Goods Sold	$ 2,099	$ 1,120	$ 623
Gross Profit	**$ 13,087**	**$ 20,890**	**$ 25,960**
% of Total Sales	*86.2%*	*94.9%*	*97.7%*

Weighted probability of cases

At the bottom of the Sensitivity Analysis, you can also enter the weighted probability of each scenario happening—you don't want someone dwelling on the possibility of only the worst case happening! (Make sure they add up across to 100%).

The resulting math will multiply each case by its weight percentage and calculate your Weighted Average Income, shown in the center.)



	A	B	C	D
56		110%	100%	90%
57	Fixed Costs Reclassified to Variable Costs	-	-	-
58	Total Expenses	$ 13,392	$ 11,236	$ 10,079
59				
60				
61	Income From Operations	$ (305)	$ 9,654	$ 15,881
62				
63	EPS	$ (0.03)	$ 0.97	$ 1.59
64				
65	Probability	30%	50%	20%
66		($92)	$4,827	$3,176
67	Weighted Average Income		$7,912	
68				
69	Investor's Scratch Pad			
70	If IRR =	40%		
71	...and if the P/E ratio =	10	$79,117	
72	Then the NPV Valuation =		$14,711	
73	Investment (000) =	$1,000	$15,711	
74	Investor Gets:		6%	
75	Investment Future Value in Year:	5	$5,036	
76	Which is…		5.04 x	

Investor's Scratch Pad

Let's say you send your financial model to an investor or lender. (In your email, you will likely want to suggest they review this entire page as well as 'play' with this section.)

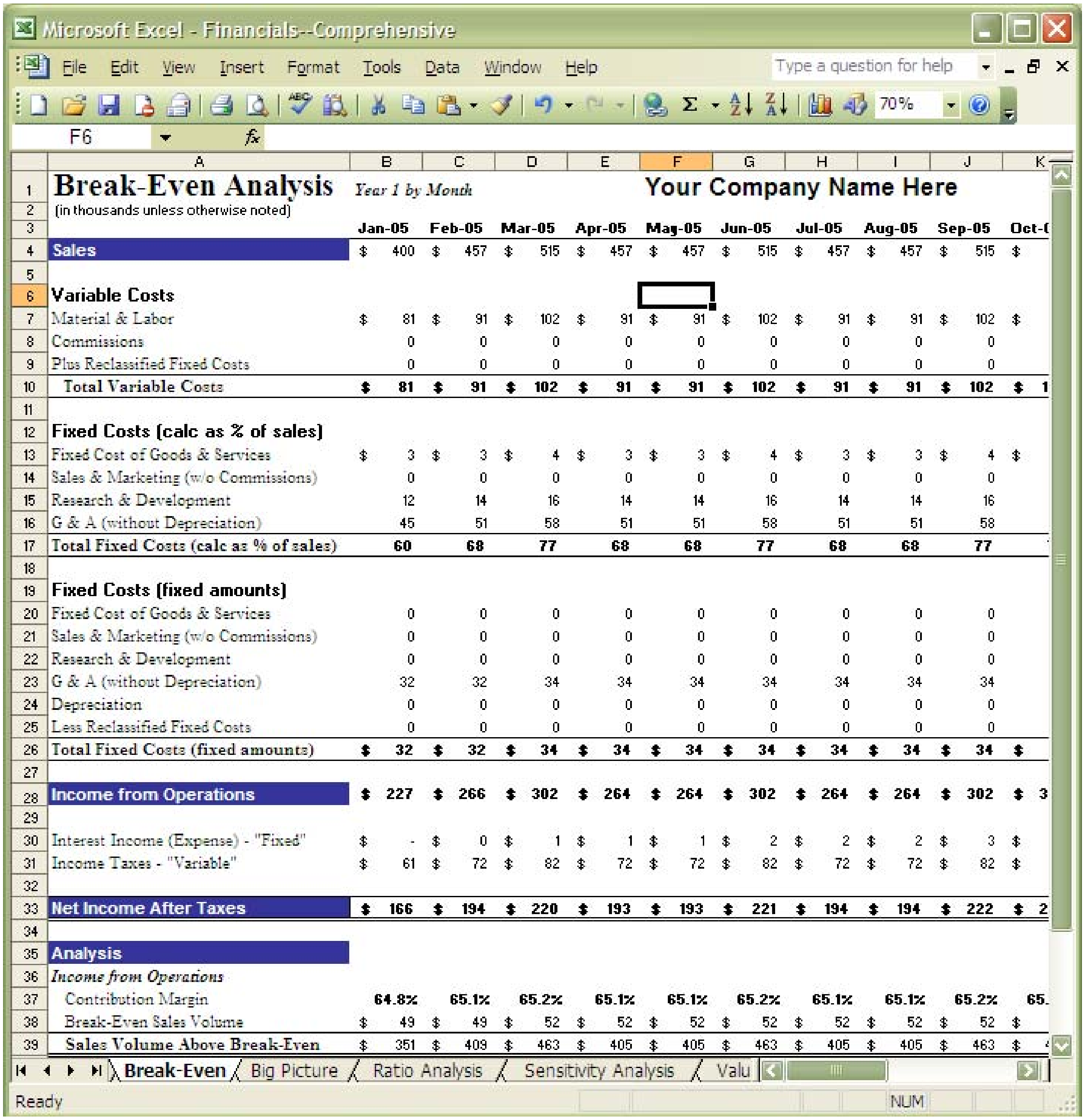
Investors can enter their own perceptions for your best and worst cases, they can enter their own assumptions for the probabilities of each case coming true, next they can work with some of their own investment criteria to see what happens.

Instructions for investors are to the right of the shaded area above—directing them how to fill-in/change the blue numbers in the Investor's Scratch Pad. Nevertheless, it should be self-explanatory.

Break-Even Analysis

The idea here is to demonstrate what your business needs to do just to break-even – not make a profit, but not lose any money either. There is nothing for you to enter on this page. Basically, it gives you and your investors and lenders an idea of how far you must go to start making money.

The Break-Even Analysis assists you in predicting the effect of changes in costs and sales levels on profitability. For example, in general, switching from fixed costs alternatives to variable cost alternatives will lower your break-even volume and lower the real and perceived risk of your business plan.



	A	B	C	D	E	F	G	H	I	J	K
1	**Break-Even Analysis**	*Year 1 by Month*				Your Company Name Here					
2	(in thousands unless otherwise noted)										
3		Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-(
4	Sales	$ 400	$ 457	$ 515	$ 457	$ 457	$ 515	$ 457	$ 457	$ 515	$
5											
6	**Variable Costs**										
7	Material & Labor	$ 81	$ 91	$ 102	$ 91	$ 91	$ 102	$ 91	$ 91	$ 102	$
8	Commissions	0	0	0	0	0	0	0	0	0	
9	Plus Reclassified Fixed Costs	0	0	0	0	0	0	0	0	0	
10	**Total Variable Costs**	**$ 81**	**$ 91**	**$ 102**	**$ 91**	**$ 91**	**$ 102**	**$ 91**	**$ 91**	**$ 102**	**$ 1**
11											
12	**Fixed Costs (calc as % of sales)**										
13	Fixed Cost of Goods & Services	$ 3	$ 3	$ 4	$ 3	$ 3	$ 4	$ 3	$ 3	$ 4	$
14	Sales & Marketing (w/o Commissions)	0	0	0	0	0	0	0	0	0	
15	Research & Development	12	14	16	14	14	16	14	14	16	
16	G & A (without Depreciation)	45	51	58	51	51	58	51	51	58	
17	**Total Fixed Costs (calc as % of sales)**	**60**	**68**	**77**	**68**	**68**	**77**	**68**	**68**	**77**	
18											
19	**Fixed Costs (fixed amounts)**										
20	Fixed Cost of Goods & Services	0	0	0	0	0	0	0	0	0	
21	Sales & Marketing (w/o Commissions)	0	0	0	0	0	0	0	0	0	
22	Research & Development	0	0	0	0	0	0	0	0	0	
23	G & A (without Depreciation)	32	32	34	34	34	34	34	34	34	
24	Depreciation	0	0	0	0	0	0	0	0	0	
25	Less Reclassified Fixed Costs	0	0	0	0	0	0	0	0	0	
26	**Total Fixed Costs (fixed amounts)**	**$ 32**	**$ 32**	**$ 34**	**$ 34**	**$ 34**	**$ 34**	**$ 34**	**$ 34**	**$ 34**	**$**
27											
28	**Income from Operations**	**$ 227**	**$ 266**	**$ 302**	**$ 264**	**$ 264**	**$ 302**	**$ 264**	**$ 264**	**$ 302**	**$ 3**
29											
30	Interest Income (Expense) - "Fixed"	$ -	$ 0	$ 1	$ 1	$ 1	$ 2	$ 2	$ 2	$ 3	$
31	Income Taxes - "Variable"	$ 61	$ 72	$ 82	$ 72	$ 72	$ 82	$ 72	$ 72	$ 82	$
32											
33	**Net Income After Taxes**	**$ 166**	**$ 194**	**$ 220**	**$ 193**	**$ 193**	**$ 221**	**$ 194**	**$ 194**	**$ 222**	**$ 2**
34											
35	**Analysis**										
36	*Income from Operations*										
37	Contribution Margin	**64.8%**	**65.1%**	**65.2%**	**65.1%**	**65.1%**	**65.2%**	**65.1%**	**65.1%**	**65.2%**	**65.**
38	Break-Even Sales Volume	$ 49	$ 49	$ 52	$ 52	$ 52	$ 52	$ 52	$ 52	$ 52	$
39	**Sales Volume Above Break-Even**	$ 351	$ 409	$ 463	$ 405	$ 405	$ 463	$ 405	$ 405	$ 463	$

The Break-Even Analysis also yields some useful ratios that can be used to estimate income and guide operating decisions. Be aware that not only are these ratios a financial management tool for you, but they are frequently used by people outside your company who want to evaluate your business' credit worthiness. Among the ratios used to analyze break-even data are Quick Ratios and Current Ratios.

The format of a break-even analysis statement can vary; one common monthly format as generated by BizPlanBuilder uses the budget as its foundation, but separates all expenses into fixed or variable categories. It then calculates the Contribution Margin, Break-Even Sales Volume and Sales Volume Above Break-Even for each month of your budget year.

➢ *NOTE ON FIXED AND VARIABLE EXPENSES: Costs or expenses are considered variable in nature if they vary directly with changes in sales volume, such as material and labor costs. Costs or expenses are considered fixed if they stay about the same as sales volume changes, such as rent or Vice President salaries.*

Contribution Margin

The contribution margin is calculated as sales less the variable costs associated with those sales; this value is then divided by sales and the result is expressed as a percentage. The contribution margin percentage is not the same as the gross profit percentage because it does not include fixed cost of goods sold and does include other variable expenses. The contribution margin represents the percentage of your sales dollars available to pay fixed costs, and then to generate profits once the fixed costs are covered.

Break-Even Sales Volume

The break-even sales volume is calculated as total fixed expenses divided by the contribution margin percentage. Break-even volume answers the question: "How much do I have to sell to reach the point where I don't make *any* money, but I don't lose money either?' It gives you a minimum sales goal you must reach to survive. Introduce it in your plan and list its major conclusions and time frame.

Sales Volume above Break-Even

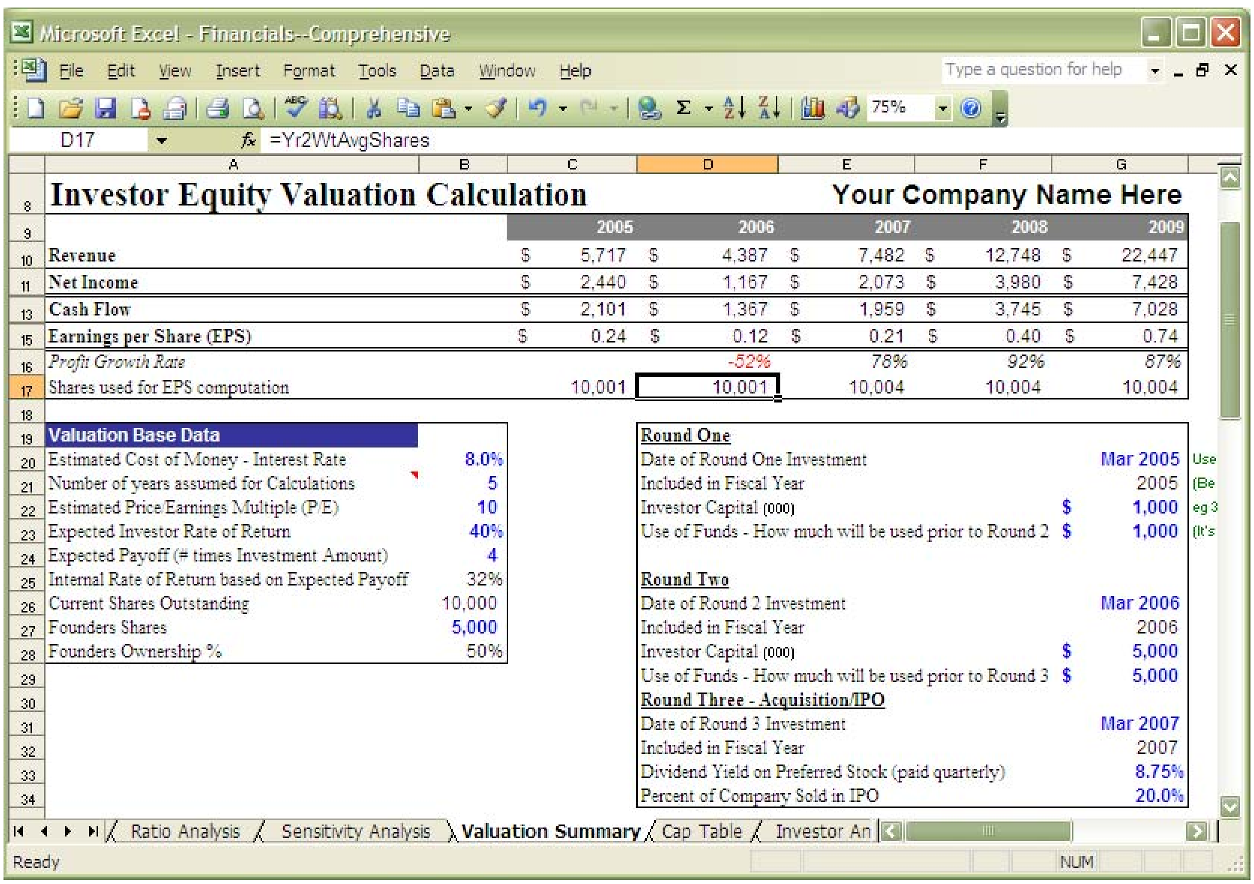
The sales volume above break-even is calculated as total sales less the break-even sales volume. (If this value is negative, it represents the additional amount of sales you would need in order to break-even.)

Valuation

"How much is your company worth?" investors will eventually ask. With the right investor in place, it will be worth a fortune! Is the right answer… but you don't want to come across as a smart aleck. The real question should be , "How much will your company be worth?"

Remember that investors will not even begin to address valuation unless and until they feel comfortable with your Company. Only after they are satisfied with market demand, product development and management capabilities will they seriously consider valuation. The assumptions data entered on this page (in blue) provides the basic data used by investors to calculate the value of your business *today*, presuming it does what you think it will do in the *future*.

The blue variables ask you make some assumptions about possible future financing. **The big number to research is the likely Price/Earning Multiple (P/E)** – we enter an assumed '10' = your company would be worth 10 times your profit. Depending upon your industry, this could range from .5 to 50+. Take a look at http://www.bizstats.com for some possible ratios that you can quote from a reliable and up-to-date source. You can leave rounds two out and set it to zero if you like, but you should enter an estimate of when you would likely be acquired go public.


Microsoft Excel - Financials--Comprehensive

D17 =Yr2WtAvgShares

Investor Equity Valuation Calculation — Your Company Name Here

	2005	2006	2007	2008	2009
Revenue	$ 5,717	$ 4,387	$ 7,482	$ 12,748	$ 22,447
Net Income	$ 2,440	$ 1,167	$ 2,073	$ 3,980	$ 7,428
Cash Flow	$ 2,101	$ 1,367	$ 1,959	$ 3,745	$ 7,028
Earnings per Share (EPS)	$ 0.24	$ 0.12	$ 0.21	$ 0.40	$ 0.74
Profit Growth Rate		-52%	78%	92%	87%
Shares used for EPS computation	10,001	10,001	10,004	10,004	10,004

Valuation Base Data	
Estimated Cost of Money - Interest Rate	8.0%
Number of years assumed for Calculations	5
Estimated Price/Earnings Multiple (P/E)	10
Expected Investor Rate of Return	40%
Expected Payoff (# times Investment Amount)	4
Internal Rate of Return based on Expected Payoff	32%
Current Shares Outstanding	10,000
Founders Shares	5,000
Founders Ownership %	50%

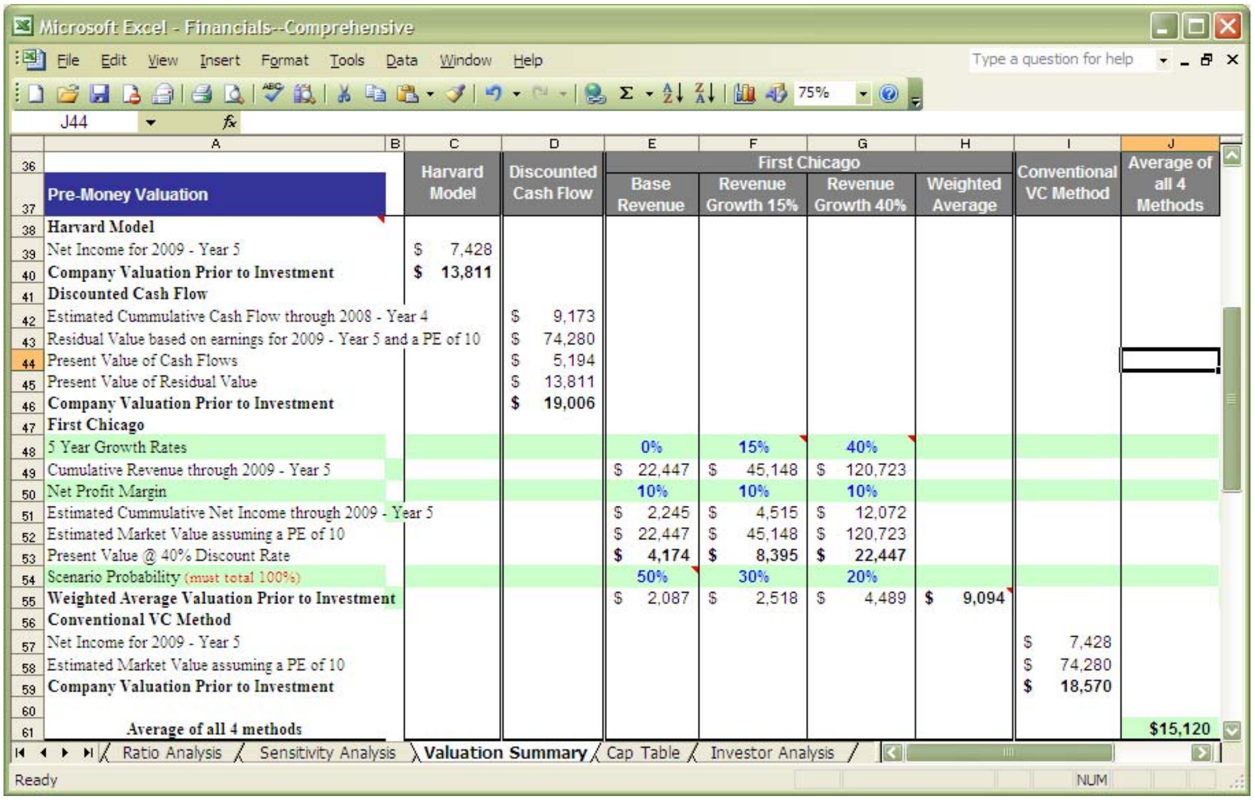
Round One	
Date of Round One Investment	Mar 2005
Included in Fiscal Year	2005
Investor Capital (000)	$ 1,000
Use of Funds - How much will be used prior to Round 2	$ 1,000
Round Two	
Date of Round 2 Investment	Mar 2006
Included in Fiscal Year	2006
Investor Capital (000)	$ 5,000
Use of Funds - How much will be used prior to Round 3	$ 5,000
Round Three - Acquisition/IPO	
Date of Round 3 Investment	Mar 2007
Included in Fiscal Year	2007
Dividend Yield on Preferred Stock (paid quarterly)	8.75%
Percent of Company Sold in IPO	20.0%

Ratio Analysis / Sensitivity Analysis / Valuation Summary / Cap Table / Investor An

The formulas on this page use the revenue and profit numbers carried forward from your projected Income Statement.

Harvard Model

This model is a fairly simplistic calculation of the net present value (NPV) of the possible future value of your company. (Profit Year 5) x (P/E) / $(1+IRR)^5$ You can also substitute 3 in both places where there is a 5, for a year 3 valuation.



Pre-Money Valuation	Harvard Model	Discounted Cash Flow	First Chicago Base Revenue	First Chicago Revenue Growth 15%	First Chicago Revenue Growth 40%	Weighted Average	Conventional VC Method	Average of all 4 Methods
Harvard Model								
Net Income for 2009 - Year 5	$ 7,428							
Company Valuation Prior to Investment	**$ 13,811**							
Discounted Cash Flow								
Estimated Cummulative Cash Flow through 2008 - Year 4		$ 9,173						
Residual Value based on earnings for 2009 - Year 5 and a PE of 10		$ 74,280						
Present Value of Cash Flows		$ 5,194						
Present Value of Residual Value		$ 13,811						
Company Valuation Prior to Investment		**$ 19,006**						
First Chicago								
5 Year Growth Rates			0%	15%	40%			
Cumulative Revenue through 2009 - Year 5			$ 22,447	$ 45,148	$ 120,723			
Net Profit Margin			10%	10%	10%			
Estimated Cummulative Net Income through 2009 - Year 5			$ 2,245	$ 4,515	$ 12,072			
Estimated Market Value assuming a PE of 10			$ 22,447	$ 45,148	$ 120,723			
Present Value @ 40% Discount Rate			**$ 4,174**	**$ 8,395**	**$ 22,447**			
Scenario Probability (must total 100%)			50%	30%	20%			
Weighted Average Valuation Prior to Investment			$ 2,087	$ 2,518	$ 4,489	**$ 9,094**		
Conventional VC Method								
Net Income for 2009 - Year 5							$ 7,428	
Estimated Market Value assuming a PE of 10							$ 74,280	
Company Valuation Prior to Investment							**$ 18,570**	
Average of all 4 methods								**$15,120**

Discounted Future Cash-Flow

The Discounted Cash Flow technique is the most commonly used valuation method that accounts for the present value of the Company's projected pre-interest cash flow for a determined period of 3 to 5 years (expected date of an IPO or acquisition). These cash flow projections are derived from assumed revenue generation on product sales, less operating costs and debt repayment on capital investments (not including interest payments), plus an estimate of the Company's residual value at the end of 3 to 5 years. These projections are then discounted back to the present by the risk-adjusted, weighted-average cost of capital. This cost of capital accounts for interest payments and/or equity returns expected by investors.

First Chicago

The First Chicago Method values the Company based on the cumulative impact of the probability of different earnings scenarios. While different scenarios can be generated under the either the DCF, Hockey Stick or Conventional Methods - the First Chicago Method requires management and the investors to consider the likelihood of earnings scenarios, thereby accounting for a range of possible outcomes in a single analysis. As you can see on the screen, we ask for several growth scenarios.

Common VC Formula

- The VC first decides what return on investment it seeks through the projection period.
- Then applies a price/earnings ratio to earnings at the end of the projection period to determine the market valuation of the Company in the future.
- The future market valuation of the Company is discounted to the present using a discount rate resulting from a desired payoff of xx times investment over x years.
- The investor's ownership in the Company is determined by taking the initial investment of $xxx as a percentage of the $xxx present value of the Company - which equal xx%.

Parts excerpted from Venture Law Firm **White & Lee** on investor valuation—Click here to read more.

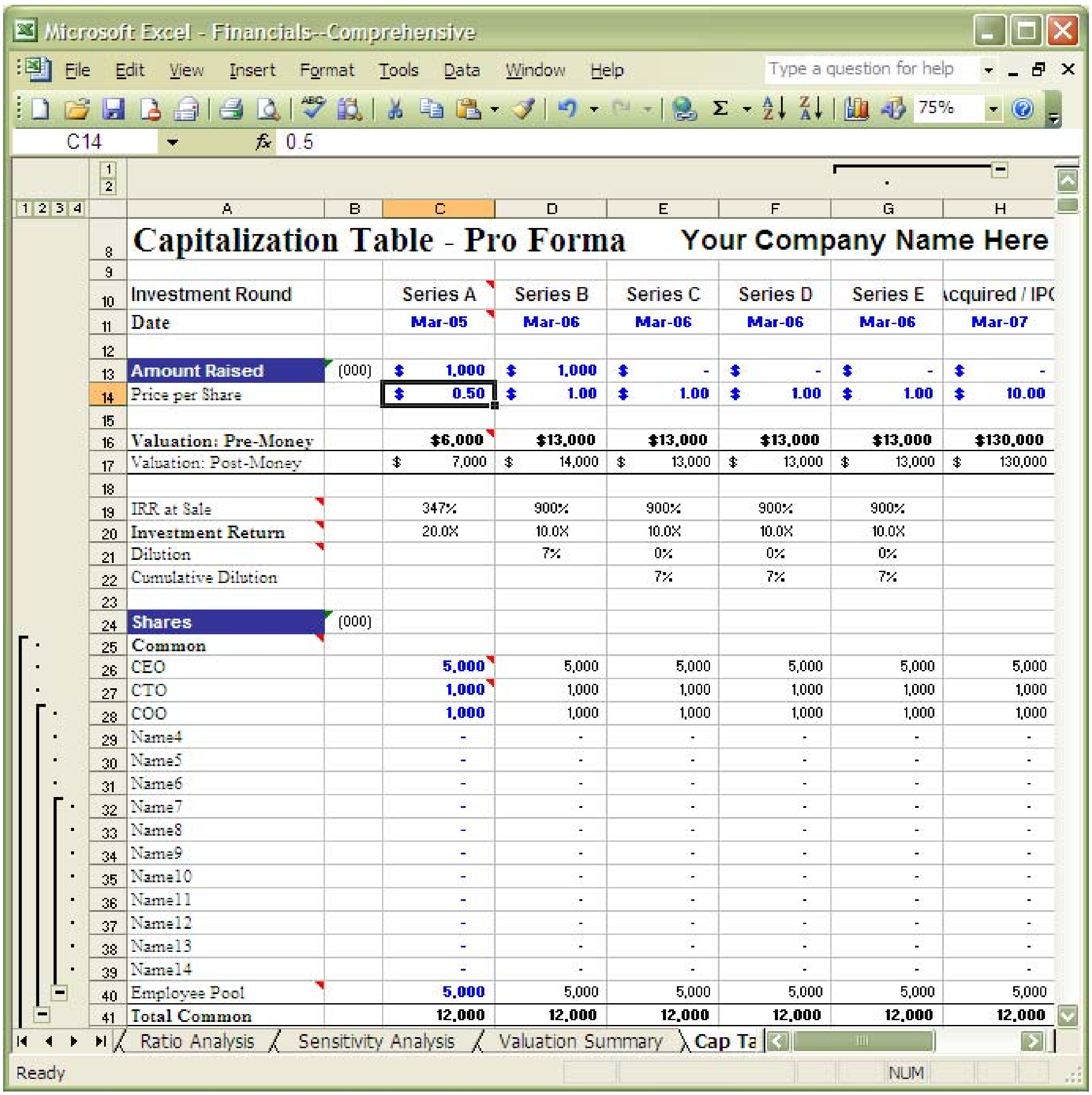
Capitalization Table

(aka "Cap Table") Although the valuation of your company is calculated on the previous worksheet, we chose to drive this table using an assumed Price per Share. While most investors will do their own valuation math/assumptions/finger-in-the-air, the conversation will eventually return to Price per Share—that is how they will ultimately buy into your company… How many shares at what price?

Note: Notice the lines and boxes outside the spreadsheet. Use these to adjust the size and scope of the worksheet. You can easily make other adjustments using Excel.

Use this worksheet to plan and play with the numbers of shares you will allocate to yourself, your management team, others who will support your business and, of course, your investors.

If you must raise multiple rounds of financing, you can see how that might lay out here. If not, we recommend hiding the unused columns. You should leave in and use the last column because that is where you and your investors can focus the exit strategy.



	A	B	C	D	E	F	G	H
8	Capitalization Table - Pro Forma				Your Company Name Here			
9								
10	Investment Round		Series A	Series B	Series C	Series D	Series E	\cquired / IP(
11	Date		Mar-05	Mar-06	Mar-06	Mar-06	Mar-06	Mar-07
12								
13	Amount Raised	(000)	$ 1,000	$ 1,000	$ -	$ -	$ -	$ -
14	Price per Share		$ 0.50	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 10.00
15								
16	Valuation: Pre-Money		$6,000	$13,000	$13,000	$13,000	$13,000	$130,000
17	Valuation: Post-Money		$ 7,000	$ 14,000	$ 13,000	$ 13,000	$ 13,000	$ 130,000
18								
19	IRR at Sale		347%	900%	900%	900%	900%	
20	Investment Return		20.0X	10.0X	10.0X	10.0X	10.0X	
21	Dilution			7%	0%	0%	0%	
22	Cumulative Dilution				7%	7%	7%	
23								
24	Shares	(000)						
25	Common							
26	CEO		5,000	5,000	5,000	5,000	5,000	5,000
27	CTO		1,000	1,000	1,000	1,000	1,000	1,000
28	COO		1,000	1,000	1,000	1,000	1,000	1,000
29	Name4		-	-	-	-	-	-
30	Name5		-	-	-	-	-	-
31	Name6		-	-	-	-	-	-
32	Name7		-	-	-	-	-	-
33	Name8		-	-	-	-	-	-
34	Name9		-	-	-	-	-	-
35	Name10		-	-	-	-	-	-
36	Name11		-	-	-	-	-	-
37	Name12		-	-	-	-	-	-
38	Name13		-	-	-	-	-	-
39	Name14		-	-	-	-	-	-
40	Employee Pool		5,000	5,000	5,000	5,000	5,000	5,000
41	Total Common		12,000	12,000	12,000	12,000	12,000	12,000

Investor Analysis

Nothing in modern attitudes is believed more to signify exceptional intelligence than association with large pools of money. Only immediate experience with those so situated denies the myth.
~ John Kenneth Galbraith

This page enables you to compare the effects of different valuations and scenarios played out with investors. Most of the numbers come to this page from your financials as well as the Valuation page. In a few instances you will need to enter a number.

Valuation Override

In the 'Pre-Funding Valuation' cell, the system will grab and use the valuation number from the previous page per the valuation method you select above.

If you want to enter another valuation number and override the pre-calculated amount, enter your presumed valuation here to use for this analysis. From the pull-down menu, choose 'Valuation Override.' The only time your override number will be used is when 'Valuation Override' is selected from the pull-down menu.

Valuation Step-Up

This is the increase in value of your company by round two of investment—100% (for example) means your company doubled in value between investment round one and round two. This is also the ROI enjoyed by your round-one investors.

Price/Earnings Ratio (P/E)

The price-to-earnings ratio (P/E) is probably the most widely used — and thus *misused* — investing metric. It's easy to calculate, which explains its popularity. The two most common ways to calculate it are:

- P/E = share price divided by earnings per share
- P/E = market capitalization divided by net income

The share price is the market capitalization divided by the number of shares, so the results should be identical. Share price and market cap are easy to find in the quote section of any financial website. The earnings are usually taken from the trailing twelve months (TTM) and can be found by checking the income statement for the past four quarters. A P/E using TTM figures is often called the *current P/E.*

Another variation is the *forward P/E,* which is calculated using analyst future earnings estimates, rather than actual historical earnings. Most financial websites give both the current and forward P/E. I find forward P/E a useful guide for cyclical companies, companies coming out of negative earnings, and those that have significant one-time charges embedded in current earnings.

In essence, the P/E tells us how much an investor is willing to pay for $1 of a company's earnings. The long-term average P/E is around 15, so on average, investors are willing to pay $15 for every dollar of earnings. Another useful way to look at this: Turn the P/E ratio around to look at the E/P ratio, which when expressed as a percentage gives us the earnings yield. For instance: 1/15 gives us an earnings yield of 6.67%.

The “P” in the P/E ratio is determined at any given point by the market value of the company or its shares. Built into this market price are the future expectations of the company's growth.

Take a look at the Motley Fool to learn what investors are learning:

Microsoft Excel - Financials--Comprehensive.xls

File Edit Save As... View Insert Format Tools Data Window Help Save As...

	A	B	C	D
1	**Investor Analysis**		**Your Company Name Here**	
2				
3		*Scenario 1*	*Scenario 2*	*Scenario 3*
4	**Selection for EPS Calculation**			
5				
6		Conventional VC Method	First Chicago - Weighted Average	Average of All 4 Methods
7				
8	**Round 1 Funding**	$ 1,000	$1,000	$1,000
9	Funding Date	Mar 2005	Mar 2005	Mar 2005
10				
11	**PreFunding Valuation**	$18,294	$8,668	$14,417
12	Valuation Override	$10,000	$20,000	$30,000
13	Outstanding Shares	10,000	10,000	10,000
14	Value per Share	$1.83	$0.87	$1.44
15				
16	**Funding Details**			
17	% Ownership Sold	5.2%	10.3%	6.5%
18	# of Funding Shares Given	547	1,154	694
19	(Assumes 1:1 Conversion)			
20	**Post Funding Valuation**	$19,294	$9,668	$15,417
21	Total Shares Outstanding	10,547	11,154	10,694
22	Value per Share	$ 1.83	$ 0.87	$ 1.44
23				
24	**Round 2 Funding**	$ 1,000	$1,000	$1,000
25	Funding Date	Mar 2006	Mar 2006	Mar 2006
26	Valuation Step-Up	100%	150%	200%
27				
28	**PreFunding Valuation**	$19,294	$14,502	$30,834
29	Outstanding Shares	10,547	11,154	10,694
30	Value per Share	$1.83	$1.30	$2.88
31				
32	**Funding Details**			
33	% Ownership Sold	5%	6%	3%
34	# of Funding Shares Given	547	769	347
35	(Assumes 1:1 Conversion)			
36	**Post Funding Valuation**	$20,294	$15,502	$31,834
37	Total Shares Outstanding	11,093	11,923	11,040
38	Value per Share	$1.83	$1.30	$2.88
39				
40	**IPO / Acquisition**			
41	Date of IPO/Acquisition	Mar 2007	Mar 2007	Mar 2007
42				
43	**Pre IPO/Acquisition Valuation**			
44	Outstanding Shares	11,093	11,923	11,040
45	Value per Share	$1.83	$1.30	$2.88
46				
47	**Funding Details**			
48	% Ownership Give-Up	20%	20%	20%
49	Shares Issued	2,773	2,981	2,760

Sensitivity Analysis / Valuation Summary / Cap Table / Investor Ana

Personal Financial Statement

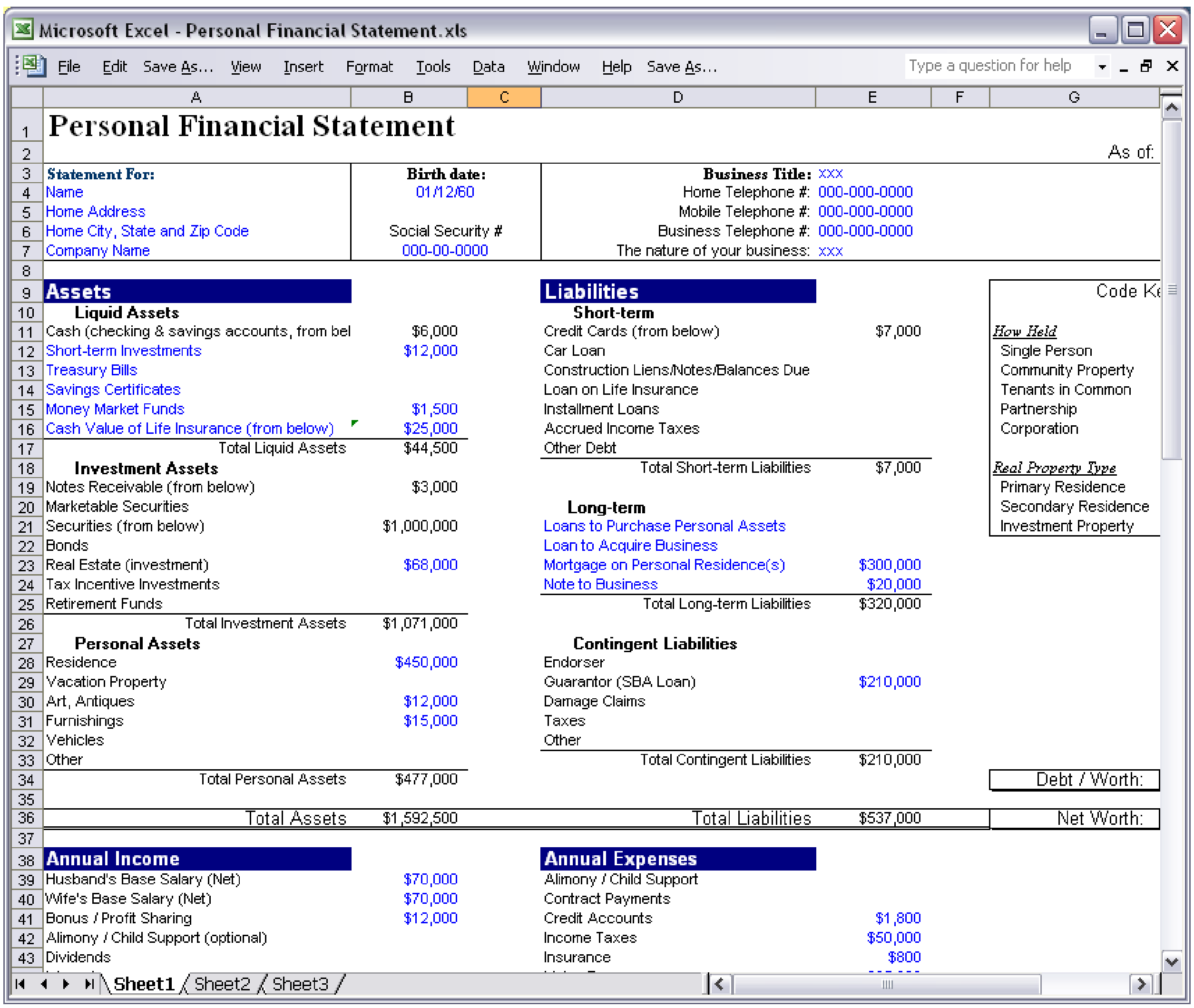
The Personal Financial Statement is a stand-alone worksheet that is used to present the personal financial picture of the owner or CEO. This encompasses everything you own (Assets) and owe (Liabilities), in order to calculate your estimated net worth. A template is included in the “Supporting Documents” folder.

We have found that banks will accept this form attached to their loan application in lieu of their own form.

It may also present specific information about your savings accounts, credit accounts, securities, and other personal financial details. Many lenders and investors will request a personal financial statement because they want to know the financial status of the individual to whom they are considering lending money. It may be requested by a bank that requires a pledge of personal assets to grant a loan.

(You really want to avoid pledging personal assets or providing your personal guarantee if possible! However, consider first the impression it makes either way if you are willing or trying to get out of providing your personal guarantee…)

This statement is not derived from budget assumptions and is not automatically calculated. As usual, the text in **blue** is for you to edit, the **black** text is calculated—we recommend a quick review of the entire statement before entering any numbers.



	A	B	D	E	G
1	Personal Financial Statement				
2					As of:
3	Statement For:	Birth date:	Business Title:	xxx	
4	Name	01/12/60	Home Telephone #:	000-000-0000	
5	Home Address		Mobile Telephone #:	000-000-0000	
6	Home City, State and Zip Code	Social Security #	Business Telephone #:	000-000-0000	
7	Company Name	000-00-0000	The nature of your business:	xxx	
8					
9	Assets		Liabilities		Code K
10	Liquid Assets		Short-term		
11	Cash (checking & savings accounts, from bel	$6,000	Credit Cards (from below)	$7,000	How Held
12	Short-term Investments	$12,000	Car Loan		Single Person
13	Treasury Bills		Construction Liens/Notes/Balances Due		Community Property
14	Savings Certificates		Loan on Life Insurance		Tenants in Common
15	Money Market Funds	$1,500	Installment Loans		Partnership
16	Cash Value of Life Insurance (from below)	$25,000	Accrued Income Taxes		Corporation
17	Total Liquid Assets	$44,500	Other Debt		
18	Investment Assets		Total Short-term Liabilities	$7,000	Real Property Type
19	Notes Receivable (from below)	$3,000			Primary Residence
20	Marketable Securities		Long-term		Secondary Residence
21	Securities (from below)	$1,000,000	Loans to Purchase Personal Assets		Investment Property
22	Bonds		Loan to Acquire Business		
23	Real Estate (investment)	$68,000	Mortgage on Personal Residence(s)	$300,000	
24	Tax Incentive Investments		Note to Business	$20,000	
25	Retirement Funds		Total Long-term Liabilities	$320,000	
26	Total Investment Assets	$1,071,000			
27	Personal Assets		Contingent Liabilities		
28	Residence	$450,000	Endorser		
29	Vacation Property		Guarantor (SBA Loan)	$210,000	
30	Art, Antiques	$12,000	Damage Claims		
31	Furnishings	$15,000	Taxes		
32	Vehicles		Other		
33	Other		Total Contingent Liabilities	$210,000	
34	Total Personal Assets	$477,000			Debt / Worth:
35					
36	Total Assets	$1,592,500	Total Liabilities	$537,000	Net Worth:
37					
38	Annual Income		Annual Expenses		
39	Husband's Base Salary (Net)	$70,000	Alimony / Child Support		
40	Wife's Base Salary (Net)	$70,000	Contract Payments		
41	Bonus / Profit Sharing	$12,000	Credit Accounts	$1,800	
42	Alimony / Child Support (optional)		Income Taxes	$50,000	
43	Dividends		Insurance	$800	

Business Structure

The true joy and reward of entrepreneurial life
are the freedom and exhilaration of the new venture dream.
~ Deaver Brown

One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications, so consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of "structure" you are willing to deal with.
- The business's vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to re-invest earnings into the business.
- Your need for access to cash out of the business for yourself.

This section provides you with information to assist you with the decisions you need to make before you write your plan. Use this information to help guide your thinking, examine your preparedness, and as a basis for discussion with your professional business advisors. It covers:

- Fictitious Business Name
- Sole Proprietorship
- Partnership
- Corporation
- Limited Liability Company (LLC)
- Not-For Profit

Fictitious Business Name

Your company name can be your own name or a fictitious business name. You should choose one that captures the essence of your business, or gets you a good spot in the alphabetical yellow page listings! If you have trouble with this, consult a graphic arts designer who specialize in corporate identities.

Company names are registered with city, county, state, or federal government agencies depending on how big an area your business serves. Some agencies don't require registration, but you should check your local jurisdiction to be sure. Even though you may not be required to register a business bearing your own name, it is probably a good idea anyway. It keeps you in touch with the business news and requirements, such as zoning laws and business licenses and taxes. You may also want to alert your bank where you keep your business accounts, your local chamber of commerce, and the state and federal tax boards of your business name.

There are a number of legal requirements for businesses. For instance, whether or not you have employees, you will need a Federal EIN or Employee Identification Number. To get one quickly and easily, visit the IRS here: http://www.irs.gov/businesses/small/

Legal Forms of Business

The four basic forms a business can take are proprietorship, partnership, corporation and LLC. Each form has distinct advantages and disadvantages concerning ease of start-up, tax considerations and legal liability.

Some up-to-date information as well as cross-comparisons of the benefits and pitfalls of all of these entities can be found here with BusinessFilings.com

The following table lists the common legal forms of business and outlines the basic characteristics of each.

Form of Entry	Ease of Control	Management of Owner	Liability	Taxation	Term Existence
Proprietorship	Easy	Owner	Unlimited personally	Proprietor	Death of owner
General partnership	Easy	Partners by agreement	Unlimited	Partners; individual	Death of partner
Limited. partnership	Must have written agreement	General partners	Limited for Limited partners	Limited for individual	Death of any general partners
C-Corporation	Complex	Board of Directors	Dollars invested	Corporation; individual	Forever
S-Corporation	Complex	Board of Directors	Dollars invested	Stockholders; individual	Forever
Limited Liability Company	Should have written agreement	Owners or managers	Invested	Individual	Finite or indefinite

Sole Proprietorship

The easiest way to open your business is as a sole proprietorship. This form has a single owner and the only legal requirement to establish it is a local business license. Just as easily, you can dissolve or close the business at any time, and it automatically ceases upon your death. As the sole owner, you have absolute authority to make all the decisions.

The major disadvantage of a proprietorship is that you are personally liable for all debts and contracts. There is no distinction between personal and business debts, so if the business cannot pay its bills, creditors can sue to collect from your personal assets.

Income from the business flows directly through to you and is taxed at the individual rate. You do not pay yourself a salary; your income is the profits from the business. There is also no carry back or carry forward of losses. Although last year you did not have to pay any taxes because of a loss, this year you will have to pay the full taxes on your profits; you cannot cancel out this year's profits with last year's losses and pay taxes only on the net total for the two years.

Partnership

The second form is the partnership, of which there are two types:

General Partnership

In a general partnership, two or more people combine money, property, skills, labor or any combination of resources to form the assets of the business. Each partner is a co-owner and is entitled to a share of profits and losses.

The percentage of each owner's share is described in the partnership agreement, which is not required, but should exist in writing. It should describe the percent ownership of each partner, the management responsibilities of each, how the profits or losses of each will be distributed, how the owners can withdraw capital or money from the business, how partners can be added to or allowed out of the business and what happens if one of the owners dies.

As in proprietorship, there are no legal requirements to open other than local licenses to operate and the Fictitious Name if you operate under a name other than the collection of partners' names. Unless otherwise specified in the partnership agreement, the partnership dissolves immediately upon death, insanity or insolvency of any one partner.

Again, the disadvantage of the partnership is that every partner is fully responsible for all debts and contracts. Any business obligation entered into by any one partner is binding on all partners, regardless of the amount they invested.

Limited Partnership

The second type of partnership is a limited partnership, which consists of at least one general partner and one or more limited partners. In a limited partnership, only the general partners have any decision-making authority or any type of input as to the operation of the business. The limited partner contributes capital only and cannot participate in the running of the business.

Unlike the general partners who are fully liable for all debts and contracts of the business, the limited partners cannot be personally sued because of the debts of the business. The most that limited partners can lose is their investment; but, the general partners can lose their investment and be sued for personal assets. The limited partnership is organized under state laws and you must file with the state:

- A list of general and limited partners.
- A written partnership agreement.
- A filed certificate indicating the rights and duties of the partners.
- Public notification of the existence of partners with limited liability, called "constructive notice." This publicly announces that there are limited partners that are not liable for the debts of the business. You serve notice by filing an ad in the legal column of your local newspaper's classified section.

In both forms of partnerships, all income is passed directly through to the individual owners in percentages described in the partnership agreement. The same tax rules as a proprietor-ship apply in regards to profits being taxed at the individual rate and the taxing of capital gains. However, in a partnership, losses are carried back three years and forward for 15. The partnership files a complete return with the IRS which includes a Form 1065 (a business profit and loss statement). Each individual partner will file a Schedule K-1 and a Schedule E for his or her percentage of the profits.

Corporation

There are two kinds of corporations:

- C-Corporation
- S-Corporation

In both, ownership of the company is evidenced by shares of stock which are readily assign-able or transferable (you can use them for collateral on a loan or sell them at any time). In theory, corporations are separate legal entities from the owners. They can open checking accounts, borrow money, and operate just as a person might in the business world. Because of this unique structure, the business continues forever despite changes in ownership or management.

Also, corporations offer what is called limited liability to the owners, which means the owners cannot be sued for the debts of the business unless they have personally guaranteed those debts. Therefore, the potential loss for the owner, is limited to the capital that they invested. (Capital does not have to be money. It can be property, machinery, skill, or labor.) Debtors can sue the corporation only and can claim only the assets of the business. For this reason, banks will usually require most closely held corporate owners to cosign or guarantee any loans.

Ultimate control or management of the company is in the hands of the shareholders who generally meet once a year and who elect a Board of Directors. The Directors usually meet once a month to oversee major corporate policies. They appoint Officers who hire management to run daily operations. In a small company, the shareholders are also the Board of Directors and management.

A corporation can sell shares of stock, borrow directly from the public by selling corporate bonds or borrow from a bank or other entities.

Because a corporation is considered to be an individual identity, it must file an IRS tax return and pay taxes on its profits. Unlike the proprietorship or partnership, the profits of the business do not flow directly through to the owners. If the owners are also employees of the company, their salaries appear as expenses on the company's books and are reported as wages on the individuals' 1040 form. If the company earns a profit after all expenses (including owners' salaries) and the owners want to take that money out of the company, then those profits are paid to the owners as dividends and are reported on the individual's 1040 tax return along with Schedule B (interest and dividend income).

This is one disadvantage of a corporation. Not only are the profits taxed on a corporate basis, but if they are distributed to the owners, they are taxed again at the individual level; creating double taxation. A corporation shares the same tax advantage as a partnership in that it can carry losses back three years and forward fifteen years. These losses are used to off-set profits and limit the company's tax payments. If the business had losses last year and did not pay any taxes, you could carry those losses forward to this year's tax return and offset any taxable profits.

Advantages of a Corporation

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Disadvantages of a Corporation

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible form business income, thus this income can be taxed twice.

Sub-Chapter S Corporations

A tax election only; this election enables the shareholder to treat the earnings and profits as distributions, and have them pass thru directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay herself wages, and it must meet standards of "reasonable compensation." This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount.

An S-Corporation differs from a C-Corporation in regard to a few tax considerations. In order to be an S-Corporation:

- Your company must be domestic.
- There can only be two classes of stock: voting and nonvoting.
- Only individuals may own stock.
- There cannot be any nonresident aliens as shareholders.
- The company cannot own any subsidiaries or be part of any affiliated group of companies.
- There can only be a maximum of 35 shareholders.

An S-Corporation has the same legal liability properties as a C-Corporation and the share-holders must vote or elect to become an S-Corporation. They then must file a Form 2553 with the IRS, which includes:

- Name, address, social security number of each shareholder.
- Name, address, identification number of the business.
- Number of shares owned by each stockholder.
- Date of Fiscal Year End (FYE). Must be December 31 unless there are mitigating circumstances.

An S-Corporation files a full corporate tax return as C-Corporations do (Form 1120), only they use a Form 1120S. However, the return is for informational purposes only. The profits or losses flow directly through to each shareholder based on the number of shares owned.

The shareholder reports profits as supplemental income on a Schedule E. Therefore, not only does the owner report wages on the 1040; but he or she also reports the distribution of profits as supplemental income.

The advantage is that the S-Corporation does not pay taxes on the profits and double taxation is avoided. All profits must be passed through to the owners and taxes paid on those profits, even if the owners do not actually take the money out of the business. The final tax advantage is that, unlike the proprietorship and like the C-Corporation, an S-Corporation can carry losses forward or backwards to offset previous or future profits.

Given these tax considerations, when most people incorporate they do so as an S-Corporation as long as they expect to operate at a net loss. In this way, losses are passed through to the individual owners. However, once the company starts to become profitable and to retain those profits, the S-Corporation election is dropped to prevent taxes on that money retained in the business. The S-Corporation return must include a Schedule K and a Schedule K-1 for each shareholder. Incorporating is much more difficult than opening a proprietorship or partnership.

To incorporate, you must file your Articles of Incorporation with the Secretary of State of your local state. The Articles must include:

- The name of the corporation, which must contain the word corporation, incorporated, or Inc. It cannot be the same as or similar to any other name incorporated in that state.
- A statement of purpose for the business.
- A list of the number of authorized shares of stock; although those actually issued may be less.
- The expected duration or time-frame for the life of the company (you will usually put perpetually).
- The preemptive rights of shareholders: the right of an existing shareholder to purchase new issues of stock so that he maintains his original percentage of ownership.
- The articles of incorporation regulate matters of internal affairs such as dividend rights, voting rights, quorum requirements for meetings, procedures to amend the bylaws, and cumulative voting rights, which are a way to combine a shareholder’s votes for a single director.
- Once incorporated, appoint your initial Board of Directors. They in turn will adopt the bylaws of the corporation to include:
- The mechanics for issuing stock
- How shareholders’ meetings are to be conducted
- Which shareholders vote
- The time and place for the meeting of shareholders
- How voting will be conducted
- How stockholders can manage the company without a formal meeting
- Directors: function, qualifications, number, election procedures, term of office, and procedures for setting up committees
- Officers: titles, authority, duties, term of office, and election and removal procedures
- A corporate seal and the company's Fiscal Year-End report
- Procedures for amending the bylaws

In a corporation, the shareholders own the company. The Board of Directors reports to shareholders on an annual basis and have very little to do with the operations of the business. The Board oversees major policies and procedures. They usually meet on a monthly or quarterly basis. The Officers run the business on a day-to-day basis in conjunction with management. Board of Directors and/or Officers may also be shareholders.

You can file your incorporation applications and state paperwork here with BusinessFilings.com

Limited Liability Company (LLC)

The LLC is a relatively new type of hybrid business structure that is now permissible in most states. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Formation is more complex and formal than that of a general partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued if desired by a vote of the members at the time of expiration. LLCs must not have more than two of the four characteristics that define corporations: Limited liability to the extent of assets; continuity of life; centralization of management; and free transferability of ownership interests.

Taxed as partnership in most cases; corporation forms must be used if there are more than 2 of the 4 corporate characteristics, as described above.

Some up-to-date information as well as cross-comparisons of the benefits and pitfalls of all of these entities can be found here with BusinessFilings.com

Not-For-Profit

Not-for profit is a tax status only...
Not a management style.

There is a Not-for-Profit section on the Small Business Administration's (SBA) web site. Here you will find many links to a variety of NFP-related sites. www.SBA.gov/nonprofit will refer you to a variety of non-profit information sources.

For fundraising information, visit the National Society of Fund Raising Executives (NSFRE) at 1101 King St., Alexandria, VA 22314, or call them at 783-684-0410.

Bibliography: Resources for Prospect Development 1996-97 (Bentz, Whaley, Flessner.)

Corporate Giving Yellow Pages (Taft)

The Foundation Directory (from the Foundation Center)

Giving USA (Published annually by American Association of Fund-Raising Council)

The Grass Roots Fundraising Book (Contemporary Books)

The Philanthropy Journal Online is also a wealth of information.

The federal requirements for becoming a tax-deductible entity, a 501(C3), will enable your potential donors to deduct from their taxes whatever they may donate to you, your income stream will benefit in the long run. It's not easy to accomplish and you will require some legal help, but it will be worth the investment.

Company Overview

The only man who never makes a mistake is the man who never does anything.
~ Theodore Roosevelt

Relating Your Financial Picture

Of major interest to an investor is your financial status. Again, your Financial Planning section contains that detail. Instead, focus here on your overall status. Investors want to know:

- Have you obtained any other funding from others or invested yourself?
- Have you made any sales?
- Are you a start-up looking for second-stage financing from venture capitalists?
- Have you shown any growth?
- Have you incurred any debts?
- Have you turned any profits?
- Are you an existing company looking to expand your product line and markets?

Be sure that anything you say here tracks honestly with the information in these other sections. Just hit the highlights and bear in mind this section is for providing status, not data.

If you have other investors, list them, the amount of their contribution, and pertinent terms. All your investors will want to know who else has already provided funding. It may deter them if it affects the potential return on investment, but on the other hand, it may also comfort them to see that someone already believes in you.

Introducing Your Strategic Alliances

The last part of your Company Overview is where you list any strategic alliances or partners you have formed or whom you have researched and have, or will, approach. List the reasons that you have or are seeking such an alliance, what its terms are, and what mutual benefits have or will result.

A strategic alliance is essentially any joint initiative between your company and another that seeks to maximize the same marketing opportunity for your mutual benefit; the so-called win-win situation. This sort of arrangement can give your business a significant edge. For example, suppose you are a Value Added Reseller (VAR), and you bundle computer hard-ware and software into systems specially tailored to a particular market like Computer Aided Design (CAD). You might seek a strategic alliance with a computer hardware manufacturer in which you agree to use only their computer hardware, and they, in turn, agree to a substantial discount, to give access to their mailing lists, and offer to cooperatively advertise your business in their ads.

Investors want to know if you have, or expect to have, any such advantage. The fact that you have researched such an opportunity and/or formed such a partnership shows that you are serious and that others take you seriously too. Investors are pleased with any arrangement that provides your company, and thus their investment, a competitive edge over others in your industry. This sets you apart from other businesses, who may also have submitted plans, as a good risk.

Typical types of alliances include:

- Original Equipment Manufacturers (OEMs) and Value Added Resellers (VARs) who might agree to exclusively supply you with their products or who would incorporate your product into theirs. Alternatively, if you are an OEM or VAR yourself, you may want to form alliances with other businesses for the same reasons and more.
- Joint marketing, where you agree to market a product with another business by sharing prospect lists, sharing marketing expenses, sharing territory, leveraging your sales forces, or any other number of marketing activities
- Third-party suppliers, where they agree to provide you a deep discount for your exclusive business
- Joint developing, where you agree to develop a product with another business by sharing costs, patents or patented parts, facilities, manufacturing specifications, technical expertise, or any number of other possibilities.

Read more about strategic alliances in Appendix B, 65 ways to fund your venture. A popular book on the subject, The Virtual Corporation, by William H. Davidow and Michael S. Malone, deals in detail with strategic alliances and their benefits.

Company Overview Checklist

- If your company's name is different from your own, have you filed a Fictitious Business Name statement?
- Has your local government agency approved and registered the name of your company?
- Have you reviewed the different forms of business and determined which is appropriate for your company?
- Have you defined or established a management team that provides leadership for your business in both management and technical areas?
- Do the strengths and talents of your management team match the goals and objectives of your company?
- Does your Board of Directors bring relevant business experience to the management team?
- If your staffing is not complete, do you have an established action plan to share with your prospective investors?
- Have you included strategic alliances to help strengthen and broaden your potential market or to add talent to your management team?

More ideas are on our website

Visit our website and review the "Knowledge Base – Management" for recent additions and ideas.

Management

For real estate, it's: Location. Location. Location.
For business, its: Management. Management. Management.

Management Team

The next part of the Company Overview is about your company's leader, key staff, and pertinent consultants. The management team provides the leadership for your business and must include combined strength in both management and technical areas. The management team should be selected in such a manner that talents are complementary rather than overlapping or duplicated. You must ensure that all the key areas necessary to accomplish the goals and objectives of the company are within the strengths and talents of your management team.

Excerpted from the Motley Fool: Management has incredible power. If they want to enrich themselves at the expense of shareholders, either directly or by misrepresenting the company's prospects, individual shareholders have almost no hope of preventing them. We strongly recommend avoiding companies where there's even a hint that management lacks integrity. Some clues to look for here include excessively optimistic press releases, overly generous compensation or options grants, or the constant use of external circumstances to excuse operational shortcomings. WorldCom and Enron may have gone up for years, but at the end of the day, shareholders received almost nothing. That's why I think questionable management is the worst flaw a company can have.

To their point, I asked a VC friend of mine about the due-diligence process they perform on the management team of a prospective company in which they are thinking of investing. "How many strikes do they get?" I asked. (How many inaccuracies, etc. does my VC friend allow for when checking into each member of the management team's background?) "NONE," he said. To that point, you must be very careful when choosing your management team members. Be sure to check them out. Hire a private investigator? It may very well be worth it.

Staff, Consultants & Directors

If you have staff, here is where you introduce them. The names here should include any names you also mentioned in the Company Direction section, as well as anyone else who makes key management decisions and/or has ownership in the company. You need only mention outside firms if they handle key transactions such as legal or financial matters; you don't need to list every employee.

If you do not yet have staff, or are only partly staffed, introduce yourself and whoever is on-board, then describe what sort of people you are looking for to fill any vacancies. If you are a sole owner and making all management decisions, then your own qualifications and any key advisors, such as your accountant or attorney, is sufficient.

The purpose of listing your management strengths is to reassure your investor that the people spending their money are great at whet they are doing. Plus, you want to have the right people surrounding you to protect you from making avoidable mistakes and to minimize calculated risks. A brief description of you and your team's qualifications and years in the field is helpful. Your investor also wants to know if you can accomplish your business goals as described in your plan. One way they determine this is by evaluating your workforce. After all, these are the people who are responsible for the daily operation of the business and who are making key decisions.

If your business is a corporation, list its board of directors, officers, and all of the key management team. Name what position they hold, what their key responsibilities are, and why they are particularly well suited for that post. For example, if one of your team can take credit for marketing a hit product, mention it! Summarize their experience, education, and any special training or professional memberships they have. You can include resumes in the Supporting Documents section if you like.

A table is an effective way to display information about your management team. You can include columns for stock ownership or any other points you want to highlight. You can break your lists down by categories such as these:

- Board of directors
- Company officers
- Investors

Recommended reading on this topic:

- The Greatest Management Principle in the World, by Michael LeBoeuf, Ph.D.
- Leadership Secrets of Attilla the Hun, by Wess Roberts, Ph.D.
- *Business Black Belt*, by Burke Franklin

Early on in your business, you want people who are capable of handling multiple functions. As your company grows, your requirements will call for more specialization within the management team. A combination of experience, technical skills and energy will serve your company well.

The Department of Labor's Dictionary of Occupational Titles has descriptions and details about various job titles – generally they are worthless. What does the government know about entrepreneurship or building a company? We have a copy, but we are in the process of rewriting them to include experience, education and personality elements that are 'required,' 'desired,' and 'a plus' – please stay tuned.

The Cat Trainer

This story may be one of the best metaphors for hiring that we've ever heard. (You don't need to tell this or explain it to investors or lenders, just keep it in the back of your mind for you own use.) A TV commercial producer was hired to shoot a cat food commercial. So, he called in a cat trainer because he needed several cats to perform certain trick for the camera. He explained that cat 1 needed to run in from stage left, sniff the food once, look at the camera, then start eating. Cat 2 would enter from stage right, jump up on the sofa, play with a ball of yarn, sniff the air and run over to the cat food and start eating. Cat 3 would be sitting at center stage with a bored look, the food would be handed in from stage left, but the cat would just sit there for a couple of beats, then he would dive into the food. OK. The cat trainer had his instructions. On the day of the shoot, the cat trainer arrives with the cats, the shoot lasts all day, but goes well. As everyone was packing up to leave, the producer thanked the cat trainer, then said, "You know, I've always heard that you can't train cats, but yours performed flawlessly!" "How did you do that?" he asked. The cat trainer replied, "You're right, you can't train cats. I have about 200 cats and I just brought the ones that would do what you wanted."

You may have heard that managing people can be a lot like herding cats. The trick is to find out what people already do and do well, and hire them to do that. Hiring a person to do one thing and then expecting them to change and do something else, even with lots of expensive training can be a recipe for disaster. It's much better to hire someone to do something that they have already demonstrated an interest in doing and have a track-record of doing it well. This means that you must listen to what the person is interested in doing for their career and what they are interested in doing for you – you are looking for a cat who will do what you want done. You are not looking for someone to convert or train! (Unless you are interested in running a clinic where you pay the patient to be there.)

You can tell if the person is performing because the job will be getting done… you won't be hearing excuses (even good ones). If you have investors, they will be watching YOU, much like a baseball team owner observes the team manager – if a pitcher is losing a game, and the manager doesn't put in someone else, who isn't doing their job? (One could argue the pitcher, of course, but in this case immediate action needs to be taken by the manager…) If you don't manage your team, you will be replaced.

Of course there are exceptions, but you get the idea. In fact, with investors on board, you can now confer with them regarding your decisions to hire or fire people, perhaps even blame the investors for your need to let someone go. In a way, the pressure for performance from investors can be a healthy thing for you because you cannot allow yourself to "hold the bag" for underperformers because you are such a nice person.

Staffing

Understanding the strengths and weaknesses of your staffing is important to the investor. Although you may not have all your staff in place when you begin, a plan of action that addresses how and when you will fill the gaps is required. It is far better to have an opening than having a position filled by the wrong person. "Here is our team, but we need a qualified VP of Marketing." A new business may turn to consultants and other professionals for specific areas of expertise. Both small and large companies should seek the professional services of an attorney and an accountant during business start-up. Also, most investors maintain their own 'golden rolodex' of people they can refer to you.

It's easy to come up with new ideas; the hard part is letting go of what worked for you two years ago, but will soon be out-of-date.

~ Roger von Oech

How Japan Did It

Did you know that everything that we admire Japanese businesses and businessmen for – work ethic, product quality, etc. – we owe it all to an American?

Dig, if you will, the picture: the year was 1950. Japan was a ravaged mess after being on the losing side of the second "war to end all wars." Nothing worked with any semblance of efficiency. Japan was synonymous with poor quality.

Then Dr. Deming came along.

Dr. W. Edwards Deming, a native of Wyoming, had developed what was known as the System of Profound Knowledge, a management philosophy that taught its adherents how to increase and bring quality to every aspect of their lives. Dr. Deming taught these principles to Japanese businessmen, and these principles became the foundation of the "Japanese Industrial Miracle."

So, when you are sitting there admiring Japanese businesses, you are actually admiring the principles they learned from someone born and reared in the good ole U. S. of A. But look how far Deming's principles have been internalized into Japanese business consciousness:

American businesses set an arbitrary standard, say, "we must increase revenue by 30% every year," and then work for that. Once we meet that goal, then we set another goal, and so on. In Japan however, they commit their businesses to one and only one principle: always work at increasing the quality of their product.

In a nutshell, the two philosophies can be described thusly: The American approach is to produce products that generate more customers. **The Japanese approach is to produce products that create loyal customers.**

The Japanese business ethic began from one simple premise: if you start a business and base it on the goal of continuously striving for quality, you will slowly but surely become the #1 business over time. Dr. Deming taught the Japanese that quality is cheaper to produce than revenue, but quality will produce revenue. These are two, diametrically opposite business strategies. And they make night-and-day differences in corporate success. Japan values this philosophy so that each year there is a Deming Award given to the company that best epitomizes the Deming principles. Companies compete vigorously for this award to this day.

~ not sure where we got this (we would be happy to provide proper credit if you know who)

More ideas are on our website

Visit our website and review the "Knowledge Base – Management" for recent additions and ideas.

Market Analysis

In the world of the internet, I have found, that quite often,
if you put it up and people buy it, you call it a product;
if you put it up and they don't buy it, you call it market research.
~ Jim Barksdale, Former CEO, Netscape

There are two components of your business plan that deal with marketing: the Market Analysis section and the Marketing Plan section. The Market Analysis presents your understanding of the market, your customers, your competition, and has solid data to back those characterizations. Your Marketing Plan shows how you intend to take advantage of your analysis to position your products/services and gain the sales figures you are projecting.

➢ *NOTE: In your particular business plan, you may elect to discuss your market before or after discussing your product. Use the order you deem most compelling to your reader.*

In this section first you are describing the nature of your industry, who are your customers and the characteristics of your competitors. Here you are giving the reader an orientation to your chosen marketplace. What are the dimensions and trends in the industry you are entering? Who are your target market customers and their needs? Who are your competitors and their strengths and weaknesses?

Secondly, you are explaining to the reader how you will mold your product or service to fulfill a need in this particular marketplace. What do you bring to this market? This marketing mix is most often referred to as the many “Ps” of product, packaging, placement, positioning, price and promotion, etc. These are the factors that you control that should position you into an advantage over your competition.

Finally, a qualitative statement describing your overall marketing strategy and plan must be made in this section.

- What are your strategic marketing objectives and tactics for achieving them?
- What is the basis on which you can best compete?
- What is and how do you get our message to your target market (advertising, promotion, word of mouth)?
- How do you approach your customers (sales reps, telemarketing, sales staff), as well as deliver the goods or services promised (distribution)?
- Are there any changes coming in the future in this market and how will you adjust to them (government regulations, new technologies, changes in customer needs or buying habits etc.)?
- What kind of growth (market share) do you anticipate and how will your market contract or expand in the future?

Components of the Market Analysis Section

The purpose of a Market Analysis is to educate and convince your investor that you under-stand the market, have appropriately targeted your customers, understand your competition, and are keenly aware of any risks. The topics include:

- Defining your market
- Profiling your customers
- Analyzing your competition

- Assessing your risk

The process for identifying and focusing on marketing opportunities is as follows:

- Select a market or markets to be analyzed and understood.
- Identify/choose ways to divide the market into segments.
- Profile and analyze the segments identified above in step 2.
- Select segment characteristics that are pertinent to your product and service offerings.
- Based on the pertinent characteristics outlined above, rank the top segments consistent with your mission, goals and objectives.
- Choose the segment(s) that will be targeted by your plan's marketing mix objective.

Defining Your Market

A market consists of people or organizations with specific desires or needs who have the ability and willingness to buy your product or service. If you can establish that there is indeed a clear market that you are going after, you will generate the serious attention to your plan that you are looking for. In the market section, you explain how you selected your market and present data that supports your decision. Characterize the market for your reader. Some ways to do that are by:

- Analyzing your industry
- Describing your market segment
- Presenting market strengths and weaknesses
- Examining unexploited opportunities.

Define Your Target Markets

Define your target market to be large enough to meet your revenue and business goals, but small enough you can afford to reach them. Many people are afraid of defining a target market too tightly because they think it limits their opportunities or excludes potential customers. If you have a tight budget, it is important to define your target market just as tightly. Then use marketing vehicles that cater only to that defined group of potential customers. Look at your existing customer list (if you have customers). Look for common elements within your customer list (i.e. specific vertical industries like healthcare, high tech, retail, size of company, specific personal characteristics, etc.), and categorize them into target markets. Think of target markets as categories of customers who have a certain pain or problem. Be specific in your definitions. Think about and evaluate "like" or "neighboring" markets that might be potential new markets. Now you can leverage your experience and credibility within Market A to move into Market B more cost-effectively and successfully.

Prioritize Your Target Markets

Once you've defined your possible target markets, you need to prioritize them in order of importance. Which customers or market segments have the highest potential for profit, the most need for your products/services, and where you have the least competition? Based on your analysis, categorize them as primary, secondary, and possibly tertiary markets. Make sure that your marketing budget and resource allocations are aligned with this prioritization that you've established.

Profile the typical "customer" within your Target Market

For each of the target markets you've defined in your marketing strategy, profile the demographics of the "buyer." Depending on whether your target markets are B2B or B2C, some demographics you're looking to define can include title, role in company, age, gender, education, kids, homeowners, etc. You can still sell to customers outside of your top priority markets, but do it purposefully. Staying committed to your focus throughout the majority of your sales and marketing activities will make your marketing more effective.

Analyzing Your Market & Industry

An industry analysis presents the information you have collected on the size, growth, and structure of the industry your business serves. For example, if your business serves the computer industry, you may have consulted some of the market research publications compiled by companies such as Seybold or Dataquest for information on the computer industry.

Describe any significant changes that are underway or anticipated in your industry. Mention significant issues within the industry as they relate to your company's product and service offerings.

Describing Your Market Segment

Within your general market, you also want to identify and characterize which particular portion, or segments, of the market you are targeting. Segments can be differentiated by many characteristics, such as geographic location, age, gender, income, profession, family status, personality traits, and specific benefit seeking.

For example, if your company makes printing devices, you may want to specifically look at the Corporate Printer segment, as well as the Desktop Computer market and Home Office market segment. Often, the segment you are targeting may not have data directly dealing with your interests so you may have to infer it from a number of sources. The more sources that agree, the better. Do not, however fall into the trap of being abstract or general when speaking of your segments. If you do, you will lose the interest of your reader.

Once you've identified your segment or segments, characterize them for your reader. Your segment is the heart of your potential sales. Convince your reader that you thoroughly understand how to win here. Include information about what sort of features are characteristic of products and/or services in this segment. You can talk about size, convenience, price, length of useful life, color, and all manner of physical attributes. You can also discuss attitudinal attributes such as how it makes its purchaser feel or look. (Read more about attitudes and motivations in later sections of this chapter.) You are painting a picture that makes your reader see how well your company has positioned its products and services.

Your purpose here is to specifically identity the segments of your market that you are targeting, and to describe their natural importance and attractiveness. Which segments are of primary importance at this time? Why? Will the relative importance of these segments shift over time? These answers will form the basis of your marketing strategy defined later on in your plan.

Later on, in the Customer Profile portion of this section, you focus on profiling your particular target customers. Explain what sort of customers are attracted to this segment's products and services. For example, suppose you are an Internet service provider. Your data may show that more men between the ages of 14 and 24 use the Internet than women. Perhaps, however, you want to target women because of this segment's bigger growth potential. Here, then, you present these background facts. But later on, you discuss what type of female consumer you are targeting and why.

Presenting Market Strengths & Weaknesses

The Market Analysis talks about market strengths and weaknesses from two points of view. The first is from the standpoint of the market, which is the subject you tackle here. The second is from the standpoint of your company's strengths and weaknesses, which you tackle later in Assessing Risk.

The purpose of this section is to examine the S.W.O.T. analysis. All markets and market segments are subject to weaknesses as well as strengths. Your reader wants to know that you are not naive. They also want to know if you can turn market weakness into an opportunity and if you can foresee possible threats and have a sound plan to avoid or meet it.

When you are describing strengths and weaknesses, it helps to present them in a table or to compare them side by side. For example, you might want to point out that your market is seasonal, but that demand in season more than makes up for the lag. Examples of market strengths are historic growth patterns, or a new and untapped customer base such as the burgeoning number of homes who now have PCs. Examples of market weaknesses are customers that are slow to adopt a new technology, or sales that fall way off during summer vacation months, or an adverse economy which is affecting discretionary spending. Examples of threats are your competition, technology shifts, or new automation that makes your product obsolete.

For example, a July 1996 issue of Time Magazine reported a wonderful example of exploiting a market weakness. Earlier in the year, Great Britain's beef industry was hit hard by the discovery of Mad Cow disease in its herds. The market for British beef fell off sharply. With healthy herds to support, but no market for them, one enterprising farmer decided to exploit the fact that his cattle were frequently and easily seen in their pasture along a busy highway. He rented them out as live billboards.

Examining Unexploited Opportunities

Not all business plans include this, but if your market analysis has uncovered an untapped opportunity that is within your segment, you can point it out here and explain how you plan to go after it.

Unexploited opportunities can be the discovery of a specific segment of your market who can use your product in a new way. You may have decided to make stop watches waterproof so that deep sea divers can also use them. An unexploited opportunity might also be a new way to leverage your products or services such as a software developer who finds he or she can increase profit by developing new distribution channels, or updating packaging, or repositioning the product to better serve customer need.

Be sure to look for, and to point out, any of these opportunities to your investor. Clever businesses are seen as better managed and more dynamic.

Profiling Your Customers

In this part of the plan, you discuss who your target customers are as opposed to what sort of customers make up a segment. Your customers may or may not include all the same characteristics as the demographics of the market or market segment, but they should be logical.

Investors want to know that you have a firm grasp on the type of person or company that buys from you. For example, if your business is making breakfast cereal, your segment is made up of children and the parents who buy that cereal. Your target, however, might be that portion of the segment who is concerned about excessive sugar content.

The customer profile can include information on consumer adoption habits, economic factors, demographics, psychographics (discussed later in this chapter), and other influences. Read more about the Consumer Adoption Process in the Market Analysis Supplement.

Profiling Customer Motivation

Remember that no matter what type of business you are in, the final decision to buy or not buy is made by an individual. The better you understand the decision-making process, the better you can sway that decision.

Even though you are selling to a person who makes the buy decision, selling to individuals and selling to businesses requires different approaches. Describe what approaches you are taking and why.

For example, when selling to a business, you probably want to include profile data on:

- Type of organization
- Geographic location
- Product end-use segmentation
- Standard Index Classification (SIC)
- Size of organizations (number of employees)
- Whether it is a horizontal or vertical segment

Evaluating Economic Factors Affecting Customer Purchases

Another factor you want to discuss in your customer profile is any economic effect you fore-see that could curtail or enhance your customer's ability to purchase your products and services. In this section, you want to address the fact that you are in business to make money in light of the results of that evaluation.

You need to market your products and services to people who can afford to buy them. While this may seem obvious, don't assume your reader already knows that you've considered this factor. Explain whatever your data reveals about the things that affect your customer's ability to buy, and make that part of your overall customer profile.

Here are some common economic factors that can affect purchasing power.

- Personal savings, which can translate into a higher purchase potential
- Personal debt, which can limit purchasing ability
- Income expectation, which can influence motivation
- Tax rates, which affects disposable income
- Interest rates, which can limit credit purchases

Reporting Your Customer's Demographics and Other Statistics

Another way to help profile your customers is to describe them in statistical terms. Among these are demographics and psychographics. Both are publicly available statistics or can be determined through surveys. Tables are an effective way to present this information.

Demographics report factors like age, gender, income, professional standing and family status. Psychographics describe attitudinal factors such as how customers feel about certain things like health, family values, and social status.

Including demographic information helps convince your investor that you know your customers and know what important characteristics they have relative to their willingness and ability to buy your products and services. It helps answer the question, "Who exactly makes the buy decision?"

A word of caution. Consumers' values are changing more rapidly than ever before. Be sure you keep current on these changes. A psychographics profile that was valid a year or two ago may have changed radically.

Also be sure that you target the right mix of statistical data. For example, American Express targets the market segment of achievers who are not only identified by their income level but also by their career choice, their success, and their social standing.

Considering Who Influences Buy Decisions

Sometimes the person who places an order is not the same person who makes the buy decision, although it may look like that. This is particularly true of companies where *a* buy recommendation might be made to a purchasing agent instead of by the purchasing agent. You need to be aware of that so you are sure you are profiling the right consumer.

Even individual consumers, who actually buy and use the product, may have been influenced to buy it by someone else. For example, perhaps you buy a particular brand of soup because a friend who is a good cook recommends it.

When profiling who makes this buy decision, consider profiling the people who:

- Initiate the inquiry for your product
- Influence the decision to buy
- Actually decide which product or service to buy
- Permit the purchase to be made.

Sometimes the decision-maker and the Permitter are the same person, but the decision-maker, such as the Chief Financial Officer (CFO), signs the paperwork after other managers have submitted their recommendations.

Your plan should show that your company has the ability to appeal to all of the above people.

The Consumer Adoption Process

When you introduce a new product or service, customers warm to it at different rates. This is known as the consumer adoption process and is a fairly standard concept. If you feel this affects the introduction of your products and services, you need to address it.

Each group generally has different traits that separate it from the others. These traits might include social and ethnic background, age, race, family stage and geographic location.

Innovators

Innovators tend to be young, well-educated and are able to understand and apply technical information to their decision process. They also tend to be mobile and have significant contacts outside their local social group. They typically rely on impersonal and scientific information rather than emotional promotions.

Early Adopters

In contrast to innovators, early adopters take a position of leadership. They also tend to be younger, more mobile, and more creative than people in the later stages. Typically, they respond better to direct salespeople and are an extremely important class of consumers because of the respect they have from the other consumers - early and late majority and laggards.

Early Majority

The early majority likes to avoid risk and will wait until a new product has gained positive following from early adopters. By the time the early majority is trying a product, it is probably well into the growth stage. Typically, the early majority are company employees with young families. Their ability to accept risk is limited due to their limited time in the work force and the need to raise a family and build net worth.

Late Majority

The late majority are older than the early majority and are skeptical and cautious. *They* have experienced some of the various disappointments in life and are cautious about trying any-thing new. Often, it is only social peer pressure that forces them to adopt a new product. This category tends to ignore promotional messages and relies more on other late adopters for guidance.

Laggards

For a marketer, the laggards are almost a lost cause. They tend to be much older, less-educated, and are lower income earners. They will stick with the same old product even though consumers around them have changed products long ago. They do not respond to marketing messages and only look to other laggards for guidance.

It is essential to identify the group you intend to sell to, and organize your marketing plan accordingly. You can create the right marketing message to successfully reach the group you have identified.

Here is an example of some fictitious but realistic percentages for a market as a whole:

- Innovators 2.5% of the total market
- Early adopters 13.5%
- Early majority 34%
- Late majority 34%
- Laggards 16%

Economic Factors that Affect Purchasing Personal Savings

It is generally true that the more money an individual has in savings, the more income they have available for leisure items such as travel, entertainment and sporting goods. This can translate into a greater potential to purchase higher priced durable products such as cars, appliances and housing.

Personal Debt

Closely related to personal savings is personal debt, which includes personal loans, car loans, house loans and credit card balances. The further in debt, the less money is available to spend today. Heavier debt also limits the consumer's ability to borrow money for such items as cars and appliances.

Income Expectation

Another factor influencing savings and debt is the expectation people have about income, prices, inflation and product availability. If people expect prices to rise, they will purchase and store goods they feel are a necessity. Similarly, if they expect their income to rise, they are likely to go out and borrow and spend money based on that future expected income.

Taxation Rates

The decision of how much and when to spend money is affected by personal taxes. The higher the taxes (whether they are personal, business, or add-on taxes such as sales tax), the fewer dollars people have to spend on goods and services.

Savings, Debt, and Interest Rates

Savings and debt also affect the demographics of consumers. Young couples and those with families tend to have higher debt levels due to purchasing cars, housing and education. This group is affected more severely by an upswing in interest rates than the older family who has established itself, has less debt, and has the opportunity to build assets over a longer period of time.

Statistical Customer Profiles

Demographics describe all the public knowledge available about a group of people or companies. It includes age, sex, family size, race, religion, citizenship, and many other factors. You can find this information in the national census, local governmental agencies, and private research firms. For example, some excellent and inexpensive sources are your local Chamber of Commerce, the local newspaper, your state's Department of Commerce, and the local library.

For example, in the scuba diving industry, one of the major publications is Skin Diver Magazine. The media kit for the magazine states that the `average' subscriber fits the following profile:

Category	**Data**
Male	86.0%
Female	14.0%
Average Age	34.7 Years
Attended College	82.7%
Average Household Income	$48,000
Professional/Managerial	68.4%
Traveled Overseas In Last Three Years	60.6%
Average Amount Spent On Diving In Past 12 Months	$1,598
Average Investment In Equipment	$1,710

Although this "average" subscriber is not characteristic of all scuba divers, you now have a customer profile on which to base your business decisions. For example, you may want to vary the depth and breadth of your product line, alter your pricing objectives, set a particular promotional message, choose certain media channels, and open locations in close proximity.

Psychographics data includes information about lifestyles, motives and interests. In the previous example, the fact that a person is a scuba diver is, in itself, an example of psychographics since this information is valuable in revealing a lifestyle.

Using Your Market Analysis

In your market analysis, you examine different characteristics of your target market. Remember that those characteristics may change as the economic environment fluctuates. Right now, members of your target market may have money to burn. If the economy slumps, however, will they still have excess money? The more you know about your target market and the economic influences that impact them, the better you'll be able to react to changes in the economy.

While it's helpful for all businesses to know about the economic environment in which they're working, for some businesses, having this information is vital. Take for example, an imaginary company that sells toilet paper. While the state of the economy will have some impact on them, toilet paper is something consumers will continue to buy even during an economic downturn. They may look for a lower priced paper and the company may have to adjust prices slightly, but they'll keep buying it.

On the other hand, a small brewery that makes designer beer could be devastated by a slump in the economy. As consumers have less money to spend, they'll likely cut out luxury items. Hiring an economist or buying special forecast reports that outline economic trends could pay off in the long run.

Local Economy Specifics

Although your region or market often has the same economic environment as the entire nation, variation is also quite common. Say a large military base has just closed or is in the process of closing in your county. While the nation may be experiencing an economic boom, your area would probably be hit by a slump in spending as people lose jobs or move away altogether. There would be less money to be spend and fewer people to spend it. On the other hand, IBM may have just opened a factory in your city, creating new jobs and bringing in new residents. This may go along with a national trend, but it may also be an exception you should be prepared to exploit.

If you're using your business plan as a tool to convince a lender or investors to support your business, make sure that you find out if there are any regional economic trends that will affect your business. Point out why the economic climate in your area is ripe to accept your business. Are there a lot of yuppies who live in the area and are doing well because of low interest rates and high wages? Are they likely to shop at your new gourmet deli that specializes in precooked food? The region may not necessarily be doing well when you see an excellent opportunity. Just make sure you explain to the lender why you want to do business in an economically depressed region.

Analyzing Your Competition

***Two hikers were in the woods when suddenly a bear appeared.
One quickly took off his pack, pulled out his sneakers and put them on.
“You don’t think you can outrun that bear do you?” asked his companion.
"No,” he replied, “I just need to outrun you!”***

Deny that you have competitors and you’ll brand yourself as a fool. Since your business plan is predicated on the idea that your company is fulfilling a compelling market need, your plan needs to include information about how your customers are meeting this need now, without you. Any company that is fulfilling the same need you have targeted is, by definition, your competition. Your investor knows this and wants to know why he or she should fund you and not your competition, or avoid you altogether because your competitors now and/or in the future will eat your lunch. After all, up to this point, perhaps your plan would serve them just as well.

To analyze your competition, you have to see them through your customer’s eyes. Competition comes not only from companies in the same industry as you, but also from other sources interested in your customers' money. A swimming pool contractor not only competes with other swimming pool contractors, he also competes with a customer's interest in a vacation, a new car, a new roof, a tennis court, and all the other ways his customers could spend their money.

Your plan has to acknowledge both the obvious and less obvious competitors. I saw Scott Cook, CEO of Intuit, hold up a checkbook and a pen to illustrate his competition for Quicken personal accounting software. The market strategies you describe in your plan must show how you plan to propel your product not only ahead of others in your industry, but to the top of your customer’s priority list. Investors are impressed by companies who take a commanding lead in business.

It is important to know as much as you can about your competitors’ businesses. If possible, learn as much about them as you do about your own business. Here are some areas of comparison that may help you write your plan.

Another perspective on competition is that they provide a possible comp for comparing business valuation. They also demonstrate a viable market. You can also demonstrate demand for your product /service.

Comparing Products & Services

Compare your competitors’ products and/or services against your own. Use the same criteria you used when evaluating your own product: color, size, price, and so on.

Comparing the Effectiveness of their Organization

Compare your organizational structure and management styles. Can they make fast and accurate decisions? Do they respond quickly to changes you make? Is their business run by well-trained and competent people? Are they leaders or followers in the market? How are they funded? Do you consider them to be viable competitors in the future?

Comparing Track Records

If you have a track record, compare yours to your competition's. Customers often choose to purchase from a company who has a track record, that is, from a company who has been in business for a while. Is your competition well known in the industry (has name recognition)? An assessment of your stability compared to that of your competitors can be a real selling point to your customer and to your investor, especially if you're selling a product that requires future servicing.

Risk

The trouble is, if you don't risk anything, you risk even more.
~ Erica Jong

Each industry has its own set of unique business risks. For example, some industries have high capital needs, others have a seasonal business cycle, and still others depend on a limited group of customers and suppliers.

Investors hate risk and you must do as much as possible to eliminate all forms of risks in investing in your company. The first step is to understand all of the possibilities—this is no fun, especially when you want to focus on how big your business could become and all the people you can help and how you will save the World… investors are worried about losing their money first, making money second. If you need cash to get off the ground, then you must think in terms of protecting their investment as your highest priority.

There are two major types of risk that you should address in your plan: business & economic risk, and environmental risk. Your plan should show your investor that you are fully aware of, and prepared to meet, all that apply. Of course, research does not always turn up all possible risks, so you must also be sure to convince your investor that your business is flexible enough to deal with all but the worst disasters.

The best you can really hope to do is to identify as many potential risks as possible and suggest solutions to them before they occur. For example, one of the best strategies for alleviating risk is to diversify. That means to use multiple suppliers, sell multiple products, attempt to keep up with new technologies, and purchase insurance for those risks you can, like fire, theft, and illness.

Cost Structure

The first and perhaps the largest risk is the cost structure of the industry. This is directly related to the amount of fixed assets or capital required to operate your business. As discussed earlier, the amount of capital required is determined by the type of business you own and the structure of the market.

In general, the more capital your industry or business requires, the larger your fixed expenses will be. If you wanted to compete with General Motors, you would need tens of millions of dollars to open your business. You would need to purchase or build a large factory and buy an expensive amount of equipment to produce automobiles. You would have debt and rent payments that would be fixed whether you produced 100,000 cars or you produced five cars. The dollars you would lose each month when not producing and selling your Break-even volume break-even volume of cars could rapidly force you out of business.

The completely opposite example is the accountant who begins her own practice. She locates in a small office with minimum rent, leases a computer for $300 a month and her only other expense is her time. Her overhead, or fixed expenses, are minimal. Because fixed expenses are so low, the accountant is able to pay these expenses out of her own savings until she reaches the break-even point. The larger your fixed cost, the more you stand to lose prior to reaching break-even. Although there is nothing you can do to minimize this risk, it is important that you recognize that it exists and plan for it by having sufficient capital (equity or your personal savings) to allow you to pay those fixed costs until your business can reach break-even.

Competition & Industry Growth

Competition from the national brands or from present or new regionally-based companies poses a risk to your company. If the market for your product continues to grow, the major national companies will likely devote greater resources to this segment. Developing a niche in the market, competitive pricing and customer service will minimize this risk.

Product Liability

Product Liability Insurance is a necessary evil in today’s business environment. A large dam-age award against a company not adequately covered by insurance could adversely affect its financial position.

Mantra: Protect your investor’s money!

Profit Margin

Profit margin (the percentage of net profits to sales) versus the volume of sales is another type of risk. A good example of this risk would be to compare a grocery store to a jewelry store.

The grocery store sells its entire inventory every other day; however, net profit margin may be only 1%. The business makes its money through high sales volume. The grocery store owner can determine changes in customer demand quickly and adjust for those changes within a few days.

The jeweler, on the other hand, holds a piece of jewelry on average 90 days before she sells it. Because of the amount of profit she makes on each individual item, she only has to sell a few large items to equal the profit of the grocery store. However, risk lies in the jeweler's ability to detect changes in demand quickly and adjust her marketing strategies for these changes quickly.

The grocery owner can see a slowing in business within two days and adjust for it immediately. The jeweler will need 90 days to make those same adjustments. The only way to minimize the profit-volume risk for the jeweler is to have surplus cash to support operations until she can adjust her buying habits.

Seasonal Business

Is your business a seasonal one or are your sales steady throughout the year? If your business is highly seasonal, you risk having to estimate your inventory and cash needs as the season begins, matures and closes. Typically, in the retail clothing business, you need to order your fall inventory in June, your winter inventory in September and so on.

Your risk is twofold. You face the possibility of buying too much inventory and not being able to sell it or of buying too little inventory and selling out early. The second part of the risk is that customer attitudes change and the styles you ordered may not be popular.

The best way to minimize these risks is to plan ahead, gain as much expertise in your business as possible and be conservative. Planning ahead means dealing with as many suppliers as possible and negotiating the ability to get additional inventory quickly or return the inventory you can't sell. It is better to be short or run out of inventory and make a profit than to sell your surplus inventory at below cost and wipe out profits.

Complementary Industries

You also need to understand how your business depends on complementary industries. If you were a plumbing contractor or a hardware store owner, your business would prosper or starve depending on how the housing industry performs. When new homes are in demand, the housing industry grows and your business has the opportunity to succeed. However, as interest rates go up, tax laws change and new home demand declines, you face declining sales over which you have no control.

The best way to lessen your dependence on any one industry is to expand (diversify) your business. If you are the contractor, you can expand into home repairs. As the demand for new homes starts to decline, people need to repair their existing homes. You are now working in two industries, new home construction and home repair. This is called horizontal diversification.

Diversification can be further expanded by adding additional products or services and by entering new industries, such as yard sprinkler systems and swimming pools. Now, not only has the contractor added a whole new market segment for the same product, he or she has added new products and additional target market segments.

Substitution

Vulnerability to substitution is a risk that your business might face. You need to see your industry in the broadest possible way. By doing so, you should be able to foresee changes. Instead of being hurt, you can take advantage of them to further expand your business.

Suppliers

If you depend on any one or just a few suppliers, they can control your business. If they raise their prices, you can be trapped into paying those increased prices.

In a low inflationary economy, you might not be able to pass those price increases on to your customers. If your supplier decreases his trade terms from 60 days to 30 days, your cash flow will be hurt without your having any control.

If your supplier only has a limited inventory, his ability to meet your demands might be restricted. The best way to minimize supplier risk is to spread your purchases over a number of suppliers. The more you depend on a single supplier, the more risk your business faces.

Customers

Some of the same risks associated with a limited number of suppliers can apply to your customers as well. A good example is the lawn mower manufacturer whose only customer is a major retail chain. As the manufacturer faces rising costs of production, he attempts to pass those costs along to his customer. However, because the retail chain knows that it is responsible for 100% of the manufacturer's sales, the chain can refuse to pay the increased prices. The manufacturer is faced with no sales or sales at the old price and greatly reduced profits.

The best strategy is to have as many credit-worthy customers as possible. Although it is advantageous to have guaranteed sales and know you will be paid for them, it is not a favor-able trade-off to lose control of your pricing to your customer.

Personnel & Management

Success of the company is dependent upon its ability to attract and retain qualified people. Certainly in the initial stage, success also depends on the continued service of the founder and President, as well as other key executives. While continued employment of these people cannot be guaranteed, various incentives (including contracts) can be used to encourage their continued participation and minimize the risk of their departure. We even go as far as suggesting key-person insurance on you and your management team naming the investors as beneficiaries, in the unlikely event that something happens to you. Mantra: Protect your investor’s money!

Economic Risk

Adverse changes in prevailing economic conditions can have a negative impact on the company’s projected business. An economical downturn or revised tax laws are examples of risks that can affect a wide range of companies. In a recession, consumers decrease their expenditures and retailers are less inclined to make capital investments.

Economic risks such as inflation, recession and rising interest rates impact the company’s bottom line because they affect your customers. You can’t alter these risks, but you can decrease the effects they’ll have on your company by understanding the impact of each, and being prepared to act accordingly.

For example, just knowing the economy is inflationary is not necessarily enough. You need to figure out what impact this environment is likely to have on your customers. If your business is selling washing machines, your customers may decide that since prices are going up, they better purchase this large appliance now, before the price goes even higher, or they may decide that the price is already too high and they’ll have to wait.

Rising interest rates would likely have one major affect on the marketplace: consumers would make fewer large purchases. Because higher interest rates make borrowing money more expensive, consumers would probably not be inclined to borrow money. On the other hand, seeing a decline in interest rates could mark a pickup in business as consumers become more comfortable borrowing money.

A recession is not necessarily bad for everyone. A business that caters to lower income or more price conscious consumers will probably see a rise in sales if the economy enters a recession. Some customers who were able to buy more expensive or name brands before will probably switch to less expensive options during a recession. All the company has to do is try to draw those consumers who need to spend less because of the recession to their product and away from the competitors.

Some economic indicators you should watch, on a local and/or national level:

- Interest rates
- Unemployment figures
- Rate of Inflation
- Housing figures
- Building vacancy rates
- Retail sales figures

Weather

The weather can be a substantial risk to your business. You need to assess how changes in climate such as temperature and rainfall will affect your business. Included in this category is the potential for catastrophes such as fire, floods or drought. The best ways to avert these risks are good planning, good management and proper business insurance coverage.

Legal & Government

Almost without warning, a local ordinance can invalidate your business license, restrict your business operations by zoning laws or condemn your property in the public interest.

As with the legal risk, the business may be dependent on government regulations or con-tracts that affect your product. Staying abreast of legal issues facing your industry through industry publications will warn you of any significant changes.

Following are some of the common types of risk your business may face.

Business & Economic Risk Categories

- Cost structure of your industry, for example, how you would compete with a larger company such as General Motors Corporation. This is possibly the most significant risk you can face.
- Global or regional economic upturns or downturns
- Competition and industry growth, such as a larger company moving in on your business.
- Product liability which must be handled by insurance.
- Profit margin which compares and contrasts volume versus unit price.
- Seasonal business which means you have a surge or a deficit of sales at certain times of the year.
- Complementary industries whose success you depend on.
- Substitution where your customers may decide to buy a similar or substitute product.
- Suppliers on whom you depend.
- Customers upon whom you depend.
- Personnel, management and your ability to attract talent.

Environmental Risk Categories

- Weather and other natural disasters or impediments
- Legal and governmental regulation changes that can affect your ability to conduct business

Market Analysis Checklist

- Have you conducted an industry analysis?
- Have you conducted an analysis of the market within your company's industry?
- Have you identified the strengths and weaknesses of your competitor's product?
- Have you determined how you can turn your competitor's weaknesses into your company's strengths?
- Have you developed a customer profile?
- Have you analyzed your competitor's business and product?
- Have you researched the business risks to your company?

Products & Services

Some men see things as they are and ask, "Why?"
I dream things that never were and ask, "Why not?"
~ George Bernard Shaw

The Product and Services section of your plan describes what you sell to make money. The amount of detail you provide in this section depends on how many products and/or services you offer and on their new or revolutionary nature.

Bear in mind that investors are exposed to dozens or hundreds of product and service ideas each year. They are unimpressed until they see a good idea with an excellent plan of execution. So the focus of your Products and Services section should be on both your product concepts and how the products will be completed and delivered.

A word of caution: The products and services you offer must be a natural outgrowth of the business you are in, of your business strategy as stated in the Company Direction section, and of the market need you've identified. If you cannot resolve those things to the satisfaction of your investor, you may not receive funding or, worse, could fail as a business. Even though this handbook emphasizes discrete sections of the business plan, don't forget that your plan is really the product of your entire planning process and must reflect that coordination.

Components of the Products & Services Section

The Products and Services section of your business plan focuses on the tangible items and specific services you have for sale. Therefore it is of great interest to your investor. You need to give them a clear idea of what your product or service comprises, why you think you are justified in offering it, and that you have the ability to make and deliver it.

The products and services section of your business plan covers these topics, typically in this order:

- Introduction and current status
- New or complex products and services description (optional)
- Value Proposition
- ROI
- Intellectual Property
- Product Priority Criteria
- Research and development
- Product Life Cycles
- Production, Delivery, and Service

Introducing Products/Services and their current status

The first thing you should write is a short introduction to your products and services. Name them, categorize them if necessary, tell your reader what market they serve, and explain what stage of development they are in. That is, tell your reader if your products and services already exist, or if you have a prototype, or anything else that lets your reader know the cur-rent status of each product, product line, or service.

There are several ways to effectively introduce and provide status for products and services. Here are some techniques and issues to consider while writing this introduction section:

- Physical and logical descriptions
- Features and benefits of products
- Market and market need
- Customers, competition and price
- Product life cycles

If you have a mix of existing products and services and planned products and services, you may want to discuss the status of first one group, then the other. Cover each in equal detail. Most investors are particularly interested in what you foresee. As a matter of fact, some investors can actually aid you. They can provide ideas, management assistance, and important contacts, if they see promise in your business plan.

Using Physical or Logical Descriptions

A good way to help someone visualize your product is to describe it physically or logically. A physical description includes its size, color, material, and other physical attributes. Comparisons work well here. For example, if your product is 14 inches high by 12 inches wide, by 8 inches deep, you can cite those dimensions, but it might be easier to imagine if you say its “about the size of a bread box.” If you have pictures, brochures, advertising or anything that can help your reader visualize your product or idea, include them in the Supporting Documents section.

For planned products or non-tangible services, you can use a logical or conceptual description. For example, you might say your baseball camp will include seven days of hands-on training from former professional baseball players, game simulations, film work with visualizations, and first class baseball facilities, to help participants hit like major leaguers. Another example might be that your software will incorporate state of the art techniques a, b and c to help cut tax preparation time in half.

Charts and graphs supporting these descriptions can go right in this section or, if long, into the Supporting Documents section.

Features & Benefits—Your Value Proposition

A good way to help your reader understand the impact that your product has or will have on the marketplace is by explaining it in terms of the features and benefits it offers. Explain what makes your product or service special and unique. Highlight any new, distinct, or improved features and benefits. Compare it to similar products or services if that helps.

Aim for describing benefits over features. A feature really means nothing unless it provides a real benefit to your customer. List your value proposition as benefits from the point of view of your customer.

Another good way to discuss benefits is in terms of the customer’s Return on Investment. This shows why your product or service is valuable to them. Typical returns include time saved, or effort lessened, or quality improved, or how long it will be before they make back the price of the product or service.

The importance of customer ROI is that is has a direct relationship to customer satisfaction. Satisfied customers are loyal customers. If you are emphasizing this aspect in your plan, go into some detail about this topic.

Return on Investment for YOU and your Investors

Return on investment is something investors care a lot about. They use it to evaluate which is the best use of their money.

A traditional and straightforward way to represent ROI is to take the net profit (after taxes) generated by your product and divide it by the total amount invested in development and marketing. In short, ROI = Profit/ Investment. It is generally presented as a percentage of change over time.

Intellectual Property

One of the most valuable assets a company can have is its intellectual property. Intellectual property includes proprietary technology usually associated with new or unique products. Intellectual property can be legally protected when you register it with the US Department of Commerce's Patent or Trademark Offices. When you register your patents, copyrights, trademarks, and trade secrets, you have recourse in a court of law for any infringement of your idea.

When you are presenting a business plan to an investor or to anyone evaluating the worth of your company, they will look closely at your intellectual property rights. You need to constantly watch over these rights to keep your legal status current and to maintain a thorough inventory.

Product Priority Criteria

As your company grows, selecting your new products or services becomes a bigger gamble. When you had an idea, you put it together, and then tested it to see if it sold. With the marketplace becoming more demanding, competition becoming fiercer, and development and marketing costs soaring, present and future product cycle times generally require more thorough evaluation before selecting new items to develop.

More ideas and concepts are being created now than ever before. If your company has put together its vision, mission, goals and objectives you will have a big head start on the product selection process. With these planning tools in place, certain concepts will fit more readily than others, and your company focus is easier to maintain.

Writing a Product Priority Criteria for your company may prove to be one of your wisest investments of time and effort for your management group. First of all it can pay off in wisely selected, profit-rich products or services for development. It can also save your company both financial losses and considerable grief by facilitating the wise discarding of losing product concepts that may burden your company.

Explaining Your Product Priority Criteria

Your investor wants to know how you decided that the products you are discussing in your plan are the best possible choice for your business and your market. If you are developing several products and services, *they* also want to know why you are choosing to develop them in a particular order. The standards and methods you use to make these decisions are called your Product Priority Criteria. A cohesive company show in its business plan how its selection of new products or services is aligned with its stated vision, goals and objectives.

Including Product Priority Criteria in your plan gives your reader a true and concise idea of how your business makes it key product decisions. It is also one of the wisest investments of time and effort you can make, paying off in investor confidence as well as coordinated management. The fact that you have a strategy reassures your investor that you have a sound basis for creating profit-rich products and services. It also shows that you can save your company both financial losses and considerable grief by wisely discarding losing product concepts that could burden your company.

When putting together your company's Product Priority Criteria, consider these issues:

- Does your product provide an existing perceived value to the market?
- What would an equivalent product cost, if made elsewhere or by other means?
- Are you regularly improving your products to maintain their competitive position, market value, and price point?
- Are you capable of producing improvements in the product, as customer needs and the industry environment change?
- What is the financial benefit to your company from this product or service? Does it have relatively low investment requirements and a positive ROI?
- Does the product or service fit with your present company strategy? Is the product feasible to develop and produce?
- Are there relatively low risks and time requirements before seeing the intended results?

The length of this part of the plan varies according to the number of products and their complexity. It may be very short and to the point, or it may cover a wide range of product questions as they relate to the various departments in your company.

By including a Product Priority Criteria in your business plan, you show that you clearly recognize what your company can produce and that you understand that product focus and execution will carry your company to the profit levels envisioned.

A product must be regularly improved to maintain its competitive position, market value and price point. Your capabilities to produce improvements in the product must change along with customer needs and the industry environment.

The factors that should be covered in your selection criteria include financial benefit to company, relatively low investment requirements, positive ROI, fit with present strategy, feasibility to develop and produce, relatively low risk and the time required to see intended results.

Your finished Product Priority Criteria may be very short and to the point. Or it may cover a wide range of product questions as they relate to the various departments in your company. By including a Product Priority Criteria in your business plan, you show that you recognize what your company can produce. You understand that product focus and execution will carry your company to the profit levels that are envisioned.

Markets & Market Needs

Provide a paragraph or so to remind your reader what market your products or services will serve. You should include a brief description of your market and/or segment and explain what need your products and services meet. Refer your reader to the Market Analysis section for more detail.

Customers, Competition and Price

Provide a paragraph or two on who you think is going to buy the products and services you sell. Remind the reader who makes up your customer base and how they are currently solving the need you've identified. Sum up the key points about your competition, how you will position your offerings relative to the competition, and why your products and services are better. If price is a competitive issue, you will want to explain your pricing strategy.

Refer your reader to the Market Analysis and Market Planning sections of your business plan for more detail.

Product Life Cycles

One universally recognized way to describe the current status of your products, and some services, is to explain it in terms of product life cycle. There are four cycles or stages that most products go through. They are:

- Introduction—where the new product is first marketed and made available for sale.
- Growth—where product sales and marketing expand.
- Maturity—when products generate steady, predictable revenues.
- Phase out—where sales decline as the product reaches the end of its useful life.

Introduction

During the introduction stage, a product or service is first introduced to the customer. This can either be within a new industry or a new product within an existing industry. You are trying to gain recognition for this new product or service. The risk you face is that no one will want it and your business will fail.

Growth

In the growth stage, your sales are expanding and you are trying to establish brand loyalty. This is the most risky stage in the cycle. You gain greater customer acceptance, but you also encounter new competition.

Maturity

In this stage, only a few strong companies dominate the market so entry is often difficult because customers have already developed brand loyalty. To be successful in this stage, your product or service has to have some unique twist to gain market share.

Decline

The final stage of the product life cycle is the declining stage. It is characterized by decreasing sales and a decreasing number of companies existing in the market. Typically a company in this stage is liquidating inventory or other assets in an attempt to raise additional cash. Eventually, the company must either go out of business or the product has to be withdrawn from the market.

In general, product life cycles in recent years have shortened as companies create new products faster and consumers become aware of them sooner. Therefore, your investor wants to know that you are able to remain competitive by balancing your products and services, so that you always have enough in the profitable stages.

You don’t necessarily need to explain in detail how you are going to handle each issue of a product’s life cycle. That detail is in an internal document meant to guide your daily operations. You do, however, need to convince your reader that you’ve thought it through and are well prepared.

Include general information on how you plan to manage each product's life cycle, because each stage poses both opportunity and risk. For example, if you are phasing out an old product and bringing in a new one to replace it, you may want to explain how you plan to lower inventory, change your sales and marketing strategy, retool, or do whatever it takes to minimize any loss of sales during the transition.

Be sure to include how long you expect each cycle to last. For example, technology companies are statistically faced with shorter and shorter cycles, while older more traditional businesses may not be. But remember, the companies who identify market needs precisely, and act rapidly to fill them with high-caliber products, survive and prosper.

If life cycles are an issue for your business, you may want to point out to your reader that timing is a major business factor. This may help justify your funding schedule and also motivate your reader to act.

Investors tend to move at their own speed. When you are selecting investors, choose one who can move at the pace you require.

Describing New or Complex Products & Services

A complex or ground-breaking product or service may need additional explanation. If that is the case, then after introducing your products and services, provide as much detail you think is necessary. Your reader needs to understand what you are selling. For example, a simple business, such as a restaurant, may not need nearly the detail of a manufacturing plant. Similarly, a product or service that does not yet exist, or is based on new technology, probably needs more explanation.

If your product or service relies on some new or proprietary technology, discuss that. Educate your reader to the extent you feel it supports their understanding of why your business will be successful.

If your company has or will seek patents, copyrights, or trademarks, or owns proprietary technology, mention it. These things are also known as Intellectual Property. This is very important to your investor because often a large part of your company's worth is in its intellectual property.

Research & Development

This part of your Products and Services section is devoted to explaining several things to your readers:

- Research and Development (R&D) plans and costs
- Product priority criteria
- Product testing plans

Even if your company has no internally developed products, you still may want to read this part of the chapter. For example, if you are a Value Added Reseller (VAR) and simply bundle other companies' products together, you still have development work to do, like assembly and testing.

Companies who only offer services may also benefit from the points raised here. For example, a restaurant may need to develop and test new recipes. Any issues that you can show you've considered and dealt with reasonably can only strengthen your plan.

Discussing R&D Issues

R&D specifically refers to product or service research and development, not the research required to evaluate a product's market, its positioning, or its pricing. Those points belong in the Marketing and Financial sections. Here, you want to identify the research and development efforts that need funding, and why they keep you competitive. You can, and should, include any figures or data to support your conclusions.

Your R&D section should include the development steps involved, why you need to do them, how long they are expected to take, and what each costs. Here are some questions you should consider when writing this part:

- Do you have a plan for a new product or new technology?
- Have you established milestones to track your product development?
- Have you listed your accomplishments, for example, any prototypes, lab testing results, or the like?
- Have you determined all the true costs of your product development efforts? Have you categorized them in your budget? For example, are the costs for research, for testing, and for certification listed?
- What is your competition spending on R&D?

Discussing Product Testing Requirements

If your product requires a high degree of reliability, discuss requirements for testing it. For a car manufacturer, this might mean listing the safety tests to be conducted. For a cosmetic firm, this might mean listing the various allergy tests to be performed. For a computer company, it might mean listing plans for UL testing and which equipment classification must be passed before doing business in a certain marketplace. Some overseas markets have different testing requirements than the U.S.

If you have raised quality as an issue in your plan, your reader expects to see testing covered as an integral activity of all key phases of your development process.

Manufacturability, Production & Delivery

This part of the plan needs to convince your investor that you can actually make the product you've planned, and can get it to market.

Producing your Product or Service

Regardless of how wonderful your idea and how needed it is in the market, if you can't make it, you can't sell it. The ability to reliably produce quality products in quantity is called manufacturability. This part of the plan needs to explain how you know you are going to be able to do it, particularly if your product is complex to produce. Your investor wants to know that you have considered all the factors and costs required. Include how you determined your requirements for equipment, material and labor, as well as their price and availability. Should you contract with a firm that will produce inexpensively for you In China or can you do it better in small-town USA? (We think you may be surprise with small-town USA!)

You need to determine the full capacity of your present facility and how your new product plans will translate into manufacturing schedules. Discuss the capacity of your present facility and how your product plans affect manufacturing schedules or affect the way production is currently done. You must demonstrate to your reader that you've done your homework and that your production capabilities will not be overrun by your proposed products.

Determine your equipment, material and labor requirements, as well as their price and availability can be critical factors in the production process. Other considerations include alternate sources/materials, inventory requirements, and care and handling of hazardous materials.

If your business has any environmental considerations, include them. Explain what the risks or regulations are, and how you plan to handle them. For example, explain how your plant cares for and handles hazardous materials.

Costs

To determine the cost of your product, it is important to quantify your business costs in terms of production rates, capacity constraints, or required quality assurance and safety programs. Include quantity discounts, if applicable.

In evaluating the cost of the same product from other companies, you should determine why and how your costs are more competitive. This information will be important to the banker or investor who is looking at the return on investment. If subcontract or assembly work is required, list parts, vendors, lead time, costs, etc. Include information on how the future product cost will rise.

Packing, Shipping and Delivering the Product or Service

After you demonstrate you can efficiently produce your product, you want to demonstrate that you can get it to market. Discuss your method of shipping and its terms, and why you selected them. In addition, tell your reader what sort of packaging is required to ensure a safe arrival.

While distribution channels are a subject covered in the Marketing Plan section, you may include basic distribution information here if it helps. For example, if its is important for your reader to know that you are shipping to a warehouse as opposed to a customer, then you might want to mention it.

Even service-only businesses *may* want to include information on delivery. For example, a telephone sales organization might want to discuss their phone service, or a computer training company may want to explain whether they go to the customer or the other way around, whether they rent or own the training hall, or if meals are served.

Maintaining and Servicing Products

This part of the plan covers how you plan to handle product maintenance and warranty and non-warranty servicing and support. Discuss the scope of expected maintenance and service issues and what plans you have in place. For example, if you out-source service or fulfillment, mention it and its cost effectiveness. Emphasize the relationship between customer service and a well-executed service plan. You want to show your investor that you are actively positioned to keep your customers loyal.

Product & Service Strategy Checklist

- If applicable, is your product or product name registered with the U.S. Department of Commerce's Patent or Trademark Offices?
- Do the features and benefits of your product address your customer's needs and wants?
- Does your business plan reflect your company's awareness of the product's life cycle?
- Does your business plan describe how your company will react to competition, change in market, etc.?
- Does your company have resources allocated to Research and Development?
- Are you referring to your company's stated vision, mission, goals and objectives when selecting new products?
- Are you researching how your product can be regularly improved in order to maintain its competitive position, market value and price point?
- Do you communicate in your business plan both your planned concepts and how the products will be completed and delivered?
- Have you indicated how your product will be produced and delivered?
- Do you know the total cost of developing your product?
- Have you considered all of the site selection factors when considering the location of your product's production facility?
- Have you determined the qualifications for the people you need to hire?
- Do you know how you will train your staff?
- What type of packaging does your product need?
- How can you customers reach you if they have comments or problems with your product?

Marketing Plan

Man's mind stretched to a new idea
never goes back to its original dimensions.
~ Oliver Wendell Holmes

The purpose of the Marketing Plan section is to set forth your strategies for achieving the sales figures you are projecting. A well-written strategy section can persuade your potential investor that you can reach those goals through price, positioning, sales techniques and channels, promotional messages and advertising, and public relations.

Recall that the Market Analysis section presents data about your market, segment, customers, their motivations, and your competition. This section concentrates on how you use that data to capitalize on those opportunities, strengths, and weaknesses through your marketing strategies and activities. This section covers:

- Marketing Strategy
- Pricing Strategies
- Sales Strategies
- Advertising & Promotions
- Distribution Channels
- Crafts Businesses
- Direct Marketing
- Tradeshows
- Public Relations (PR)

Marketing Strategy

Strategy of any sort is the science of planning and directing large-scale operations. It means maneuvering forces into the most advantageous position prior to taking action. That is your goal. This section shows your investor that you have specifically defined your marketing and sales activities in an effective way.

➢ *NOTE: Remember that the identification and definition of your industry, market, market segment, and competition are part of the Market Analysis section. Here, you build on that information.*

With your fundamental industry firmly in mind, you are ready to lay out a marketing plan explaining how you intend to make your targeted market aware of what services or products you offer and how they can obtain them.

Components of the Marketing Plan

Here are the typical components of a Marketing Plan section in their typical order of presentation:

- Overall strategy, which summarizes what industry and markets you serve, and contains a short synopsis of your fundamental strategic thinking.
- Sales strategy, which includes positioning, pricing, and selling basis.

- Distribution channels, which determine how you intend to offer your products to your customers. This is different from the delivery process.
- Advertising and promotions, which describes how you plan to induce people to buy your products and services.
- Public relations, which explains how you plan to present and control your public, image.

Defining Your Overall Strategy

The beginning of your Marketing Plan should review the highlights of your business opportunity, such as markets and segments served, from your Market Analysis. What are you selling and to whom? What need are you meeting, and why do you think that? This review portion does not need to be long. Refer the reader to any data contained in your Market Analysis if necessary.

The new point you want to make is to introduce your overall strategy for reaching your market and its predicted results. For example, you may want to enter a new market, to improve the quality of your product, to raise the level of customer service, or perhaps to lower the price to remain competitive. The results of your strategy might be greater sales, more loyal customers, repositioning of a product as it changes life cycles, greater name recognition, and more.

Your strategy needs to be well within your capabilities as a business and in line with your company direction and financial picture, as well as with your market need analysis. That is, your strategy must be logical and believable. For example, you may have a great product idea and determined that the market needs it. Perhaps you want to increase the size of cheese slices so that they entirely cover a slice of bread or hamburger bun. You really would not have much of a chance to succeed unless you were a large food manufacturing company like Kraft, who is already dominant in the cheese business. If you started a business based on this idea, Kraft or another competitor could simply do the same thing and you'd be out of business rather quickly. No investor would believe in such a plan and, through honest analysis, neither would you.

Sales Strategies

The next part of your Marketing Plan is your sales strategies. They help you realize your overall market strategy. The components of a sales strategy include:

- How you position your company, and its products and services, in the marketplace
- How you set your prices
- What sales techniques you've adopted

Positioning Your Company and Your Product or Service

The way the market thinks about you and your products or services *relative to your competition* is called your positioning. You control or influence this perception by not only the look and feel of your products and services, but by which products and services you offer and do not offer. (We turned down a resume software product because we felt that the message conveyed was, "if BizPlanBuilder doesn't work, you can always go get another job… not a good message to send to entrepreneurs seeking to build a lasting and profitable business!) Right now, you want to tell your reader how you currently are perceived, or how you intend to be perceived, as viewed by the market.

(The best book on this subject—and one we recommend, if it was the only marketing book you ever read—is "**Positioning - The Battle for Your Mind**" by Al Ries & Jack Trout.)

Notice that there are two related components to positioning; how the market views your company and how it views your products and services. For example, maybe your company sells internationally and you want to be seen as a worldwide global supplier, or maybe your company has a Hollywood connection and seems more glamorous than the competition. Perhaps your product is more useful, or saves more time, or is the Breakfast of Champions and not just "Frosty Ohs." This concept is often called your selling basis or unique selling proposition.

Lay some groundwork about your image. Tell your reader clearly what image or images you want to project. You want to provide insight into the fit between your products and services and your customers' needs. You can do this by highlighting the image aspects of the data in your Market Analysis.

A good way to present positioning data is by comparison. For example, show how your company and product image stack up next to those of your competitors, then underscore the differences. Since effective positioning requires an understanding of your customer and competition, this sort of comparison visually emphasizes and clarifies your position.

To help show who you want to influence with this image, review the various statistical attributes from the Market Analysis section. You can summarize the supporting demographics and psychographics or other survey data that show how you classify your various customers (businesses or individuals). Refer to your Market Analysis and remind your reader who your buy-decision-makers are and what emotions motivate them. Explain how you intend to maintain or obtain this image perception and why this is the best course to take.

Many of the same positioning techniques apply to both products and companies. Tell your readers which techniques you are using and why you selected them. For products, one technique is to create a brand name and identity that evokes the key emotions you want to tap. Similarly, companies create logos and identities that buyers associate with a product's identity. Obviously, these two identities cannot be at odds.

Here is an example of how many components of your business plan tie in to your Marketing Plan. Suppose your market analysis shows that your customers are price-sensitive. Therefore, you develop a product that is just as good as your competition, but cheaper (described in your Product and Services section). You want to explain whatever Market Analysis data that shows how your market feels about price, who they are, how big that market is, and how your competition is reaching (or not reaching) those customers. So, based on all previous plan data, in this Marketing Plan section, you can logically position your company as the price leader and your product as a solid value.

This sort of thinking also applies to repositioning a product in response to a changing market or a changing competitive horizon. Repositioning is another type of marketing strategy that could appear here.

Selling to Everyone

Selling to everyone is the broadest strategy. Here you do not define a specific market. Rather, you attempt to sell to everyone across the board. Although this sounds good and should result in the greatest sales, it is usually unrealistic. Because each group of consumers perceives their wants and needs differently, each one needs to be solicited with a specific message that makes this group feel that it applies to them or they may not purchase your product. If a message is too general and vague, a broad range of consumers may see it, but no one group will remember and act on it.

Niche Marketing

Better to establish a 'beach-head' with a certain market segment or group of customers. Even if your product appeals to a wide audience, can you make a niche-specific version so the people in that niche perceive that your product is designed especially for them? You can sell more to fewer people, but when you go after the next niche, you will be able to point to a satisfied group of current customers.

Differentiated Marketing

When selling to segmented markets, you are using differentiated marketing. Here, you are attempting to modify your product and marketing efforts so as to solicit two or more segments simultaneously. Based on your demographics, you can determine what groups comprise your market and tailor your message to them on that basis, such as age, sex, income, geographic location, and so forth.

An excellent example of this is the Levi's 501 promotions. By using various ethnic groups, younger age groups and both sexes in its commercials, Levi's solicits several specific markets individually, but all in the same advertisement.

Concentrated Marketing

The most limited segmentation strategy is called concentrated marketing. This is the selection of one, or only a few closely related target segments. For example, BMW targets young, upwardly mobile professionals in its TV commercials, which stress appearance, performance, and prestige.

Personal Selling

Personal selling is defined as a person-to-person sales presentation. It allows two-way communication between your representative and your potential customer. Although personal selling generally results in more sales directly related to the promotional efforts, it is a very expensive form of promotion. Another disadvantage is that it can limit the size of your potential target market segment.

Some types of direct selling include the canned presentation where a sales representative recites a memorized sales pitch to the customer. Although this allows you more control over what message the customer receives, it does not allow for an open channel of communication such as the "feature versus benefit" approach, and often discourages potential customers.

In feature versus benefit selling, your representative spends time asking the customer what his specific wants and needs are. He or she then attempts to show the customer how your business can satisfy those wants and needs better than any other competitor. This type of sales approach usually leaves the customer feeling satisfied with his decision. If there are any misunderstandings or reservations, your salesman can handle them before closing the sale. Feature versus benefit direct selling is also an excellent opportunity for you to gain valuable insight into the wants and needs of your target market, to track changes in customer demand and to collect good feedback on performance.

Deciding which type of sales approach to choose determines what type of sales force you must hire. These decisions very closely follow your decision about distribution. You have the choice of hiring a captive direct sales force or using independent sales representative who represent your company as well as other companies. If you choose independent representatives, your expenses will be lower, but you have less control over the representation of your company and products. If he or she is unprofessional or chooses to emphasize another product that will earn him a higher income, the sales and reputation of your business could suffer. With a captive direct sales force, you have increased expenses for employee salaries and benefits, such as Social Security, pensions, and medical insurance. Your choice of compensation includes salary, commission or some combination.

Personal selling is targeted directly at the final consumer, whereas advertising, publicity and public relations are aimed at a mass or large target audience.

Pricing Strategies

As might be expected, price is one of the most effective marketing tools you have to promote your business—and affects how well your products and services sell. Price conveys image, affects demand, and can help target your market segment. The price you decide to charge is not only vital to your marketing efforts, it also determines whether your business will survive.

In this part of the Marketing Plan, describe how you arrived at the prices you've set. This method is called your pricing strategy.

When considering what price to charge for your product or service, realize that price should not be based on production plus some profit. Rather, price should be based only on the value of your product or service to the customer! If that price doesn't generate the necessary profits, then changes must be made or the product line discontinued. Two things you need to consider before choosing your approach to pricing are production costs and price elasticity.

Here are some common ways to state pricing strategies:

- Profit Margin Pricing, where you set prices that help you reach certain profit margin goals.
- Mark-Up Pricing, where variable and fixed costs are estimated and a standard mark-up is added. The mark-up is usually either a percentage of sales or costs.
- Floor Pricing, where you charge a price that just covers costs. Usually used to maintain a presence in the market given the competition.
- Value-Based Pricing, where you set different prices for different market segments based on the value each segment gains from the product or service.
- Market Share Pricing, where you set prices that help you obtain a certain target market share.
- Status Quo Pricing, where you match your competitor's price to maintain your current market position.
- Discounting, a strategy that lets you quantify the level of discount based on certain factors such as single orders, volume orders, or cumulative quantity orders.
- Trade-in Allowances, which allows you to lower the customer's price without affecting the list price.
- Coupons help you reach customers with the same products and services but different prices. For example, some shoppers won't patronize a store that does not offer discount coupons. More upscale shoppers may not care.
- Sales Terms & Credit, which can remove an objection to a sale, turn additional profit, and offer discounts based on prompt payment.

Pricing Your Products & Services

A wealthy and respected man once said that he looked around at what his competitors were charging and *charged a little more*. The point is that you should not be too quick to discount or to go for the low-price leader position. Low-price leaders are often incredibly efficient, massive marketers (i.e., WalMart). There will always be someone who can sell cheaper that you can, so you are likely better off determining (and building) the value you bring to your customers.

Despite what many people may think, there are no standard formulas for setting prices. Usually you begin by calculating a price range based on your costs. However, your goal must be to charge enough to cover taxes and profit and to meet other cash flow issues addressed in the Financial section of the plan.

The first thing you want to do in your pricing section is explain your pricing strategy. Begin by listing those things you feel are the first and foremost determiners of price. Common determiners include the price being charged by the competition, your costs, customary prices, any perceived luxury premium, or the prices of similarly featured products and services.

To the extent that your pricing is tied to your manufacturing costs, you probably want to summarize and refer to the Break-Even Analysis section of your Financial Plan to show your investor where these figures come from.

Explain how your pricing affects your margin structure. Who else, if anyone, gets a piece of your profit pie? Briefly inform your investor what type of distribution channel you use and how you compensate them. For example, if you use manufacturer's representatives, what is their commission structure? If you offer discounts or credit terms, what types do you offer? Details about distribution channels appear later in this section of the plan. Here you just list them.

Always include any research or test data you have to support your conclusions. If this data is extensive, include it in your Supporting Documents. Both you and your investor will feel more confident if the actual data is available.

Price Elasticity

Price elasticity refers to how demand fluctuates as prices change. Demand is usually either elastic or inelastic. Elastic demand means that as you change your price, demand for your goods will fluctuate. For example, if you lower the price of your watch by $20, more watches will be sold, and if you raise the price, fewer watches will be sold. Inelastic demand means that demand stays relatively stable even as prices change.

Demand for luxury items or specialty products tends to be more elastic than demand for staples, like soap, flour, sugar or light bulbs. Consumers consider some items to be essential to daily life and buy them even if the price doubles. While demand for flour may be inelastic, that includes all flour brands, so if you're the only one to raise your price, consumers will just switch brands. If all flour manufacturers raise their prices, then demand should remain relatively stable in spite of a price increase.

Pricing should follow directly from the company's overall goals and objectives. Every marketing strategy will have its own related pricing strategy. Ask yourself the following questions to better understand how you approach pricing.

- How do we set prices? Is there a policy?
- Is the pricing competitive?
- Is there perceived value inherent in higher prices?
- Are prices based on costs—standard markup?
- Why are they higher or lower than those of competitors?
- How elastic is the market for these products? How does consumer positioning affect elasticity?

Positioning Through Pricing

As was just discussed, positioning is how customers perceive your product relative to others. Price is one of the most effective ways of setting your product apart. First you need to decide how you want to position your product or service. Do you want to be known as the low price leader? Or do you want people to think you're more expensive, but worth it?

Wanting to be the low price leader is not enough. You must be able to afford to do it! Carefully think about how you want your customers to think of your product relative to others, and then figure out if the pricing strategies you decide to use fit.

Charging a Premium

One pricing strategy that can be used in a product's introduction stage is charging a premium or skimming the cream. You can use this strategy if there is little or no competition because consumers won't have a lower price to turn to. As competition grows, you'll probably have to lower your price to remain competitive.

Don't go overboard with this strategy. Be sure your product delivers what you promise because otherwise your short term gains from a higher price may turn into long term losses; customers may become dissatisfied with your product and switch brands.

Matching the Competition

Using the competition’s price as a benchmark is a common tactic in pricing. In a mature market, you probably have no choice but to react to the competition’s prices. If you are entering a mature market, make sure you can compete at the status quo price. If the price you have to charge still makes you money, go ahead. If it doesn’t, you should seriously consider why you want to enter this market.

Undercutting the Leader

If you want to gain more market share or penetrate the market, undercutting the leader may be the strategy for you. Before you employ this strategy, make sure that you can still afford to run your business even if you’re charging a lower price.

Try to anticipate what will happen if you use this strategy. Will the competition immediately retaliate and match your price, in which case you’re both earning less, or does the competition have certain constraints making such a move impossible? Airlines often try to undercut the fares offered by their competitors. While competitors often turn around and match those prices, there is usually a lag time in which the first price slasher gets more business.

Some companies try to undercut the leader for a limited amount of time, even if they lose some money because they believe the market share they’ll gain will more than make up for any losses. For example, Company A decides to undercut Company B’s price. They both make fax paper of equal quality. If Company A lowers its price for long enough, consumers will probably switch to their brand. As the price slowly approaches Company B’s level, customers will stick to what they know and Company A has gained market share.

The danger in this approach is that consumers may perceive that they’re buying a lower quality product if it’s cheaper, so when the price goes up, they switch. Or, in a worse case scenario, they just don’t switch and you end up losing money.

Leader Pricing

One way to attract customers to your store, service or product is to use a technique called leader pricing. By advertising your lowest priced items, you catch people’s attention, enticing them to come by or call to get more information. If they actually arrive at your store, they’ll probably look around and may buy a higher priced item instead. Or if they call your 800 number, a sales representative can tell them about other, more expensive and better options.

Offering a low-priced, limited service gives you the chance to pitch your other, more extensive services. If you decide to try this technique, be sure you have the advertised items in your store or in stock because it’s illegal to advertise a low price just to attract customers and then not be able to offer it.

Pricing for Image

Customers often see price as a sign of quality - the more you charge, the better the quality. A certain image and cache also goes with designer brands. Customers will often pay consider-ably more for a designer label than they would for the same quality product without a label. Think of all the perfectly good sunglasses on the market, and then see how many people choose to buy Giorgio Armani or Calvin Klein instead.

In a way these companies have to charge more for their products or there would be no “exclusivity” factor. Not all companies can price for image;. They must have an exclusive, quality image, and everything about their marketing efforts must support that image.

Geographical Pricing

Another strategy you might decide to use in pricing your product is adjusting your price to different locations. This approach gives you some flexibility in reaching different consumer groups. You may want to sell your product to a wide range of people, some who can pay more for it. It might be worth it to charge a higher price in areas with a higher average income since people will be able to afford it, and charge less in places where people can only afford to pay less. This way you're reaching everyone and getting paid the maximum price from each customer.

Pricing for different regions may be too burdensome if you try to adjust prices for specific neighborhoods in a city. On the other hand, it might be worthwhile to charge more for your product on the two coasts of the United States, where people are accustomed to paying more, and less in the Midwestern states where prices are generally lower.

Sales Terms & Credit

The way you collect your profit is also part of your pricing strategy. Sales terms and credits are ways of handling accounts receivables.

When you give your customers terms, you are allowing them to take a discount if the invoice is paid within a specified time period. A typical discount might be 2%/ 10, net 30. This means the customer can take a two percent discount if the invoice is paid within 10 days; but the entire invoice is due within 30 days.

Customers buying on credit create accounts receivable. The terms of these accounts can range from Cash On Delivery (C.O.D.) to due in 30, 45, 60 or 90 days from the date of delivery.

Freight Pricing Terms

Another area that affects pricing is the freight charges. You can elect to pay for that or to pass that on to your customer. Your pricing plan needs to address your choice. This choice also determines when ownership is legally transferred.

FOB

Free On Board or Freight On Board. The seller is responsible for the cost of loading the goods onto the vehicle. The customer then immediately takes title to the goods, is responsible for all freight charges, for the cost of unloading, and for any damages that might occur in transit.

FOB Delivered

Also called FOB Buyer's Factory. The seller pays all transportation cost and is responsible for all losses until the buyer takes physical possession

Standard Charge

Another way of pricing freight is to charge all customers within a specific geographic zone the same amount. The seller pays the actual freight charges but bills the customer a standard charge, which may be higher or lower. This works well when a business is selling to firms near its production facilities, but is sometimes too expensive to allow sellers to compete with other producers in distant markets.

Freight Absorption Pricing

To alleviate the potential losses of the standard charge method, use freight absorption pricing. The seller's delivery charges meet those of the local competition.

Pricing Strategy Checklist

When discussing your overall pricing policy, here are issues you may want to make clear:

- Is your market price sensitive? If so, then you need to address why your company is either a price leader or a price follower. You also need to assess price sensitivity in terms of customer loyalty, and product differentiation.

- Do your customers perceive a difference between your products and your competitor's, other than price? If not, then explain how changing prices will affect demand.
- Are your prices competitive? Are they based on an industry-standard markup?
- Is there perceived value inherent in higher prices? (It costs more therefore it must be better.)
- Does your product line have a price curve such as a high- and low-end model? If so, what is it and why?
- Does the sale of your product or service depend on the sale of another product or service? Do you have control of that?
- Do your operating costs vary with price? If so, which ones and by how much?
- What break-even point do you need to reach?
- What effects do price reductions have on profit?
- Will your prices help you reach your sales volume goals?
- Do you have all the facts and records for your company and your competition that you need to help you set a pricing strategy?
- Do your competitors respond to your prices, and how?
- Are your products vulnerable to product substitution?
- How are you pricing other items such as service and credit terms?

Sales Strategies

This part of the plan tells your investor to whom you plan to sell. It only deals with the scope of your sales effort. Later sections deal with your selling message and physical delivery.

If you already have a selling method in place, describe it. This is sometimes called your "Current Selling Method." In this case, you may also want to include a list of the people responsible for various marketing tasks such as graphic design, corporate identity, dealer support, and various promotional strategies.

Common sales strategies are, in order of specificity:

- Sell to everyone
- Sell to differentiated groups
- Sell to concentrated groups

Select the one you are using and explain to your reader why you chose it.

As a follow up to sales-oriented goals and objectives that you may have introduced in your Company Direction, you may want to state them here in more detail, with more precise terms, and more specific time frames.

Distribution Channels

The distribution channels component of your plan explains how you intend to physically offer your products and services to your customers. You may have one channel or a mix of channels. Each one needs to be included.

Sales or distribution channels are the different outlets through which you can sell your product. You can use many different channels, including retail, wholesale and direct mail; you may use one channel or a variety. Choosing the "right" channel will help you reach the maximum number of potential customers in an effective manner. Imagine how many channels a company like Duracell must have. Customers can buy batteries in a wide array of outlets, including hardware stores, grocery stores, office supply stores, to mention only a few.

The purpose of the distribution process is to deliver what the customer wants to buy to a place he or she will buy it. Your investor wants to know that you can not only make winning products and services, but that you can actually get them to the right people, in the right quantity, at the right time and be fiercely competitive.

The two broad distribution categories are

- Direct Sales, such as an in-house sales team
- Indirect Sales, such as distributors and retail outlets

The difference between direct and indirect sales distribution is essentially whether or not your company sells to the end user or not. For example, when software companies offer you an upgrade, they are selling directly to you. When software companies sell their products to a retail outlet, they are selling indirectly to you.

While your company may not have the sales or number of channels of a company like Duracell, you still must balance the demand for your product with the channels to which you sell. Be sure to mention the distribution channels you plan to use in your business plan.

You need to explain to your reader which methods of distribution you use and why you selected them. For example, an advantage of selling directly is that you have more control, while an advantage of selling indirectly is that you can extend your reach by using more channels.

Within indirect sales distribution channels there are six common forms. The first three are especially appropriate for selling brand name items. The last three can also be effective for brand names but also can distribute many more types of products and services.

- Extensive, ("shotgun") approach where you sell through as many retailers as possible without regard to image or competition.
- Selective, where you try to reach as many customers as possible, but maintain a certain image.
- Exclusive, ("rifle") approach where you sell exclusively to limited, image-conscious retailers.
- OEMs, Original Equipment Manufacturers who offer the lowest cost and highest real margin. OEMs can distribute your product as part of their product. For example, Intel sells their microprocessors to other computer hardware manufacturers and uses the "Intel Inside" tag line to advertise that fact.
- Dealers, who add value by providing floor space and manage end-user sales. Dealers tend to buy from distributors to limit their vendor list.
- VARs, Value Added Resellers, add value to your product as well, but also tend to develop customer loyalty. VARs can extend your reach into markets and niches in that market.

Choosing Your Channels

Before you choose the channels you want to use for distributing your product, you need to carefully think about who you're trying to reach, and where and how they're likely to buy. Keep the following things in mind when considering your options.

Price: Remember that you'll probably have to charge different prices in different channels. You may decide using a smaller retailer and charging a higher price is a better approach than selling through one of the discount giants and being forced to charge a lower price.

Image: Also keep in mind that your distribution channels may say something about your product. In other words, if you're selling designer clothing and want it to have an exclusive air, you probably wouldn't want to sell it to Target. While a company like Duracell wants its batteries to be associated with quality, it's the company name and not the distribution channel that makes the difference.

Competitors: Which channels are your competitors using? Once you know where they're selling, decide if it's a better strategy to sell through the same channels or to try new ones. You may decide that you want to use the channels your competition is using, while at the same time seeking out new opportunities they haven't yet discovered.

Ease of administration: Before you actually choose which channels to use, make sure that your company has the administrative capability to keep on top of all your distribution. You don't want to find out that you simply can't supply all your channels in a timely fashion. You can always add new channels, so make sure you don't bite off more than you can chew.

Catalog Sales

As life becomes more and more hectic, consumers are increasingly looking for ways to save time. Buying things through catalogs continues to be a popular way to purchase things you need without leaving home. There are advantages and disadvantages to using this distribution channel. While you don't have to worry about renting space for your stores, you have to make sure your catalogs attract customers. Catalogs can reach many more people than a store because the catalog goes to potential customers and they can look it over calmly at home.

Of course, there's the danger they'll look through the catalog, think they need several things, but never actually get around to ordering them. The same customer may see these items in a store and decide to go ahead and buy them right away.

Another advantage to catalog sales is the relative ease of administration. You can keep all of your merchandise in one place and ship it directly from there. This takes away the worry of maintaining inventories in different retail outlets. Of course, you'll still have to make sure you have enough merchandise on hand to fill orders, you just won't have to worry about it being in 20 different locations. Many companies decide to use a variety of channels, and catalogs are often a channel they decide to use to supplement retail sales.

Exports

Don't forget that local and national channels are not your only options. There's a whole world out there just waiting for your product. While contemplating exporting your product may be intimidating, there are export companies specifically set up to help businesses like yours export their products.

Export companies usually specialize in one region or country, and can give you a good idea of whether your product is exportable. Export companies usually act as the "middleman" and find you a distributor or a retail outlet in the country you choose. In addition, export companies usually take care of all the export procedures and paperwork, as well as arranging shipping. For these services, the export company charges a fee. Your job is to find out if there's a net gain for your company.

While you can also try to export your product directly, this is usually a complicated and involved process that involves a large time and financial investment. Depending on the scale of your company, this may or may not be a worthwhile project to undertake.

Direct Sales Distribution

Direct sales is the most common form of distribution. Direct sales are when the company sells directly to consumers through its own retail outlet or using its own employees.

Examples of direct distribution companies are Avon, Firestone and Thom McAnn. Each produces its own product line, ships to regional warehouses (replacing the wholesaler) and then sells directly to consumers through its own retail outlets. When software companies offer you an upgrade, they are selling directly to you.

The benefits of direct distribution are control over the supply of raw materials, control of distribution and quality, increased buying power, lower administrative costs, and the ability to capture profits that would have been earned by other companies at the various stages of distribution (i.e., the notorious "middlemen").

Indirect Sales Distribution

Indirect distribution is where a manufacturer sells to a wholesaler who then sells to a retailer who ultimately sells to the customer. The majority of firms do not control the entire distribution chain because of a lack of expertise and capital.

Variations of indirect distribution channels include OEMs (Original Equipment Manufacturers), Dealers and VARs (Value Added Retailers). In the early stages of a new product, when cash is tight, OEMs can generate and build new sales, while in the growth stage, Dealers and VARs are needed.

➢ NOTE ON TELEPHONE INQUIRIES: Consider writing a comprehensive telephone script that everyone uses when responding to inquiries. Carefully address questions, objectives, etc. Write out your responses as you would speak them. Make sure that you and all of your sales people practice with a tape recorder so you can hear how you sound or call your own answering machine.

Extensive Distribution

Often described as the *shotgun* approach, extensive distribution sells your product or service through as many retailers as possible without regard to image or competition. This type of channel works best for convenience goods such as soap, pencils, film, and other household goods. The idea is to sell through any many outlets as possible where your customer would expect to find your product.

Suppose you sell sandpaper. You might sell it through all the various hardware outlets such as Home Depot, ACE, and local hardware stores. If you were selling soap instead, consumers generally expect to find it in convenience stores, drug stores, and grocery stores, but not in hardware stores. However, if you sell batteries, they might be found at all these locations and are a good example of extensive distribution.

Selective Distribution

Selective distribution is the broad category between extensive and exclusive. You want to reach as many potential customers through as many outlets as possible, but you want to maintain some type of image. This approach attempts to reach more than one customer pro-file or target market by selecting specific outlets with specific images and then matching product selection and promotion to that image.

A good selective distribution policy avoids outlets with bad credit, poor service, a bad customer image, and a poor location. Selective distribution differs from extensive in that it sub-scribes to this concept: 80% of a company's sales come from 20% of its customers. There is no need to sell your product through every retail outlet under this distribution strategy.

Exclusive Distribution

Exclusive distribution, often called the rifle approach (as opposed to shotgun), is where you sell your product or service at a very limited number of retail outlets, either a single store or chain. An example of this approach would be Ralph Lauren apparel which is only sold in such department stores as Burdines and Lord & Taylors, but not Sears or J.C. Penney.

The objective of exclusive distribution is to reach a single target market and to establish an image. It usually requires strong dealer loyalty and active sales support from the dealer to succeed. Exclusive distribution is brand and image conscious and is usually used in conjunction with a concentrated marketing strategy.

In choosing this distribution strategy, it is important to avoid distributing through competing channels.

- Indirect Sales Channels
- Indirect distribution channels include:
- OEMs (Original Equipment Manufacturers)
- Dealers
- VARs (Value Added Retailers)
- Original Equipment Manufacturer (OEM)

The OEM sale has the lowest cost and the highest real margin. OEM sales are selling your product, or a version of it, to an original equipment manufacturer, who includes your product with what they sell. This is sometimes called bundling and can be a very good way to gain wide market exposure and solid market penetration. OEMs will often bundle or pro-mote your product with theirs or pay a royalty on each product sold.

For example, if a company makes computer software, it could sell some of its programs to large computer hardware manufacturers like IBM or Toshiba. Those companies would then include the software with their own hardware.

This is good for the hardware manufacturers because they are able to give their customers additional goods at a very low cost. While the software company sells its product for a very low price, it may get widely distributed and highly visible on the market.

Dealers

Dealers add value to the product by providing floor space and end-user sales. Successful dealers prefer to buy from a distributor to minimize their vendor list. They want consolidated billing and dependable deliveries. Advertising and promoting your product helps ensure dealer interest.

Value Added Resellers (VARs)

VARs add value in a different way than a dealer. They develop customer loyalty by enhancing your product. For example, a VAR might package a number of different products together to target a particular market. A VAR in the computer industry may buy computers wholesale, then pre-install all the software needed by their target market, such as CAD/ CAM/CAE for architects and other designers.

VARs generally don’t make a product, but rather provides a service in addition to your product that is considered an extra value to the customer. VARs can extend your reach into markets and niches in that market. For the customer, they provide personal support to your mutual customers, and provide training and referrals. You work with a VAR by participating in cooperative adverting, sharing certain lists and leads, and sharing sales literature.

Home Shopping

Home shopping has been picking up quickly over the last years. Cable television is a major provider of a surprisingly large number of channels dedicated to home shopping. Home shopping has actually been around for a while in the form of “order now, call this number” commercials. The difference is that now there are dedicated channels ranging from simple shots of a product, say a diamond ring, to half hour “infomercials” that show the product and demonstrate its capabilities.

Because home shopping channels are still relatively new, success is not proven or guaranteed. Find out from a few home shopping channels who the other advertisers are and how successful they have been in sales through television. You could also request a media kit from the different cable companies in your region. A media kit should provide a profile of what type of person subscribes to cable, helping you understand who you may reach through this channel.

In the near future home shopping will become even more sophisticated and reach an increasing number of people. Several companies are trying very hard to make interactive television possible and feasible. When that happens, cable customers will be able to order products with the click of a button. All of their credit card, address, and other information will already be stored. All they'll have to do is enter a secret code to protect the transaction.

While this is still off in the future, it would be wise to keep up on technological advances if your company sees this as a viable channel. Be ready when the television technology becomes even easier to use.

Internet & World Wide Web

Almost everyone is logging on to the Internet and World Wide Web. At the same time, more and more companies are making it a priority to have a “website” to reach a large audience with a great deal of information.

One advantage of having a web site is that potential customers can find a lot of information about your company and its products, without having to wade through mounds of paper. You can include a broad range of information in your website, that people can then narrow to include just what interests them.

A web site is much more versatile than most other marketing methods available because you can use sound, color, and graphics. Potential customers also log on to the World Wide Web at their own cost, so you save postage and 800 number calls. You do incur the cost of designing and updating your web site, as well as the connection costs you pay a service provider.

These costs are minimal, however, when compared to television advertising. People can order your products from information they find on your web site, but it’s still too early to tell if web sites are causing a significant rise in sales.

A huge issue with Internet commerce is security. Most customers prefer placing orders and providing credit card information over the phone or through the mail so that some hacker doesn't run off with their account number. Great efforts are being made to make Internet commerce more secure, and in the future it's likely to be an important sales channel.

Another relatively easy way to reach a wide, computer literate audience is through different on-line services, like AOL, eBay, Google, Overture, Yahoo, Excite, MSN, etc. These services have specific places where customers can order items. The advantage of working through an on-line service is that the rules are clear and no one can say that you’re acting improperly or unethically.

Controversy has surrounded some advertising on the Internet. Since the Internet is relatively unregulated, some businesses have taken advantage of this and sent unsolicited advertising to millions of people, a.k.a. “spamming.” While this may appear to be a great way to reach millions, many users react badly to this encroachment on their space.

The trick is to send your advertisement to a specific place where advertisements are acceptable and you reach the appropriate audience. Make sure you know what you’re doing before you venture onto the Internet alone to reach customers. You don’t want your company “flamed” by disgruntled web surfers!

Also on the Internet are cyber-malls and cyber-storefronts. There are a number of books about how to use the Internet and World Wide Web in marketing your business. If you are serious about using the Internet as a sales channel, they would be a wise investment.

Crafts Businesses & Distribution Channels

Craft businesses have many of the same business needs as other businesses; they must keep accounts of sales and expenditures, keep track of orders and try to sell their wares. They are distinct, though, from companies that are mass producing products because the whole idea of most crafts is smaller scale and personal touch.

Because most crafts businesses aren't about churning out thousands of the same object, it's more difficult for them to find one channel through which they can sell. People whose business is making and selling crafts often have a large variety of channels through which they try to sell their goods, some are even seasonal. The purpose of this section is to list some traditional sales channels used by crafts businesses, as well as some channels you may not have thought about before.

Consignment

One of the most common ways for people who make crafts to sell their products is on consignment. This means that you give a store, say ten of your hand made and glazed bowls, and they agree to sell them for you. If the bowls are sold, you receive a certain percentage of the sale and the store keeps a percentage. If some of your bowls aren't sold within a certain time, the store returns them to you.

This system works well for stores because they can keep a good variety of products with no investment and no risk. For the bowl maker it means having the bowls tied up in a certain place with no guarantee of income. If none of the bowls sell in two weeks, not only is there no income, but there has been no other effort to sell the bowls. Working on a consignment basis is, however, something that most crafts makers have to deal with. The trick is to find places that will take your products on consignment and also sell them.

Holiday Fairs

Every year people scratch their heads once again and wonder what to get for their sister or brother, their mother or father. People often have everything they really need, and so the need arises to find something special and different. Hence, holiday craft fairs.

Setting up a booth at these fairs can be a good way to sell your craft because people go there just to buy. They feel pressure to choose something and want to get it over with, which is probably the perfect moment to convince them how unique your craft is and how much it will mean to someone.

Displays in Public Buildings, Cafes & Restaurants

Exposure is one of the best ways to get your wares sold. Many public buildings, cafes, and restaurants will display people's arts and crafts, allowing them to make clear the pieces are for sale. This provides the business with nice decorations and provides the artisan with a place to receive wide exposure. You never know who might walk into that building or restaurant and either buy one of your pieces or mention them to someone else.

The best way to find public buildings or businesses that will display your wares is to look around for places that already do it. When you decide where you'd like to display your work, approach the owner or a manager and find out how.

Crafts Brokers

Another channel that crafts makers should consider is working with a craft broker. A craft broker's job is to sell your crafts to different outlets and keep on top of sales opportunities. Some craft brokers may require a minimum level of sales per month, which makes it worth their while to represent you. While others will be less strict, they may charge a higher percentage commission.

The advantage of using a broker is that person specializes in selling crafts and makes it their business to know a wide variety of sales outlets and maintain relationships with them. Unless you are able to hire someone specifically to take care of your distribution needs, you would most likely be unable to develop as large a network.

One example of a craft broker is Americraft Gift Brokers in Massachusetts. This particular broker maintains a list of specialty shops that sells crafts, knows all the major mail order houses, and has a reputation among buyers of selecting quality crafts. In other words, if you have a broker like this represent you, not only do you have a greater list of outlets, you also have credibility with buyers.

Mail Order through Catalogs or Advertising

While the catalogs that immediately come to mind are single business, like Crate & Barrel, L.L. Bean, or J. Crew, there are many catalogs that contain a variety of products from different vendors. Even in-flight magazines offer an eclectic mix of goods, and it may be worth your while to try to get your craft in one of them.

You can also place ads in magazines to sell your craft. Magazines like *The New Yorker* have a variety of advertisements for crafts. You should know who typically buys your craft and try to find catalogs or magazines that cater to that market.

Museum Gift Shops

Museum gift shops are often perfect places for craft makers to sell their wares. Museum shops often want to feature original arts and crafts. Many of them work only on a consignment basis and may not have large turnover. You can get a list of museums in any guidebook with addresses and phone numbers. It may just be worth your while to do a mailing to the museums that interest you to find out how to have your product sold in their gift shop.

Swap Meets & Flea Markets

Swap meets and flea markets can be great places to sell crafts. For a minimal cost you can set up a table and then spend the whole day selling your wares. One thing to remember about these channels is that they typically attract bargain hunters. If the craft you make is high-end and expensive, this may not be the channel for you. If, on the other hand, you make a medium- or low-priced craft with wide appeal, this may just be the place for you.

An important part of selling at these markets is your personality and ability to draw in customers. There's usually an information booth at swap meets and flea markets telling you how you can sell your crafts there and how much it costs. If you can't find one, just ask any-one who's selling there.

Pushcarts & Street Stands

Malls and city's often allow people to sell things out of pushcarts or at stands placed on city sidewalks. This is a relatively cheap way to get your crafts out in public. Some cities designate certain areas where vendors can sell things from stands on the sidewalk. These areas are usually highly regulated and getting a permit can be difficult. In Berkeley, California for example, vendors often have to wait a long time before they can get a permit to sell on Telegraph Avenue, a street known for the many crafts stands that line its sidewalks, especially on weekends.

Calling the city's permit office will usually provide you with all the information you need to get started. One thing you should remember about having a table or pushcart outside is that you are very dependent on the weather. A rainy day will be a lost day.

Craft Malls

Cities often have craft malls or areas that have a cluster of crafts shops. This can be a worth-while place to set up a retail store because it attracts people who are interested in crafts. If you want to set up a shop to sell your own products, doing it in a craft mall is one way you can be fairly sure you'll reach the right consumers. Of course, the competition will be right near by, so you'll want to figure out how to make your shop stand out. If you do set up your own shop, you'll have complete control over displays and prices, though you'll have other costs, like rent and labor.

Craft Trade Shows

Just like other businesses have trade shows, so to does the crafts business. These trade shows may focus on one segment of crafts, say jewelry or ceramics, or the may include all crafts. You should find out about as many of these as possible and decide which ones are worth-while attending. Although you'll have to pay an exhibitor fee and travel expenses if the show is out of town, many buyers come to these shows because having a wide range of vendors in one place saves them time. By the same token, you'll have a wide range of buyers in one place and can make valuable contacts.

Advertising & Promotion Strategy

The promotional strategy you choose should be a natural outgrowth of the research as presented in your Market Analysis and by marketing decisions you have already made. Here you outline the major marketing programs you have formulated to let your customer know you have something to sell and why they should buy it.

What is Promotion?

The goals of promoting are simple: to inform, to persuade, and to remind. If your company has a distinctly new product or service, your message should inform potential customers of its existence. On the other hand, if you are in an industry with established products, you need to inform consumers of both the existence of your products and to persuade them to buy yours. However, if your company and products are well known by consumers and have a positive image, all you may need to do is periodically remind the consumers that you are still in the marketplace.

A promotions plan explains how you are going to present your messages. Messages may be about your company, such as creating name recognition or improving your company's image, or more frequently, about improving your products and services. A good example of an image message is one used by the petroleum industry. They do a lot of advertising that does not ask the viewer to buy anything, but rather presents a positive environmental message meant to counteract fears about their environmental responsibility and to promote the positive acts that they do on behalf of the community.

Advertising & Promotional Activities

Promotional activities include advertising, sales promotions, various types of events, and, to some extent, public relations. The advertising and promotion component of this section of your business plan should indicate that you have an aligned, synergistic campaign. In this area of the plan, you want to list your messages, identify the target recipients of those messages, analyze the competition's messages, and point out how your strategy is better. You may want to include a short but separate promotional plan for each product or service and for your company.

Sales Promotions

Sales promotions include all other types of promotions such as videotape presentations, contests, premiums, coupons, trading stamps, displays and sampling.

Success does not depend only on how you promote your business, but also on the promotional message. For example, advertising children's cereal on TV on Saturday morning is quite effective. That's because kids are watching TV and they are the ones who will scream bloody murder for your product the next time mommy takes them with her to the supermarket. However, the same advertisement would probably not be as cost effective if run during Monday Night Football. Dad, who is likely watching, is probably not in the mood for cereal at that time. The table below outlines various kinds of sales promotions.

Final Consumers	Wholesalers	Internal Salesperson
Banners	Price Promotions	Contests

Aisle Displays	Promotional allowances	Bonuses
Samples	Sales contests	Meetings
Calendars	Calendars	Displays
Point-of-Purchase Displays	Gifts	Sales aids
Trade shows	Trade shows	Training materials
Coupons	Catalogs	Personal trainings

Source: E. Jerome McCarthy and William D. Perrault, Jr., Basic Marketing, 8th ed. (Homewood: Richard D. W. Irwin, Inc.

Advertising

Advertising sends an impersonal message to selected large audiences for the purpose of soliciting or informing consumers. This is also called direct marketing. Messages are impersonal to the extent that the advertiser doesn't know or address the message receiver by name. However, ads are targeted toward a group, so are meant to attract their attention by appealing to some common element such as youth or sex. Examples of advertising media include television, radio, print, direct mail, outdoor billboards, signs on mass transit vehicles or company trucks, point of purchase (also called point of sales [pos]) displays in stores and ads in the yellow pages.

Your plan should address very specifically how you plan to handle all aspects of your advertising campaign. Include the scale of your ad plans, such as whether you need extensive advertising or not, and what goals you have for your ad. How are you going to measure their success? If you are planning to hire a firm to do this, what directions and objectives are you providing them?

You need to tell your investor what type of advertising you need to do, why, how much it will cost, and what sales benefits you expect to see. For example, are you advertising to educate your marketplace or to solicit sales or both? How many more sales do you expect to see as a result of your ad campaign? What will it cost you to reach your customer (usually stated as cost per sale), and how will you fund your ads (for example, a percentage of sales).

The medium you choose is based on the target market and what it costs you per person to reach them. In advertising, no individual representing your business is communicating directly with your potential customer. As a consequence, advertising messages are limited to one-way communications. Advertising works well when your target market strategy is to solicit business from a broad market. However, it can become quite specific when you choose local media such as newspapers, radio and television air time. Advertising can also be effective when your target market is specifically defined, but sufficiently large enough to make the advertisement cost effective. A good example was Pepsi advertising to the "Pepsi Generation," a target market of people in the U.S. defined by a specific age group and income potential.

Both advertising and promotions are ways to present messages. The difference between advertising and promotion is a matter of form. Advertising is a promotional message that appears in some type of media, such as TV or print, and is somewhat impersonal. Promotions often include advertising, but are really events and the message is more personal, such as a trade show where you meet people. Furthermore, not all advertising or promotions messages are aimed directly at selling. Some messages are educational or image building.

Planning Advertising & Promotions

Whether your business handles its advertising campaign in-house or contracts it out to an agency, you need to explain to your investor what its goals are. You need to cover what your message or messages are, review what group you are targeting with that message, list the media your research shows reaches your group, and what it costs to reach them.

For example, if you want to reach a group of skiers with a sales message about your new cross-country equipment, you might want to advertise in one of the many consumer sports magazines. But which ones? Almost all publishers will gladly provide you with a copy of their readership demographics. You select from that the publications that best meet your tar-get customer’s demographics.

There are, of course, there are many more issues than just one ad in any campaign. For example, the frequency, the actual message and its presentation, and all the supporting pro-motions and activities needed to make up a campaign. But here, you need to hit the fundamentals. The detailed ad plan is usually an internal document, but you can attach it in the supporting Documents section if you wish.

Advertising includes sales collateral. Remember the need to provide your sales force with brochures, data sheets, and other supporting materials like company backgrounders. Advertising spills over into promotions too, for you need to advertise events and provide brochures and signage for trade shows and company vehicles, and much more.

The advertising and promotions part of your plan needs to state your goals and why you chose them. It needs to outline your campaign in terms of the methods you plan to use, what they cost, and what you expect them to achieve. To do that, you need to ensure that your plan includes a way to measure the results of your campaign. You need to state it in terms of…

- Increased sales
- Increased market share
- Improved brand image
- Increased knowledge of your business
- Identified competitive advantage
- Improved climate for future sales

Advertising and promotion are ways to ensure that your target customers hear about your products and services. You can’t make a sale to someone who doesn’t know you are selling anything.

Advertising Activities

When discussing advertising, you want to highlight the message, the media, and the roll it plays in any product introduction rollout. If your company uses an advertising agency, you want to explain what directions you are providing to them about how to handle your messages. Some of the methods you might use are direct mail, direct response, telemarketing, or cooperative programs. Explain why you feel this is the right combination. List all the media channels you plan to use and how they help you get your message to your customers.

Personal Selling & Events

Personal selling and events are other types of promotions. They too send a message to your customers. However, where advertising is impersonal, these activities are personal.

If you are planning to hold any sort of promotional event, such as a trade show, seminar or product demonstration, explain what benefits this brings to your overall promotional strategy goals. For example, if you feel you can better reach industry analysts by personal contact and presentation than by advertising, mention it. Some customers are best reached through one or more channels. Be sure you know which are which.

Sales Promotions

Besides events, there are several other types of promotions that fall generally into the sales promotion category. These are generally short-term programs used to stimulate increases in demand and include videotaped presentations, contests, premiums, coupons, trading stamps, displays, and signage. Tell your reader if you plan to use any of these techniques and why.

New product introductions, for example, are often a time when you use the largest number of promotional activities. Your plan might describe an advance campaign to educate your sales force and begin preliminary advertising. Then as the rollout progresses, the plan describes how you will accelerate your advertising into more channels and increase frequency, invite trade press to events, demonstrate the new product or service, and offer initial discounts or trade-in allowances.

Creating Your Advertising & Promotions Budget

Your plan needs to include your advertising and promotional budget. Your investor wants to know how much it costs to launch or maintain sales, if those costs are reasonable in comparison to the projected gains, what your competition is spending, and how this budget compares to your other budget factors. Details of your promotional budget are internal documents meant to guide your day-to-day operations. Here, you simply summarize the data. Attach any details you feel would boost your investor's confidence in the Supporting Documents section.

There are four common methods for calculating an advertising and promotions budget. They are:

- Marginal, where the amount you spend equals the net profit on sales generated by that promotion. This is commonly used in large corporations.
- Available Funds, where you spend as much as you can afford. This is the most common but also the most conservative method.
- Budgetary, where you spend a fixed percentage of projected sales. A common range is 10 to 20%.
- Matching, where you spend the same amount or rate as your competition.

Budgeting for promotions and advertising is often stated as a percentage of sales. A common range is 10 to 20% of sales. Promotion and advertising costs are often stated as the cost per target. For example, ad costs are what the publication or broadcaster charges for your ads divided by the number of target customers they reach.

Measuring Your Success

As you plan your budget you should also plan to measure your success. Measuring the success of a campaign could be stated in terms of the number of responses you get, or the increase in sales as a function of the number of responses. Similarly, you can measure events by the attendance and by inquiries made afterward that result in sales. Think of some way to track your sale sources – perhaps a sales source key on the promo. Use a fictitious person customers can call, (Steve for campaign A, Suzy for campaign B). We always use some kind of "Priority Code or "Discount Code" in our ads. On the internet, all affiliates have their own tracking links. We use the same tracking system to track Google and Overture keywords as well as in any paid banner ads or links.

When discussing budgeting, you need to explain who is going to handle the plan or plan development. You need to justify the costs in terms of the number of increased sales or the betterment of your image, and how you plan to measure your results. If you have any cooperative or joint marketing or advertising plans or agreements, include them too.

Following are some common ways to formulate an advertising and promotions budget.

Marginal

The first method is the marginal approach and can be difficult to implement. The marginal approach is spending to the point where the last expenditure on advertising equals the net profit on sales generated by that advertisement (usually, large corporations use this approach).

Available Funds

A second method for determining how much to spend on advertising is the available funds approach, which is spending whatever you can afford. Although probably the most commonly used method, available funds is also the most conservative. The more you spend on effective advertising, the more sales you will generate. In other words, if you make the investment in quality advertising, you will generate the sales to pay for the advertising.

Budgetary

The next method to determine the amount to be spent on advertising is the budgetary approach, that is, spending a percentage of projected sales on advertising. If you want sales to reach a certain level next year, you need to spend a certain percentage on advertising during the year.

Match Dollar for Dollar

The final approach is to match dollar for dollar what your competition is spending. This method is based on the assumption that equal spending will at least keep you and the competition equal in terms of sales levels and market shares.

Investment in Advertising

To launch a new product into the market often requires a significant advertising budget. (Notice that we say "investment" vs. "cost" – we expect that you will make more than your money back on marketing and that you should treat it as an investment instead of an expense!) Your investment in advertising your product is typically tied to forecasted sales, not past sales.

In deciding your advertising budget, the following guidelines are suggested.

- Trade shows (8%). They test consumer reaction to your product.
- Public Relations/Travel (5-8%). Most important area prior to a product's introduction.
- Collateral (3-8%). Highest percent of advertising dollars for product less than $100 and generally less for products more than $300.
- Direct Mail (33%). Spend a large percentage of your budget to generate end-user demand.
- End-User Catalog Sales (8%). Sales should offset your expenses; a good return would be two times the cost of advertising.
- Print Advertising, Trade/Channel (8%). Keep budget down; retailer will seek your product if they experience high end-user demand.
- Channel Promotions (26%). Distributors and resellers generally require a commitment to a promotional budget. Be creative and flexible.

Direct marketing

We like recommending always having some form of direct marketing because that way customers can buy directly from you. However, depending upon your overall marketing strategy, which may be based upon a strong reseller network or personal sales force, you may want to force all customers to go through these other channels. Just be sure to provide adequate information to lead customers to a convenient reseller!

Channel conflict is the term used to describe when a company offers its products directly to customers and often prices them below that which the resellers sell them for. This is generally stupid. If you want resellers to provide your products and service to customers because they are closer and more convenient for your customers as well as expand your sales force and marketing presence, but want to keep a direct channel open, then offer your products at the highest prices.

Direct response advertisements, direct mail pieces and web promotions contain as much information as possible for your customer to make an immediate buying decision. Even if a reseller brings you a customer, you may have additional products and service that you can sell directly. Think about that. There is much to lean about direct marketing and we can recommend books on the subject. I like *Ogilvy on Advertising* by David Ogilvy as a standard primer on creating effective advertisements—much of his wisdom can be easily applied to direct marketing as well. Check our website for business book recommendations from time to time.

Managing Your Lists

One of your company's most important assets is your list of clients and prospects. They give you insight into who buys your products and services and how well your messages are received by certain groups. If you have compiled such a list, or plan to purchase or share such lists with a strategic partner, let your reader know about these activities and their value to your company.

List management is used to target your customers via a database containing names and addresses of your customer or potential customers. Customer lists can be purchased for target markets, but are more effective if developed in-house. Registration cards and periodic surveys will help you build your customer list and measure the success of your marketing activities by providing a historical profile of your customer.

If your company has a track record of sales, your list can show from where your sales come. For example, perhaps the largest percentage of your sales comes from a small percentage of repeat customers, even though you have a much larger number of new ones. That fact should be reflected in your plan, and also in the content of your marketing messages and in the amount of attention you pay to this group. The only way to gain this sort of insight is to monitor your sales and your lists. It needs to be kept up to date and studied regularly.

Internal/External Newsletters

An internal or external newsletter serves as an informational piece for internal personnel, the sales force and key customers. It includes sections covering each major department or organization within the company, and highlights milestones such as key sales stories, successful customer applications, significant marketing events and product development news.

Direct Marketing Checklist:

Direct marketing includes direct mail, direct response, advertising, and any sort of impersonal sales message you send to your prospects and customers. Here is a list of some things to consider in their design:

- Know your target market
- Priorities are: List, Offer and Creative
- State your offer (message) clearly and don't clutter it with too many offers in one piece.
- Focus on your major point or message
- Tell your story in a headline (headlines alone can make a world of difference in response). Sometimes that is all the reader will actually see so it must grab their attention.
- TEST, TEST, TEST!!!

Trade Shows

Trade shows are also a valuable way to evaluate the competition and to expand your knowledge of other products in your industry. Take the following factors into consideration when selecting which trade shows to attend:

- Target audience of the show; will this get the message to our target market
- Geographic location; a good mix of shows around the country
- Time frame; preferably no more than one show each month
- Past experience, if any, with the show
- Participation in someone else's booth

A typical face-to-face sales call costs about $300+ these days. At a trade show you enjoy having your full demo set up, all your brochures ready to go, your salespeople and managers are all there... and the prospects come to you! The trick is choosing which show to attend and planning to maximize your investment.

Many people whine and complain about trade shows, but I often find that I can do more business at one trade show than I can do in 3-4 months of cold calling, scheduling demonstrations, preparing proposals and answering questions. With everything handy at a show, you can accomplish many of those time-consuming activities in a few minutes!

Factoid: As much as 90% of tradeshow leads are never followed-up!

This is tragic and a heinous sales foul—be certain that you have some mechanism in place for capturing tradeshow attendees contact information as well as any comments, requests or questions asked at the show. Death to a sales manager who allows tradeshow leads to go un contacted!

The trade show media kit should include all the appropriate demographic and psycho-graphic information, just like a magazine, so you calculate approximately how many of the right people might come by your booth. What's the cost of the lead, the value of being able to give them your full pitch right there, the value of your visibility at the show, etc.? Just make sure you have a plan to follow up on your prospects (don't laugh, a lot of companies lose it right here) or you're wasting your time and money right from the start.

Marketing Plan Checklist

- How are you positioning your product and/or company?
- How are you determining the price for your product?
- To whom are you planning to sell your product?
- Which distribution channel(s) do you plan to use in order to sell your product?
- What type of advertising and promotion are you planning to use to sell your product?
- How much money do you plan to spend on advertising and promotions? How can public relations help sell and promote your product and/or company?
- Are your strategies consistent with your evaluation of the marketplace and your capabilities?
- Is the return on marketing investment sufficient to justify the risks? What are the chances of a competitor executing a similar strategy? In that case, what would happen?
- Are your strategies consistent with the political environment within the company?
- Have you made sure that your strategies are based on facts and not wished for assumptions?
- Does the overall strategy leave you critically vulnerable to a shift in market behavior? Are all your eggs in one basket?
- Is your appraisal of the competition open-minded and honest?
- Is your strategy ethical and legal?
- Is the success of your strategy based on your ability?

- What are the chances for failure?
- Have you thoroughly examined alternate strategies?
- Do you have a sound, logical rationale for your recommendations?

Public Relations

There is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old system and merely lukewarm defenders in those who would gain by the new one.

~ Niccolo Machiavelli, *The Prince*, 1513

Public relations is a form of promotion. It includes publicity and press relations, media events, and company newsletters. Publicity can be either good or bad and you have little control over what is reported. The review that raves about the quality service at your restaurant can double sales overnight. While PR seems free, it is a very worthwhile investment to hire the services of a competent PR firm or person. (We also offer PublicityBuilder software to enable you to launch your PR program yourself.)

Like image advertising, publicity provides information about your products and services or about your company, but it is not a direct message from you to your potential customer. Instead, the message is reported by an independent party such as a journalist or business analyst. When you have some news or reviews published on line or in the print media (TV/video as well), be sure to make copies and add them to your plan!

You do not directly pay for publicity, but its value to you in terms of sales and image can be dramatic. An example of publicity is the weekly food column in the newspaper. If you own a restaurant, you do not pay for a restaurant review, but information about your business, menu, and service is reported to the public. This publicity can have far-reaching value and can bring you more business and visibility, yet you don’t pay directly for it as you would for an advertisement.

Press relations and media events include trade shows and company-hosted events during new product rollouts. Often, companies invite the press to interview executives, particularly when announcing year-end revenues or at major sales announcements and new partnership formations. Newsletters and other internal and external company publications are also a good way to stay in touch with your customers and with the business or consumer press. To the extent that they cost you money, you should include them in your Advertising and Promotions Budget.

Following are some typical public relations activities.

Major Sales Announcements

Major agreements should be written up and released to selected media as soon as possible after they are signed. Ideally, these would be joint announcements. At the same time, a shortened version of the release should be mailed to all internal and external sales organizations.

Press Releases

Prepare press releases on the entire product line/service area for each new product introduction, technical development, participation in a major event, awards/recognition for product/ personnel excellence / performance, etc. Include an 8x10” black and white glossy photo of your product or an interesting demo of your service that editors will probably pick up at trade shows.

Trade Shows

Use trade shows as another method for maintaining a high profile with the editors of key target media. If a major product announcement is feasible at a show, plan the announcement well in advance. However, since the major publications send their editors to the major shows, an opportunity exists to schedule short interviews with key personnel with selected reporters and editors. These mini-interviews can be used in lieu of the editorial visit (described below), or as opportunities to give editors a company or product update from a chief executive's point of view.

Editorial Visitations

Inviting the most influential reporters and editors from targeted publications for a visit is important in maintaining high visibility in the marketplace. During the visit, each editor should receive a complete facility tour, product briefing and an opportunity to interview the chairman, president, product designer and marketing manager. If logistics or timing is a problem with the interviews, then these could possibly be arranged at the major trade shows.

Your plan needs to cover how you intend to manage your public image. Just as you did when describing your positioning, explain what sort of relationship you have, or are hoping to establish, with the press and what image you want to present about your company and products. List and justify the ways you plan to reach the media through your calendar of events. Tell your investor what editors, analysts, or publications you want to target and what events or visits are planned for the year. If you have a schedule of shows and seminars, include it. If you have a sample press kit and regularly post news releases about company events such as new product announcements, you may also want to include copies in the Supporting Documents section.

Remember that publicity can actually generate revenue. Your plan should identify what amount of sales you expect to gain directly and indirectly through your well-managed public relations plan.

Operations

We are going to have to find ways of organizing ourselves cooperatively, sanely, scientifically, harmonically and in regenerative spontaneity with the rest of humanity around the earth.... We are not going to be able to operate our spaceship earth successfully nor for much longer unless we see it as a whole spaceship and our fate as common.

~ Buckminster Fuller

Facilities

The manufacturing facility provides needed space for initial production and expansion to meet projected demand. Site selection includes the following considerations:

- Room and cost for expansion
- Land and construction costs
- Transportation cost and route access for common carrier
- Risks and insurance
- Packaging and material costs and availability
- Labor pool availability, skills, costs
- Local ordinances, licensing and permit requirements
- Government assistance (roads, training, exemptions, etc.)
- Government restrictions and requirements (OSHA, NLRB, etc.)
- Community attitudes toward business and manufacturing
- Continued operating costs (utilities, communications, etc.)

Staff

People are one of the most significant resources for your business. Assessing the required number of people and their skills, how and when they will be trained, and who will hire and manage them is important to your product strategy.

To protect proprietary interests and information, certain policies and procedures such as confidentiality and nondisclosure agreements should be implemented with your staff, vendors and contractors. Work with an attorney to generate the agreements and procedures to cover your company and your staff, should questions or disputes arise.

Packaging & Transportation

The primary function of a product package is the protection and safety of the product. The package must be designed to protect the product during transportation over a specific period of time in varying climates. Finally, a package can be an effective marketing tool by differentiating your product from your competition.

Both the packaging and the transportation of your product convey an image to the customer and must be balanced with the cost, availability and competitive products on the market.

Product Fulfillment

Product fulfillment is an important part of customer satisfaction. Providing a channel to monitor and manage the delivery, billing, warranty and repair of your products will ensure customer satisfaction and repeat sales. Some or all of these services can be supplied directly by your company. Increasing numbers of businesses are contracting some of these services to companies specializing in these areas.

The benefits of an outside fulfillment operation may include:

- Their telephone and order entry systems are state of the art.
- They manage the sales employees, whom you may train with detailed sales scripts.
- Their shipping volumes with common carriers provide a tremendous savings in shipping costs.
- They have sophisticated equipment to handle and track lost shipments.
- They take orders 24 hours a day, every day of the year. Shipping Terms

There are numerous shipping terms available that affect the final cost of your product. Free on Board (F.O.B.) indicates that the seller is responsible for the cost of loading the goods onto the vehicle. The customer then takes title of the goods and is responsible for all freight charges, the cost of unloading and any damages in transit. These terms can easily be changed to F.O.B. Delivered or F.O.B. Buyers Factory. This passes all the transportation cost to the buyer until the customer takes physical possession.

Another way of pricing freight charges is to charge all customers within a specific zone a standard freight charge for that zone. The seller actually pays the freight charges but bills the customer a standard charge. Don’t let your company fall into the trap that is often experienced by emerging companies. That is, keep an eye on your shipping department’s expenses. Where pennies might have been saved on each product by carefully selected design, components or processes, these same pennies, or more, can be lost through inattentive shipping decisions. Develop your own methods for determining your return on the investment you have made on shipping.

Your product may have begun with a brilliant idea and may have been created through well-orchestrated plans. However, it is good to remember that this same product is delivered by your shipping department. Give this department a sufficient portion of your management’s mindshare and convey this in your business plan.

Technology

The LAMP open-source technology stack

LAMP is an acronym that describes the open-source stack that numerous organizations have pieced together over the years. LAMP stands for the Linux operating system, Apache web server, MySQL database, and the PHP, Python, and Perl programming languages. Virtually every ISP hosts LAMP; every Linux distribution includes LAMP; and almost all of the large websites (from Friendster to Yahoo to Lufthansa online ticketing) run the LAMP stack.

A recent indicator on LAMP is that Dell just started bundling the LAMP stack with its servers—and Dell is a very market-driven company.

Security risks inherent in embracing LAMP

One of the nice things about the LAMP stack is that all of the source code has been available for years and its components have been banged on by literally tens of thousands of programmers for almost a decade. This is not to say that security holes are not found, but they are few and far between relative to offerings from traditional software vendors, and they are rapidly fixed by the open-source community. It's a very open process, and there's no hidden dirty laundry.

Enterprises really do hate proprietary technology. In the short term they can extract ROI from it, but in the long term they know it will cause them headaches.

Conclusion

When I examined myself, and my methods of thought,
I came to the conclusion that the gift of fantasy has meant more to me
than my talent for absorbing positive knowledge.
~ Albert Einstein

You have spent much time and effort developing your business from a concept into something real. You have also spent a considerable amount of time going through the process of writing a business plan.

Your plan will not only communicate what your business is about, but will assist you in getting a better handle on your business and help build a foundation for business success. Congratulations on taking this next big step for your business and yourself.

Now, make copies for a few selected friends, your mom and dad… have them read it *and appreciate the questions they will ask!* Investors and lenders are almost/just as intelligent and will wonder about the same things – better to be on the offensive with answers up-front than to be scrambling to address some obvious flaw/shortcoming/situation while you are in a defensive mode.

We want you to be in charge with the power and control to build your business your way.

When in doubt, ask for the money.

Ask for the money anyway!

Executive Summary

The man who goes farthest is generally the one who is willing to do and dare.
The sure-thing boat never gets far from the shore.
~ George Bernard Shaw

Although your assembled business plan begins with the Executive Summary, it is the last section you should write. This is because you are in a much better position to summarize after all your other data is in place. The Executive Summary needs to begin your story in a persuasive and interesting way, and the rest of the plan needs to support that story consistently.

A good beginning to your business plan is especially important because many, if not most, investors read only this section. They use it to decide whether to bother reading the rest of your plan or simply reject it now. If the investor decides the rest of the plan is worth reading, he or she may pass it on to staff. So, assume you only get one chance to impress the real decision maker. It is therefore critical that you do the best job you can on this summary.

Just as when making a personal presentation, which you may also be required to do, your Executive Summary needs to make a strong first impression. Writing a strong Executive Summary also helps you prepare for other presentations such as to large prospective customers, or to important suppliers who are providing you with credit terms, or even for hiring key management and other employees.

The first paragraph of your executive summary
is your executive summary of your executive summary.

Capturing Your Reader's Interest

The Executive Summary is just that: a summary of all the other components of your plan in the same order of presentation. For example, you provide overviews of your company's direction and makeup, your financial requirements, product, market, etc. The key to a good Executive Summary though, is its brevity and power. Most executive summaries take up no more than three pages, even for the largest corporations. Yours may be as short as one page.

Here are some things to think about when writing an Executive Summary. Refer back to the section, "Targeting Your Audience" for more general writing tips and targeting ideas.

Make the reader feel like the most appropriate investor for your business. Try to quickly establish that you understand what sort of investor your reader is and that you have thoughtfully selected them because of clear-cut attributes. If you can establish the appropriateness your plan has for their business objectives, your reader will initially feel like reading your plan is a worthwhile endeavor.

Areas of fit help make your reader feel like reading your plan is great use of their time. Some of the ways you can show this good fit is by demonstrating your understanding that:

- Their history and experience in funding companies are like yours, in your industry, or at your stage or development.

- The amount of funding falls within their range and matches the risk level they typically assume.
- Your exit/payback strategy is acceptable to them.

Tailor your material to your audience.

Explaining how your business fits with the investor's goals (as explained above) is one of the ways you tailor your plan to suit your audience. This does not mean that every section of your plan will be different for every type of investor. It simply means that you've clearly identified what your reader wants to know and that you cater to those interests wherever you can. Spending some time researching your plan's target audience will be a wise move that can save you much effort in the long run.

Compel the reader to delve onward.

This is one of the primary purposes of writing an Executive Summary. You want to tell a story about your company and its future that is so clear, of such interest, and is so fully supported by your data that your reader looks forward to reading more about you. For example, perhaps your reader is a grant administrator whom you are trying to persuade to grant you government funds to open a grocery store in a certain Economic Development Zone. You know the reader is looking for your ability to meet their prerequisites. What to do?

You could simply list the ways that you qualify, of course. But what if a lot of businesses qualify? Think about why your business is a better fit with the goals of the grant program. Perhaps they want to foster community betterment. For example, perhaps you can offer long-term local employment, or perhaps your location is close to a school and would both improve the neighborhood and reduce the need for families in this community to shop far away from home. If your project has such differentiating qualities, that may make the reader prefer your business, all other things being equal. That is the sort of compelling detail that gets plans read and approved.

Assume your reader has only five minutes to read your executive summary.

Read the Executive Summary yourself and see how long it takes you. Have several friends and associates do likewise and see how far they get and how many of your key points actually hit home. Five minutes isn't much time to absorb even a short piece. Therefore, evaluate each item of information you intend to include in light of this fact. Ask yourself:

- What are the most important points to convey?
- What initial impression do I want to leave? Have I done that?
- Do I clearly demonstrate a good fit between my business goals and this investor's?
- Is it interesting to read? Does it raise any questions that I don't answer? • Can I support every word with data in other components of the plan?
- Did my management team or other reviewers like it?

Don't let the brisk flow of your Executive Summary get stalled. Unnecessary discussion of run of the mill issues may keep your reader from getting to the most critical and salient points you intend to make with your plan.

Tell a Consistent Story. Remember that one goal of the Executive Summary is to prepare your investor to willingly provide the bottom-line amount of funding you need. Everything in your Executive Summary should be viewed through this filter. For example, look at all the reasons you stated in your Financial Plan about why you need funding, and be sure they are in your summary. If R&D costs are a major reason why you are asking for funding, you want to be sure that your plan fully explains this. Read more about ways to ensure consistency in Chapter 2: Targeting Your Audience.

Components of the Executive Summary

The Executive Summary is itself like a miniature plan. Sometimes it can be used as an initial stand-alone document you provide to gauge if they have any interest in receiving more details from you. It contains components that correspond to the sections of your entire business plan, but in summary form, and uses the same order of presentation. Be consistent with the order you have decided upon, but the typical order is this:

- Company Emphasize your company's direction and its vision and mission. State which direction you expect to go as a business in some period of time, and list the major goals and objectives that will get you there. You don't have to list every goal and objective, just the highlights.
- Company: Tell your reader your name, your legal form of business, your industry.
- Overview: Describe its current status (existing business, start-up, expansion). Introduce
- your leaders, anyone who provides special expertise or experience to your business, and your key strategic alliances.
- Product/ Service Strategy: Introduce the purpose and use of your products and/or services. Briefly state what need(s) they fill. Explain any technological advantages and issues you may have. List any significant intellectual property rights. Mention any R&D costs or production and delivery issues here as well.
- Market Analysis: Provide a short definition of your market and its segments. List the size and touch upon your customer's characteristics and buy motivations. Include a brief competitive analysis, your top risks and solutions, and a synopsis of the primary business opportunities your analysis has uncovered.
- Marketing: Outline your strategies for reaching your target market, including your sales plan strategies and distribution channels. Discuss your promotions ideas, the marketing programs you are currently executing, and those you plan to implement.
- Provide track record data if you have any, such as initial responses to your product or promotions to date
- Financial Plan: Outline your current financial picture and list the capital requirements, need dates, and major purposes for the funding: Explain it in terms of opportunities and return on investment. Emphasize the effect this has on your ability to meet your mission and financial goals and financial goals of your reader. Include a conclusion that restates the major opportunity and request of your plan as succinctly as possible. Boil it all down to a paragraph or two.

It is critical that the concluding statement of your Executive Summary is compelling and provides clarity. Since the entire Executive Summary is no more than three pages, the conclusion can only be, at most, a paragraph or two. Spend some time on this and get it just right. For example, your conclusion might say,

Falvio's Fajitas has enjoyed a 8% growth rate over the last 2 years at our current location. Our market research, competitive analyses, and customer response convinces us that a second location in New Valley Mall will triple that growth figure in less than one year, thus allowing us to repay the requested investment of $75,000 along with 11% interest, in 18 months.

Remember, everything that holds true for each section of your plan also holds true for its summary. You don't want to endlessly repeat yourself, but your Executive Summary should hit the very same major points that are made in the various sections of your plan.

Executive Summary Checklist

- Have you written all of the other components of your business plan? (If you haven't, you shouldn't begin writing the Executive Summary.)
- Does your Executive Summary convey to the reader that you have an accurate under-standing of your business?

- Does your Executive Summary compel the reader to continue on in order to obtain a fuller picture of your company?
- Does your Executive Summary cover the most important points and the spirit of your business plan?
- Does your Executive Summary contain highlights of your company, its products, its markets, and its financial position and performance, both current and projected?
- Does your Executive Summary demonstrate knowledge of your industry, management requirements, and finances?
- Does your Executive Summary convey the relevance of your business plan to your reader's purpose?
- Does your Executive Summary clearly outline how you will pay back investors?
- Is your final copy of the Executive Summary no more than three pages in length?

Presenting Your Business Plan

The future is purchased by the present.
~ Samuel Johnson

Your target audience will judge your company by the presentation of your business plan. It should be clearly and concisely written, informative and verifiable. Your plan must be presented and packaged in an effective and professional manner. This appendix covers many useful suggestions in these areas. It discusses

- Packaging your plan
- Presenting your plan
- Follow-up
- Final Review

Packaging Your Plan

Your business plan may vary in length depending on the product or service and the intended purpose of the plan. In most cases, limit the plan to anywhere from 5 to 35 pages, not including Financials and other Supporting Documents.

After you've completed the first draft of your business plan, utilize your word processing package to check the plan for spelling, grammar, and punctuation. Solicit someone with editing skills to review the plan for both content and grammar. Verify that company name, address, and phone number on the Title Page is correct. Errors can easily turn off a potential investor or other evaluator. Solicit at least one person who has experience with other business plans or your particular business to review your plan.

The final version of our plan should be typed or printed on a laser output printer. Use high quality paper for the final copy. A 20-pound bond paper or better in white, ivory or gray creates a professional appearance.

A Table of Contents at the front will assist the reader in finding the information in your business plan. Make sure the page numbers correspond with the pages in the body of the plan. Use your word processor to add headings, subheadings as well as footers and headers to your business plan. Use bullets to indicate items of information that you want the reader to notice. The use of index tabs, (available at any office supply store), to separate the sections is also recommended.

To ensure a professional appearance, limit your document to two or three fonts. Enhance the key points with bold, italic or underline. Standard, easily readable type such as Helvetica for titles and Times Roman or Palatino for the body of the text is recommended. Frame your text by leaving a margin of at least 1 inch around the top, bottom, left, and right margin. Don't be afraid to leave white space as this will make your plan easier to read.

The use of plastic spiral (GBC) binding or covers purchased at an office supply store will also provide a professional look. If your plan is going to bankers or investors, it helps if you can find a way to stand out from the crowd. Show some creativity by dressing up the cover to reflect something about your business.

For our sample business plan, Sun & Fun Bike Tours, we might use a bike wheel or a scenic view from the tour on the cover. Use restraint here.

Before distributing your business plan, have your lawyer, accountant, and other professionals review and approve or sign off on the sections they helped prepare. You should number each plan and have a place for the signature of those to whom you are circulating the plan. This conveys the value of the plan and helps protect its proprietary nature. If appropriate, include a private placement disclaimer on the first sheet. It is also a good idea to include a personalized cover letter to each person to whom you send the plan, highlighting his or her particular interests.

Distributing Your Plan

Now that you have your business plan written and printed, you are ready to distribute it. Limit access to those individuals who are either potential investors or who may have significant impact on your business. For tracking, number the plans and list the name of the individuals who has received the copy. Use a number below 12 to indicate the number of individual copies of the plan is limited. If you release different versions of the document, you may want to add a code to the number (example: Copy 12C.1).

Prohibit copying by including a statement on the Title Page or Table of Contents, such as "The contents of this plan are proprietary and confidential. It is not to be copied or duplicated in any way."

It is important to place a disclaimer on your title page to indicate that your plan is not an offering for sale but rather a document for informational purposes. Consult an attorney for a recommendation on the appropriate disclaimer. An example of typical disclaimer is "This is a business plan. It does not imply an offering or Securities."

Mailing out unsolicited business plans violates securities laws when the plan contains language offering to sell stock in your company. The only exception to this rule would be Rule 504, Private Placements, which does permit general solicitations. Do not mail out unsolicited plans or advertise for investors unless you qualify for the Rule 504 exemption.

If you are not sure, take the precaution of establishing a business or personal relationship with a prospective investor before you send them anything. Offers to family, friends, and business associates are rarely considered solicitation.[1]

Finally, insist that a Non-Disclosure form be signed by each reader. This is a simple statement in which readers agree to refrain from revealing the plan's contents or ideas to anyone else.

Presenting Your Plan

If you are using your plan to raise capital, you may want to personally present it to bankers or investors. Many of the same rules of writing a business plan apply to presenting it.

Keep it short and to the point. For instance, limit your presentation to half an hour or less. Like your written plan, the presentation should be concise and easy to understand. Extract the most important points and run through them in an interesting and logical way. Don't be afraid to be enthusiastic about your product or service, but be realistic in your claims. Use visual aids. Using slides or overheads with simple points or phrases helps to keep your audience focused.

Note: Some investors deliberately take a contrarian point of view: They see and hear so many bad pitches that they have come to initially presume that you, your business idea, opportunity, etc. stink until proven otherwise. If they cannot kill it, maybe it is strong enough to be worthy of their investment. You can overcome this sentiment, just be aware of this possibility and that it's not personal.

Involve several members of your management team. For example, have your marketing executive speak for five minutes and then have your financial executive review the highlights of his area. This will give your audience exposure to your team.

If appropriate demonstrate your product or service. Bring a sample, if possible. Generating enthusiasm and excitement for your product or service is the best way to gain the confidence of the banker or investor. Leave a written copy of your business plan so the banker or investor can review information that may not have been covered by your presentation.

Non-Disclosure Agreement

This agreement is designed to protect your company, ideas, assets, and competitive position from inappropriate use of your confidential information by the evaluator of your business plan. Keep the agreement short, and make sure that it provides you with clear and adequate protection.

Cover Letter

When submitting a business plan, it is essential that you include a cover letter. In the cover letter you can tailor your plan to the particular reader. (Rather than trying to tweak your plan to accommodate the investor or lender, you can address their individual requirements in the cover letter – give them the perception that your entire business and plan fit their specific criteria.) The cover letter is the first document read, so keep it brief. At the same time, you want to motivate the reader to continue reading your business plan. *We have provided several variations of cover letter templates in the Plan Presentation folder in BizPlanBuilder.*

The cover letter should include:

- Name of your company and type of business
- Reason you have chosen this person to receive your plan
- Vision and mission of your company, in brief
- Intended purpose of submitting your business plan for evaluation
- Amount and type of funding you are seeking, if applicable
- Allocation/use of the funding
- Return on investment for investor

Follow-Up

Having completed and distributed the business plan, it is time to follow-up with your potential investors and other readers. Approximately 7-10 days after you have delivered your business plan, a brief and professional phone call or letter to confirm that the evaluator has received your plan. Determine their reaction to your business plan and identify your next steps. *See also Appendix B: 65 Ways to Finance Your Business and Appendix D: Resources, for additional resource material.*

Final Review

Remember, your reader may typically spend only 5-10 minutes reviewing your business plan. The two sections, Executive Summary and Financials must especially encourage the reader to read the other sections of your business plan. Review the following questions. Does your plan address these important questions?

- Have I conveyed my company's vision?
- Do I have the needed management team in place?
- Is there a market for my product or service?
- Have I given a clear description of my product or service?

- Have I defined my target market?
- Do I understand my competitors' weaknesses and strengths?
- Are the financials realistic and in line with lending patterns?
- Does the plan describe the ROI for the investor?

If your company is well portrayed in your business plan, then distribute your plan and see what the reaction is. If the plan achieves your intended purpose, immediately, we congratulate you!

You have now created a document that is easy and simple to update as needed. If adjustments in plans for your business are recommended, and you agree with their recommendations, make the necessary changes and try again. Some of the biggest success stories have come from people who received numerous rejections along the way. Use the recommendations to learn and apply what is necessary, and your next business plan will set you on the course to success.

Sample Plan: Sun & Fun Bike Tours

The mode by which the inevitable comes to pass is effort.
~ Samuel Johnson

I started bike touring in college and I've never really stopped. It's what kept me sane through my years in corporate land. I was always organizing weekend rides and then started putting together longer vacation trips for me and my friends, and I loved it. Planning the routes, figuring out great places to stay and eat along the way. So one day I thought, hey why put up with all of the corporate BS and working so hard to make a lot of other people money? Maybe I could turn my love for touring into a business. I mean, why not?

At first my wife thought I'd really lost it. What about our house and retirement? We must have spent at least six months discussing it. That was the toughest part really, getting psychologically ready to jump off the cliff.

The first person I talked to after that was my brother-he's an attorney in private practice and I figured he'd know all about being business for yourself. jack thought it was terrific idea right from the start-he'd been on several of my trips-so the first thing he asked me was to look at my business plan.

My business plan?

"How do you expect to get any start-up money without a plan?" he asked.

Well, I haven't gotten that far yet, I said. That s when it hit me that this was really the beginning of a brand new life.

It took six months of hard work to get the company off the ground. We got a $75,000 bank loan and I raised $85, 000 from investors on the strength of our business plan. It was barely enough-what with a van, trailer, four dozen bikes, insurance, cooking gear and on and on.

The first 9 months we ran everything out of the house. A friend designed our first trip brochure-a little 4pager with six trips-to Yosemite, Napa Valley, Yellowstone, the Redwoods, Monterey, and my favorite, Baha California.

We filled them mostly with family, friends and friends of friends. Somehow I led all the trips and Nancy, my wife, handled the reservations while still keeping her day job.

Luckily the trips went great and people really raved about the accommodations—especially the inns in the wine country. I was exhausted, but knew we were on to something. So, in the next brochure we doubled the number of trips and I started training 3 college students to work as guides. We printed color brochures this time and I mailed them to everyone in the universe I had ever met.

With two weeks to go we were half-booked-but we needed at least 75% to break even. Ads were way too expensive, so I knew we needed some good publicity, but how to get it?

Sun & Fun Bike Touring

Business Plan

January 2008

____
Business Plan Copy

John Smith
Chief Executive Officer
123 Rolling Hills
Paradise, CA 99999
(408) 999-9999

Contents

Executive Summary Company Direction

In 2008, Sun & Fun Bike Touring was formed to provide bicycle touring vacations throughout the United States and Europe, and cater to people who believe a vacation should be a real adventure.

Now, Sun & Fun Bike Touring is at a point where the company would like to expand its bike touring packages to include areas throughout the United States, and also in Canada, Europe and Mexico.

Company Overview

The legal name of Sun & Fun Bike Touring is John Smith, dba Sun & Fun Bike Touring. The legal form of the business is Sole Proprietorship. The business location of Sun & Fun Bike Touring is 123 Rolling Hills Lane, Paradise, CA 99999.

Management

Our management team consists of people whose backgrounds consist of 20 years of marketing with IBM and JIAN, and 10 years of corporate development with Hyatt Hotels. Our In-House Management is John Smith, President, and Susan Smith, Vice President of Marketing & Sales.

Outside Management support includes Jeffrey Stockendeal, Accountant/CPA and Jack Smith, Corporate Attorney. Additionally, our outside management advisors provide tremendous support for management decisions and creativity.

Product Strategy

Sun & Fun Bike Touring has recently begun offering bike touring vacation packages throughout Northern California, Mexico and Wyoming.

Our principal product consists of 6-day bike tour vacation packages for people who enjoy an active and adventurous vacation.

The first bike touring trip, Sun & Fun in Baja California, was introduced in late 1993. Since then, we have also developed new biking tours for 2006 in the following five areas: Monterey, Redwood Country (Humboldt County), Napa Valley Wine Country, and Yosemite in California and Yellowstone in Wyoming.

In response to demonstrated needs of our market, in October, 1994 we will begin to include weekend getaways for families, tandem bike touring and custom tours. New 6-day bike tours are being developed for many areas, including the Snake River area of Idaho, the San Juan Islands of British Columbia, Alaska, France and Spain. These tours will begin in April, 1995.

Market Analysis

The growth in the use of bicycles as a means of exercise and recreation has increased dramatically in the last 10 years. Events such as the Tour De France Race and the Olympic Games have increased public awareness of the sport. The bike tour market is growing at a rapid rate. The U.S. market alone for these products amounted to $2.5 million in 1992-representing a 10% growth over the previous year.

The area of biggest growth in the bike tour market is in the area of travel vacations. Sun & Fun Bike Touring’s target market includes young professional health conscious adults with substantial discretionary income who enjoy cycling. The common motivations appear to be a strong conviction for combining a vacation with a desire for a healthy lifestyle.

Companies that compete with Sun & Fun in this market are Pacific Trail Adventures, Progressive Vacations and Walk & Bike America.. Companies surveyed charged competitive prices for bike touring vacations in the following ranges:

- 2-Day tours $298-$390
- 6-Day tours $798-$1297

The top business risks that Sun & Fun Bike Touring faces as it begins to expand in the bike tour market are personal liability and the economy. An environmental risk that may cause some concern is weather.

Marketing Plan

Sun & Fun Bike Touring's marketing strategy is to enhance, promote and support the fact that our bike tours offer vacations that are scenic, healthy, safe and fun.

We plan to treat bike tour vacations as a long term product for our customers, with repeat sales, hopefully on at least an annual basis. As such, the target market segment we are focusing on are young health conscious-professional adults who enjoy combining cycling with their vacation.

Sun & Fun Bike Touring is incorporating plans to sell our bike tours through several channels: through a network of travel agencies, through bicycling associations and clubs and through direct sales.

The determining factors in choosing these channels are low cost and effectiveness in targeting specific customer markets. Our mix of distribution channels will give us the advantages over our competition of targeting specific customers and providing tours for varying levels of fitness and abilities.

As of the first six weeks in business, Sun & Fun Bike Touring's paid customer list is approaching 100 and we have had inquiries of interest from another 400+ people.

Advertising & Publicity

Our advertising and promotion strategy is to position Sun & Fun Bike Touring as the leading provider in the market. We will utilize direct response mail, direct response advertising, and telemarketing to allow our message to reach our customers.

For the next 12 months, advertising and promotion will require $31,000. On an ongoing basis we will budget our advertising investment as 10% of total sales.

During 2006, Sun & Fun Bike Touring will focus on the following publicity strategies: listings in newspaper, newsletters (our own and various sports clubs), local radio and event calendars.

We anticipate at least 15% increase in sales will be generated directly from our publicity, and possibly an additional 5% increase of indirect sales through our other various channels.

Financial Plan

Our objective at this time is to propel the company into a prominent market position. We feel that within 2 years Sun & Fun Bike Touring will be in a suitable position for further expansion.

The equity required at this time is $85,000. This will be raised through private investors. We require additional financing of $75,000 in June, 2006 to enable us to increase our tour capacity to meet market demand.

The level of safety is high for this industry based on management's substantial prior business experience and the level of collateral and motivation provided by management's personal financial guarantees.

The equity raised will be used to purchase new equipment and to finance the initial operating losses. The proceeds of the loan will only be used to purchase additional equipment to enable us to provide more than one tour at any given time.

Exit/Payback Strategy

The financial projections indicate that the bank loan will be paid in its entirety in the middle of the second year. The shareholders will be repaid through annual distributions of equity. Equity distributions of $175,000 will be declared during the first two years. For each $1.00 of equity invested we expect to return $2.00 over the first two years and $7.35 over the first five years.

Company Direction Present Situation

Sun & Fun Bike 'Pouring was founded in 1994 and is presently in its start-up stage. Our company can be described as currently being in the business of organizing bike tours. Our key strengths have been thorough planning and organization and sharing with our customers an insightful and personal view of the local area, food, and people on our bike tours.

Most of our management team is in place, however, we require a Marketing manager to complete our team by January, 1995. Also, we are currently hiring three employees to serve as additional tour guides.

At present our bike tours are in the early development stage. Our current product line will need to be expanded to include additional locations and services.

Market & Sales Environment

The bicycle touring marketplace has undergone rapid growth during the last five years. We are now poised to take advantage of this increased interest in cycling.

Current prices are holding and profits are increasing.

Current customers are using our service to escape the "humdrum environment" of the business world to participate in a biking adventure in a variety of scenic locations. Our customers are requesting that we increase our vacation selections to include trips to Alaska, Canada, and Europe in addition to several new areas within the continental U.S.

Vision

The long-range *Vision* of Sun & Fun Bike Touring is that by 1998 it will be a highly visible company known as the best bike tour company in the travel industry. We will have developed over 100 new travel packages and marketed these products, becoming a leader in bike tour vacations. Sales will exceed $1.25 M annually and Sun & Fun Bike Touring will also be actively promoting its "2-day getaway" family and corporate packages.

Mission

In order to achieve our vision, Sun & Fun Bike Touring commits to the following: Sun & Fun Bike Touring is to provide a fun, active and healthy alternative for the way people take vacations. We believe our first responsibility is to our customers. Our strong financial position will enable us to expand to a variety of locations and package offerings. In carrying out our day-to-day business we strive to:

- Treat our employees with respect and fairness.
- Follow the philosophy that our customers are usually right.
- Be considerate and caring of people and places we visit.

Through a long-term commitment to this mission, we will be known as a company that is caring of the customer and the environment. Our profits will be in part derived from the enjoyment and satisfaction our customers gain from our products.

Strategic Goals

In order for Sun & Fun Bike Touring to attain its vision in the manner described in our mission statement, the following primary strategic goals need to be achieved: Products: By October 1994, Sun & Fun Bike Touring will develop additional new bike tours and "2-day getaway" trips for families. By April, 1995 new 6-day bike tours will be offered for the Snake River area of Idaho, the San Juan Islands of British Columbia, Alaska, France and Spain.

Market: By January, 1995 Sun & Fun Bike Touring will have an active customer base of over 500 names. We will expand our marketing efforts and generate a list of qualified leads in excess of 10,000 names.

Sales: During 1995, Sun & Fun Bike Touring's sales-related goals include an increase of 62% growth in sales from 1994, based on our current marketing plan.

Finance: By 1995, Sun & Fun Bike Touring will carefully evaluate and plan investments and budget expenses to generate a consistent 10% pretax profit. Based on a 10% market share for bike tours by 1995, we estimate our return on investment to be 60%. We feel very confident that the above goals can be reached.

Company Overview

Legal Business Description

The legal name of Sun & Fun Bike Touring is John Smith, dba Sun & Fun Bike Touring. The legal form of the business is Sole Proprietorship. The business location is 123 Rolling Hills Lane, Paradise, CA 99999.

Management Team

Our management team consists of people whose combined experience consists of 20 years of marketing with IBM and JIAN, and 10 years of corporate planning with Hyatt Hotels.

In-House Management

- John Smith, President

Responsibilities: Develops and maintains the vision of the company. Oversees marketing, product development, production, finance, and customer service. Approves all financial obligations. Seeks business opportunities. Directs and coordinates financial programs to provide funding for new or continuing operations in order to maximize return on investments and increase productivity.

- Susan Smith, Vice President of Marketing & Sales

Responsibilities: Manages market planning, advertising, public relations, sales promotion, merchandising, and facilitating staff services. Identifies and oversees new market research and competitive research. Directs staffing, training and performance evaluations to develop and control sales program. Manages all administrative activities.

Outside Management Support

- Jeffrey Stockendeal, Accountant/CPA
- Jack Smith, Corporate Attorney

Additionally, our outside management advisors provide tremendous support for management decisions and creativity.

By January, 2006 an outside Board of Directors, including three highly qualified business and industry professionals, will assist our management team in making appropriate decisions and taking the most effective action; however, they will not be responsible for management decisions.

Staffing

Sun & Fun Bike Touring's development team recognizes that additional staff is required to properly support our growth. Currently, Sun & Fun Bike Touring is composed of 5 people; 25 will be required to meet the demands of the projected market over the next five years.

Product Strategy Current Products

Sun & Fun Bike Touring currently offers bike touring vacation packages throughout Northern California, and in Mexico and Wyoming.

Our principal product consists of 6-day bike tour vacation packages for people who enjoy an active and adventurous vacation.

The first bike touring trip, Sun & Fun in Baja California, initiated in January 1994, consists of a circular tour starting in La Paz, along the Sea of Cortez and extending down the coast to the sleepy town of Cabo San Lucas and then north to the village of Todos Santos, along the deserted Pacific Coast. Adobe bungalows and local Mexican cuisine provide spicy touches to this package.

Since then, we have introduced five new biking tours for 1994 to include:

Sun & Fun in Monterey, Sun & Fun in the Redwoods (Humboldt County), Sun & Fun in the Napa Valley Wine Country, Sun & Fun in Yosemite and Sun & Fun in Yellowstone.

Useful Features/Benefits

All bike touring vacations from Sun & Fun Bike Touring provide:

- Top quality bicycles geared especially to meet the needs of the tour; 18-speed tour bikes and 21-speed hybrid mountain bikes
- Bicycle helmets and small bike packs
- Detailed maps and written itineraries
- 2-3 meals each day
- Distinctive, comfortable lodging
- Miscellaneous activities such as wine tasting, local museums/historical points of interest and inter-trip transfers
- Support vehicles for refreshment, luggage or transportation for the tired biker
- Professional tour guides to provide leadership, support and encouragement along the way

The tour guide's detailed knowledge of regional bike paths and points of interest is a particularly unique feature enjoyed by Sun & Fun Bike Touring and our customers. With small groups, averaging only 15-16 people in each tour, different skill levels can be easily accommodated.

Tour levels range from easy to challenging. *Easy is* ideal for entry level cyclists. A minimum level of fitness is required. *Moderate is* suitable for entry level cyclist and above. *Challenging* is best suited for avid cyclists and those who are in good physical condition. For those who want more challenging routes, our guide can provide information on side trips as well.

Research & Development

Much of the time and effort at Sun & Fun Bike Touring, during the last 6 months, has been spent researching and coordinating new and exciting destinations for bike tours. Our plans for 1995 and beyond call for an increase in R&D spending to 10% of sales.

In response to the demonstrated needs of our market, new types of bike tours are being developed to include weekend getaways for families, tandem bike touring, and custom tours. The planned release date for these new packages is October 1994. By April, 1995 new 6-day bike tours will be offered for the Snake River area of Idaho, the San Juan Islands of British Columbia, Alaska, France and Spain.

Product Selection Criteria

Because marketing is the largest expense and it is where most of our effort is applied, the focus on our customer is a very important criterion. The idea is to keep our customers by continually offering them attractive new packages. Wise selection and superb organization is therefore critical to Sun & Fun Bike Touring's success.

To assure the best possible product decisions we have implemented the following criteria for evaluating and selecting new locations:

- Value & comfort
- Cuisine & lodging
- Scenic location and interesting attractions

Planned Products

Because of the increased interest in biking and as the environment, our customers' needs, and our capabilities change Sun & Fun Bike Touring will continue to add new vacation packages. This will broaden our product line and provide additional opportunities in the travel industry. In response to demonstrated needs of our market, new products being developed in the near future include

Market Analysis Market Definition

The growth in the use of bicycles as a means of exercise and recreation has increased dramatically in the last 10 years. Events such as the Tour De France Race and the Olympic Games have increased public awareness of the sport.

The bike touring market has grown at a rate of 10% per year for the last 4 years. In 1992 this amounted to $2.5 million in the U.S. Estimates for 1994 are for a U.S. market in excess of $3 million. According to the Travel Industry Market Report, the overall market for the bike touring industry world-wide is projected to be $10 million by the end of 1999. The area of biggest growth in the bike tour market is in the area of "travel vacation packages".

Market Segment

In examining the market segment for bike tours we find customers who are professional or management personnel, with considerable discretionary income, and are health-conscious. These people are looking for professionally-run bike tour vacations which provide an adventurous and healthy vacation alternative.

In the next 4 to 5 years it is estimated that there will be more than 100 bike tour packages offered annually by Sun & Fun Bike Touring to over 20 different locations. The market potential for our bike tours in these quantities-with a current average retail price of $990 per unit-translates to a market share of 12.7% of the overall market.

Strengths & Weaknesses

In terms of product strength, Sun & Fun Bike Touring has a distinct advantage over the competition. The tour bicycles offered, as well as the support equipment, are of very high quality. The local tour guides provide their personal insight about the natural beauty of the land, architecture, and the people. Our management's knowledge of bike touring is without equal.

One inherent weakness is our current product line is limited to 6 vacation packages. By 1995, we should be able to position our business more competitively by offering several new and exciting locations for new and repeat customers.

Corporate weaknesses reflect the limited staff to handle the increased customer demand. However, we are taking steps to hire additional guides and administrative staff to handle the increased sales. We will also subcontract services as needed until sales warrant additional employees.

Future Opportunities

A new application for bike touring would be adding customized 2-day getaway packages and tandem bike touring to our existing locations. We have introduced this idea earlier in this plan.

Further opportunity for our bike tours exists in other complimentary markets. By combining other activities such as running, walking, river rafting, and cross-country skiing with our bike tours, we would provide new and unique vacation packages for our customers.

Still another possibility involves providing custom 2-7 day packages to special groups such as families, reunions, corporations, etc.

Customer Profile

Sun & Fun Bike Touring's target market includes young professional health conscious adults who enjoy cycling. Over 40% of our customers are dedicated cyclists. Approximately 30% seek the relaxing health benefits of cycling. The age profile is between 20-50, with a majority of customers in the 25-40 range. Most of our customers are professional or management personnel with considerable discretionary income. The common motivations appear to be a strong conviction for a healthy form of exercise during a vacation and scenic locations.

Competition

The three top companies that compete in this market are Pacific Coast Trails, Progressive Vacations and Walk & Bike America. All companies we surveyed charged prices for bike touring vacations in the following ranges:

- 2-Day tours: $298-$390
- 6-Day tours: $798-$1297

The major weaknesses of our competitors are lack of in-depth personal knowledge of the countryside to provide insightful tours, and inadequate lodging and food.

Risk

The business risks for Sun & Fun Bike Touring include possible liability issues as would be the case in any business providing adventure services to the public. The managers of the business have also not had long term direct experience in providing commercial bike tours.

Environmental factors that could affect the success of the business include the general state of the economy, which directly influences the amount of discretionary income that people have to devote to adventure vacations. Also, adverse weather could influence the profitability of individual tours being offered.

Addressing these risks is a major part of Sun & Fun Bike Touring's regular planning effort.

Marketing Plan

Sun & Fun Bike Touring's marketing strategy is to design, promote and support tours that are professionally organized and provide a quality and healthy vacation experience located in some of the most scenic locations around.

The overall marketing plan for our product is based on the following fundamentals: (1) Type of business; (2) Segment of the market; and (3) Share of the market.

To prove and improve the value of our bike tours we will regularly survey our customers and travel agents, and track the reviews from publications and associations.

We treat our bike tour vacations as a long term product, with regular repeat customers. As such, the target market segments to focus on are young health-conscious professional adults who enjoy combining cycling and adventure with their vacation.

Our bike tours are seen by the consumer as a good value and a healthy alternative to a traditional vacation. Its unique advantages of travel combined with bike touring can be exploited to arrive at a winning position in the consumer's mind. Repositioning our bike tours as an escape from civilization would also be effective.

Sales Strategy

The prices for our products are determined first and foremost by cost for supplies and accommodations, and then by competition's range of prices. It is important to know that perceived value pricing is essential to our market profile. Compared to the competition, our prices are in the mid-range.

Different seasonal aspects of our market affect our pricing because of demand for some vacation areas in high and low season. We feel that our customers will pay our prices because of their customer profile and our high quality service.

We can take advantage of volume purchases by regularly booking in advance. We plan to review our pricing and product/service margin every six months.

Distribution Channels

Sun & Fun Bike Touring's plans to sell our vacation packages through several channels. The determining factors in choosing these channels are quality service and effectiveness in targeting specific customer markets.

Key competition uses similar distribution channels. Our mix of distribution channels will give us the advantages of targeting specific customers over our competition.

Executive Sales. Because many of our future customers will be top corporate managers and leaders of associations, it is important that our company president and senior managers present our product to these customers.

Direct Sales. Much of Sun & Fun Bike Touring sales will be in response to our ads and brochures. This is handled internally through direct sales by our staff.

In 1995 Sun & Fun Bike Touring anticipates hiring an additional sales representative to cover additional territories throughout the U.S. and Europe.

We have chosen to use a direct sales force because our products require considerable customer education and post-sales support-directly from the company. Our price point, pricing structure and profits are such that our costs of sales often warrant a "person-toperson" selling strategy.

Direct Mail Response. All direct mail activities from April through June of this year will be directed to our existing customer base and their referrals. In addition, we will purchase targeted mailing lists for future mailings.

We have begun exploring the benefits of incremental, coordinated direct mail programs for the last two quarters of 1994. We anticipate a strong profit potential as we strengthen our direct response capabilities. We will be approaching this scientifically, as we improve our customer targeting ability. We propose two 5,000 piece campaigns, each preceded by a 100 piece test.

Telemarketing. We will use an in-house telemarketing service to provide outside sales support, respond to inquiries and generate new business.

Customer Service

Our customers emphasize that service and support is one of their major concerns. They are constantly impressed with the current support we provide and we intend to further emphasize impeccable support. The purpose for this service is to assure customer satisfaction and loyalty allowing us to increase sales as well as to maintain a high profile within our industry.

Advertising & Promotion

Sun & Fun Bike Touring recognizes the key to success at this time requires extensive promotion. This must be done aggressively on a wide scale. To accomplish our sales goals, Sun & Fun Bike Touring plans to advertise in major trade magazines such as Sports City and the Bicyclist. Upon funding, an agency shall be selected and, with their assistance, a comprehensive advertising and promotion plan will be drafted.

We will position Sun & Fun Bike Touring as one of the leading providers of bike tours in the market. We will: increase company awareness and recognition among the bicycling community, travel agents and existing customers; generate qualified sales leads for follow up by our sales organization; create product advertising programs supporting the vacation adventure and fun position; and coordinate sales literature, demonstration materials, telemarketing programs, and direct response promotions in order to increase sales.

Media Objectives & Strategy

We plan to gain and maintain awareness of Sun & Fun Bike Touring among travel agents, customers and corporations. Establish our image as an organization that is professional, completely reliable, and highly positioned in the market. We will maximize efficiency in the selection and scheduling of advertisements in publications to cover biking and travel markets.

We will select primary consumer and business publications with high specific penetration to our target market. We will maximize ad life with monthly and weekly publications and rotate ads among them.

We will begin with black and white ads at this time and begin testing color ads in 1995.

Promotional Campaign

The best way to reach our potential customers is to develop an intense advertising campaign promoting our basic premise-"biking touring for a real adventure vacation". To establish our company image, the delivery and tone of our statements will be travel, fitness and health. Ads will convey the look and feel of a successful active professional who enjoys biking on his vacation.

To eliminate the biggest objections to immediate action, our advertisements must address how easy and fun it is to take a bike tour. Because bike tours are unique, it is important to develop a promotional campaign that shows the personal and intimate view of the land and people when traveling by bike.

In addition to standard advertising practices, we will gain considerable recognition through newspapers, newsletters and public announcements.

We will have a presence at one trade show in 1994 and at four trade shows in 1995.

Bike tours will be displayed as a service in a travel agent environment — a showcase for Sun & Fun Bike Touring's products.

Consumers will be encouraged to call our 800 phone number for more information. Given the growing potential of alternatives to travel agents, we are building our capabilities in database marketing. Our periodic customer surveys will help us understand our customer, and measure the success of our marketing, sales and product activities. Profile overlays or other lists that we buy will fill in our awareness gaps.

To portray Sun & Fun Bike Touring as the leading supplier of vacation bike tours we have developed a trip brochure available for review. Our plans call for an expanded color brochure to be available by May 15 of this year.

Our advertising and promotion will require 10-20% of sales the first year. On an ongoing basis we will budget our advertising investment as 15% of total sales. This figure is necessary because of our objectives to expand through the U.S. and Europe.

Publicity

Our publicity efforts are intended to accomplish the following:

- Position Sun & Fun Bike Touring at the leading edge in providing bike touring vacations.
- Increase Sun & Fun Bike Touring's reputation and name among customers, travel agents and corporations.

During 2006 Sun & Fun Bike Touring will focus on the following publicity strategies:

- Develop a sustained public relations effort, regularly contacting key editors and top-level personnel.
- Develop a regular and consistent product update program for the major target media, keeping key editors abreast of enhancements and new tour introductions.
- Develop an internal newsletter that can cover key sales successes, significant industry events, and testimonial stories from our customers. Internally, the newsletter would be targeted at all company personnel and sales representatives; externally the piece would be targeted at key customers and prospects.

Financial Plan

Summary/Analysis of Financial Statements

Primary income-related items

Years	2006	2007	2008	2009	2010
Sales	$592,000	$960,000	$1,056,000	$1,161,600	$1,277,760
% Growth		62%	10%	10%	10%
Gross Profit	$246,377	$415,147	$456,661	$502,326	$552,559
% Growth		69%	10%	10%	10%
Operating Income	$217,614	$322,819	$355,300	$391,414	$431,572
% Growth		48%	10%	10%	10%
Net Income	$25,055	$88,620	$101,361	$110,912	$120,987
% Growth		354%	14%	9%	9%
Income Ratios					
Gross Profit Margin	41.6%	43.2%	43.2%	43.2%	43.2%
Oper. Income Margin	4.9%	9.6%	9.6%	9.6%	9.5%
Net Income Margin	4.2%	9.2%	9.6%	9.6%	9.5%
Return on Equity	23.0%	60.0%	81.0%	129.0%	213.0%

Income Statement

The Income Statements in the Supporting Documents section reflect the annual values for five years. The Sales & Marketing expenses include a 10% commission or referral program, we have budgeted that this will average 7.5% when averaged with repeat and call-in sales. The 50% increase in General & Administrative expenses in the second year reflects the addition of an office person to handle the larger volume and the implementation of a management incentive program.

Balance Sheet

The Balance Sheets in the Supporting Documents reflect the annual values for five years.

Break-Even Analysis

Our Break-Even calculations show that after the initial investment the break-even point will be reached in May, 1994. Sales are projected to be $20,000 above break-even during the summer months of 1994. The contribution margin for the first year is 42.5% representing $251,541.

Cash Flow

The Cash Flow (or Statements of Changes in Financial Position) in the Supporting Documents section reflect the annual values for five years. A very generous equity distribution program is projected.

Capital Requirements

The equity required is $85,000. This will be raised through private investors. We require additional financing of $75,000 in June, 1994 to enable us to increase our tour capacity to meet market demand.

The level of safety is high for the funding we are requesting based on management's substantial prior business experience and the level of collateral and motivation provided by management's personal financial guarantees. In addition to the operation of the business, protection is provided by the company vehicles as collateral. In a worst case situation, the realizable value of the company assets collateral would be $60,000.

How Funds Will Be Used

The equity raised will be used to purchase one van, one trailer, 16 new bicycles, a computer and other miscellaneous equipment and to finance the initial operating losses. The proceeds of the loan will only be used to purchase equipment consisting of a second van and trailer, an additional 32 bicycles, a second computer and other miscellaneous equipment.

Exit/Payback Strategy

The financial projections indicate the shareholders will be repaid through annual distributions of equity. Equity distributions of $175,000 will be declared during the first two years. For each $1.00 of equity invested we expect to return $2.00 over the first two years and $7.35 over the first five years. Projections also indicate that the bank loan being sought will be paid in its entirety in the middle of the second year.

Conclusion

Based on the attached financial projections, we believe that this venture represents a sound business investment for both the investors and the bank.

In order to proceed we are requesting equity investments of $85,000 by January 28, 2006, bank loan approval for $75,000 by May 15, 2006 and funding by June 7, 2006.

65 Ways to Finance Your Business

***There's a certain Buddhistic calm that comes from having...
money in the bank.***
~ Tom Robbins

While navigating your new or existing business on its intended road to success, there are many varied funding paths you can take. The following information will help you conduct informed evaluations of capital in the right places early on, before your funding needs jeopardize your business. It presents insights to help you reach your business goals, which can give you leverage and advantage over someone else who may begin the process only when already desperate for immediate financial assistance. This discussion includes:

- Identifying Your Capital Needs
- Narrowing the Search for Funds
- Self Funding
- Locating Private Resources
- Tapping into Commercial Funding
- Parting Tips

Identifying Your Capital Needs

Financing your business requires careful planning, research and logistics. Identifying your capital needs and seeking the right source of financing for filling those needs can get confusing and complicated at times. These duties can often cause frustration and distractions for the entrepreneur who may not have a real financial plan laid out for the business. Even with preplanning and diligent effort, the funding game can sometimes change in midstream, as economic climates shift causing the viability of various funding vehicles to vary over time.

You may have started in business as a specialist in a particular area of business: marketing, sales, R&D, or operations. Now as an owner or manager you need at least a general understanding of all aspects of business, especially appropriating and making efficient uses of funds.

The basis for your business may be a very sound concept, but funding new growth or maintaining existing growth can pose many challenges. Different types of capital requirements need different funding vehicles, all with different rules and steps similar in many ways to a game of monopoly or chess. Growing a business most often requires more capital than is readily available from existing cash flow or from the resources of the founder(s). Conversely, obtaining too much capital or raising it too soon can cause other problems for the business.

The first step in this search is to learn and understand the pros and cons of the various types of capital needed by your enterprise. Capital comes into your business in two ways: as Equity capital or as Debt capital.

Equity financing is the investment of the owner(s) in the company. It stays in the company for the life of the business (unless replaced by other equity) and is repaid only when and if there is a surplus in the liquidation of the business—after all creditors are paid. Usually getting new equity is very difficult, especially during the early stages of the business.

Debt financing, on the other hand, can come into the business in a variety of ways. It comes for a defined period of time and is paid back with some form of interest.

The financing of your business can be further classified as start-up financing (which is usually equity), working capital financing and growth financing. Start-up financing is the financing to get the company to an operational level including the costs of getting the first product(s) to market. This is best done with equity and long term loans or leases.

Working capital is required to drive the day to day operations of the business. In most businesses the operational needs vary during the year (seasonality, inventory buildup, etc.) and the working capital tides over the fluctuating expenses involved with doing the base business. Refer to Chapter 9, Financial Plan, for more information.

Growth Capital is not tied to the yearly aspects of fueling the business. Rather, it is needed when the business is expanding or being changed in some significant and costly way that is expected to result in higher and increased cash flow. It is generally longer term than working capital and is paid back over a period of years from the profits of the business.

Knowing specifically what type of capital your business will be needing will put you in a stronger position when evaluating how and where to seek your financing.

Narrowing the Search for Funds

Next you need to become familiar with the pros and cons of the various sources of financing and how each might cater to your specific capital needs. Are you an established business needing to buy fined assets such as a new building or new equipment? Or do you need to add a new line of inventory to your stock? Are your needs for short-term money to help you through a seasonal cash crunch? If so, the typical source of financing for these kinds of needs is a traditional commercial bank.

If you are starting a new business and have sufficient collateral but need additional capital funds, the SBA loan program might be for you.

➢ NOTE: For loans under $1,000,000, the SBA has recently begun to ease documentation and collateral requirements to encourage and support small businesses. The SBA also is encouraging women and minority-owned businesses with their new quota system. (See sections on SBA Funding later in this chapter).

However, if your proposed business is on the leading edge of technology, and there is a potential for substantial growth, venture capital might be the appropriate financing source. These types of funding are discussed later in this chapter. Knowing the specific needs of your business will help to significantly narrow the scope of your funding search.

The methods for keeping abreast of funding options available to your business include networking with industry colleagues and successful business leaders in your region, soliciting the advice of financial experts, and reading of financial publications. Many entrepreneurs and investors are now also turning to on-line financing services, which are appearing with greater regularity. Some of these services attempt to match small businesses with investors, while others electronically post lists of companies seeking investors and then allow investors to examine the lists for companies of interest. Usually both the businesses and the investors pay fees to have access to this service.

These activities will help keep you positioned for the right funding move at the right time. Keep a sharp lookout for creative ways in which other successful businesses, similar to yours, are handling their funding. Follow up any leads for funding ideas that hold promise for your type of business. Most of all, don't get stuck in a rut of focusing on only one type of financing. Keep your options open. Hold several cards that can be played at the appropriate time for your business.

Yes, seek out and listen to the best advice you can find, but always closely check out the sources of potential funding. All financial sources seek, in various ways, return on investment in relation to the risk that they perceive they are taking. This is a "given". Find out what they want in return, and when they want it. In addition, check out the people you will potentially be dealing with. Determine if they are reliable and if they know enough about your industry to be viable funding associates of your business.

Is the funder's style of business compatible with your vision and ethics? What kind of information about your business will they require to know? How far into your business will they pry? Your good questions will elicit appropriate funding information that will not only help your business' present situation, but also avoid funding scenarios that could severely handicap your business in the future.

The following is a description of many of the options available for funding businesses in today's economy. The most commonly used funding sources are described for you more fully than the less-used, narrower-in-scope methods. For your convenience, the sources have been generally grouped into the following categories: Self Funding, Private Resources and Commercial Funding.

Self Funding

The vast majority of businesses (close to 90%) are begun with less than $100,000 and close to a third are begun with less than $10,000. This kind of money is usually available to the motivated entrepreneur by taking a close look at the personal resources at his or her disposal well in advance. Several of the most common self funding methods are described here.

Personal Savings & Equity

The vast majority of new businesses are started with the main source of funding coming from personal savings or various forms of personal equity of the founder(s). This capital reflects the degree of motivation, commitment and belief of the founder in the enterprise. This type of investment also takes the shape of sweat equity, where individuals either donate their time or provide it at below market value to help the business get established. Many times entrepreneurs use profits from previous endeavors to pour into their new enterprise.

Moonlighting

Many home-based businesses are begun while the founder is still working a regular job. The income from the job can both help support the owner during negative or low cash flow of the business set up phase and it can provide working capital to augment the business's cash flow. Usually when the business begins paying as well or better than the regular job, the entrepreneur can jump ship from his/her job and devote full time to building his/her new business.

Home Equity Loans

This may be the fastest growing method of raising money for individuals. Banks generally are willing to lend up to 70% or more of a home's appraised value, minus any existing mortgage(s).

Home equity loans are generally offered through commercial banks or savings and loan associations. 1994 interest rates for second mortgages are under 12%. In some instances an approved home equity loan can be structured like a bank line of credit at slightly lower interest rates.

For tax purposes, you can deduct interest on up to $100,000 of debt on home equity loans, regardless of how you use the money, This makes a home equity loan attractive when looking for your start up capital.

Remember that since this money is secured by your home, the bank could foreclose if you fall behind in your payments.

Insurance Policies

This is a personal type of loan that is becoming more available and more popular as a method for obtaining early financing for a small individually owned business. Other entrepreneurs have been known to completely cash in their life insurance policies. Many insurance companies have, in recent years, liberalized their criteria for allowing policy holders to borrow against the value of their policy.

Tax Deferred Retirement Accounts

Dipping into your tax-deferred retirement account can be a last resort for funding your business. This works best if you are more than 59 1 /2 years of age. While the money in your Individual Retirement Account or 401(k) plan is technically available to you, you'll need to pay a 10% early withdrawal penalty plus regular income tax on money you withdraw. Obtaining funds with this method may still be worth it to you if no other financing avenues are available and you have the motivation.

It might be possible to get an unsecured loan on the strength of your retirement accounts. Although these accounts would not directly be pledged as collateral, the money could be withdrawn at a later date to repay the loan if it was required.

Credit Cards

"Pulling out the plastic" for fast funding of your business is more viable now than ever before. MasterCard or Visa card holders with good credit now often receive credit limits of $10,000 and above. By being able to carry more than one credit card, as an entrepreneur you can considerably boost the total amount you can tap into at any one time.

Credit card interest rates on cash advances vary considerably, from as high as 21% to 15% or lower. Annual fees can also range from over $50 down to zero. This means it is wise to investigate getting the best deal you can when obtaining your credit cards. It may be advantageous to close out one or more of your high interest cards and transfer the balances to lower cost credit cards. The Bankcard Holders of America (Suite 120, 560 Herndon Parkway, Herndon, VA 22070-9958) is a resource for information on low rate credit cards and building good credit.

Remember that obtaining funds through credit cards costs much more than bank loans. If you do use your credit cards for business funding, pay them off as quickly as you can. Paying only the minimum payments can extend interest for years without making much progress toward paying off the principal. Also, if your enterprise should not pan out, the credit card payments you will be stuck with may place you in a personal financial squeeze.

Bootstrapping

Often the best money to go after is the money that can be saved from the current costs and. overhead of your ongoing business. This is a commonly overlooked source when business owners and managers are looking for the elusive “pie-in-the-sky” financing. A penny so saved is literally more than a penny earned on the bottom line, and a penny less borrowed. The interest is saved on the now lower loan amount and the time and expenses associated with finding additional financing.

The process of thoroughly searching through your operation for opportunities of savings and improved efficiencies will also allow you to learn more about the intricacies of your company, which will put you in a position to manage it better—a double return on your invested time and effort. The upshot is that by becoming more efficient and cost conscious, you will be in a stronger position at all times to qualify for refinancing options as they become needed and available.

Customers

Certain types of businesses can require an advance deposit from customers, which quickly spurs cash flow. If you can encourage cash payment instead of giving the customer credit, you avoid financing him. Similarly, you can also facilitate receiving cash quickly by granting cash discounts for early payments by customers. In any case, the more quickly your success has an impact on your suppliers and customers, the more likely they are to offer such deals.

If you have a yearlong customer, but your work peaks heavily in one season, you may want to offer your customer equalized billing all year round to help even out both your cash flow and their cash flow.

If you consistently work to build an excellent reputation in your field, you will find that your customers can work with you to help finance or partially finance your enterprise.

Trade Credit with Suppliers

Actively working with your suppliers or customers on an indirect form of loan called trade credit can help generate quick cash flow and also minimize expenses. This method can take a wide variety of forms. We will examine several of these methods here to give you possible alternatives that may be workable in your business.

Some suppliers, seeing an opportunity to grow themselves, may advance goods to you to, in effect, prime the pump if your venture looks particularly promising. You may have a certain strength in being a debtor who pays back without abusing your creditors. As you generate the revenue from your sales you will have the funds to pay back the money owed and purchase additional goods. In a variation of obtaining goods advanced from suppliers, extended terms of 90 to 120 days or even longer can sometimes be pre-negotiated with suppliers during special circumstances or to assist with seasonal cash flow peaks and valleys.

If you use a manufacturer as part of your business, you may be able to utilize this manufacturer as an indirect investor, without having to borrow a penny. The manufacturer can. “lend” you capital through use of their current raw materials, labor and technical know-how. They have wholesale leverage to assist or complete part of your design, set up, assembly, etc. for far less than you would have to spend. Give them a good faith cash payment up front plus a small stake in your enterprise or a return on investment percentage based on the success of the finished product. The manufacturer, as a specialist, will be able to complete the job in less time than if you took on the whole job yourself. By both parties having a stake and motivation in the project, you may well be able to be successful without having to call in third-party investors, like bankers, venture capitalists or angels.

In certain situations, it may be beneficial for you to give a supplier, or even a landlord, equity for favorable long term arrangements. This can free up some immediate cash to help grow your business.

You may be able to lessen your required cash outlay to suppliers by negotiating to obtain a cash discount for your early payment. As an example, “2 percent-10” means that a discount of 2 percent is granted if you pay for goods or services in full within 10 days.

For small businesses the variety of trade financing mentioned here are all usually easier to negotiate than is obtaining bank financing. One reason for this is the amount of cash as risk. If your supplier’s variable costs represent 45% of the selling costs, then for $100,000 of financing the supplier has $45,000 cash as risk. The bank would have $100,000 cash at risk.

In any situation of this sort, creative ideas and clear communication and agreements can help you get over many funding humps in your business. You’ll learn what trade credit opportunities like these are available with your suppliers and customers if you are willing to ask.

Trade or Barter

The need for capital can be lessened, especially in early stages of a business, through trading or bartering of your products or services with your suppliers. There are also associations that are formed to provide a network of barter opportunities among members.

This type of activity reduces needs for cash in the business. Caution should be taken to follow IRS regulations regarding this practice. Also, clear agreement is needed among the parties to assure proper value is granted for the traded goods.

Stock Purchases & Options to Employees

Your employees can be your partners in solving needs for capital at your company in a variety of ways. You can offer certain senior and trusted employees to become common stock-holders by investing in a purchase of your company stock. Employees usually have limited discretionary funds for stock purchases, but every dollar counts, and employee dollars usually come with the motivation to help improve the results of the company, thus the value of their investment. Common shareholders also have the right to have a say in the management of the company. Another possibility is to offer these employees nonvoting preferred shares of stock in return for their investment.

Many companies in their early phases of growth offer key employees or business partners options to purchase certain amounts of stock at later dates, often at a discount price or on very generous terms. The stock options help supplement the employee’s salary, which may be agreed to be below industry standards so that the company can retain this salary saving as capital for help in becoming successful.

By being part owners and participators in the profits, these desired employees will more likely choose to remain with your company instead of looking elsewhere for work.

As with any individual investor, always document this investment relationship with your employees. With employee stock options you can legally maintain a right of first refusal, holding the first right to buy back the shares if the employee leaves or is terminated.

While there are many advantages to a company offering stock options, be careful not to give out options too easily, too quickly, or to persons whose true expertise and loyalty has not been fully demonstrated. What may not seem to be costing you much early on in the business could cost you dearly in terms of money and time later on, should your relationship with stock option holders deteriorate.

The lure of stock options is often a major lure for attracting talent to start-up companies in new technology industries.

Employees Stock Ownership Plans

Companies can formally set up ESOPs (as they are called) to not only raise capital, but also raise employee morale and productivity. In a typical ESOP the employee is allowed, as determined by management, to purchase up to a certain amount of stock during a certain period of time. There are generally regulations about cashing in (redeeming) the stock if the employee should leave the company. An example might see an employee being able to have five percent or more of his or her weekly salary deducted for stock purchase after one year of employment.

The usual benefits to the company include a steady flow of additional capital without having to put up collateral and without needing to pay a set amount of interest. As stockholders, employees see a possible additional source of income that *they* will have influence over through the quality and productivity of their work.

ESOPs should be handled by an attorney to insure the documentation and communication are done properly, insuring employee confidence in the ESOP and in the company.

Locating Private Resources

Just as it has in the past, reality suggests that the world of private investors, including friends, relatives, coworkers, wealthy acquaintances and various sophisticated individual investors (angels), is a likely place to go to raise capital for your business. The total pool of all types of private investments in business is vast. Typically, Venture Capitalists provide only about 4% of total business financing. As huge as this pool of money is, the forms that individual private business investments take are diverse as is the creativity of the people making the deals.

Choosing this private path leads to questions of how to find and inform a sufficient pool of potential investors about your need for private funding. Then, in exchange for the investors' money, what mechanism should be used to issue to them the documentation or securities that represent some equity or debt interest in your business? The key is knowing what aspects of deals are critical to your business and having multiple options available as you search for and enter into your funding negotiations.

Investment from Friends & Family

Next to personal savings, the second most popular source for start-up capital is friends and family. Often, they may not be as worried about quick returns as other outside investors would be. There have been many success stories from investments of friends and family. There is also a high incidence of problems associated with this source.

To illustrate this point, suppose that from the start of your business you had access to only the best and most sophisticated investors. Through this process both the investors and you would develop an understanding of the risks involved with investing in your business. It would be in both your and the investor's best interest for you to disclose fully in writing the risks associated with the investment.

Because this process of due diligence is often not carried out with family and friends, problems sometimes ensue. Thus, receiving capital from such a consenting, informed investor is often better than from a rich, unsophisticated relative or friend. Your relative or friend may not investigate your deal carefully and, should problems occur with the business and investment, your relationship with them may suffer.

A wise policy is to provide the same disclosure to a friend or relative that you would provide to most sophisticated investors. Resist the temptation to keep things loose and undocumented. Draw up the terms, conditions and payment schedule in writing for their signature and yours. Even if you receive a "friendship loan" at no or low interest, provide documentation in return. This is the smart, professional business approach that minimizes the potential down side of unstated assumptions and their implications. As a result of formalizing your deal, your relationship with your friends and family will have a much better chance of remaining intact.

In many ethnic communities and foreign countries private loan clubs are a variation on obtaining funds from friends and family. Often a group of trusted friends pools money monthly to be awarded to a group member who needs and deserves it.

Angels

If you are a small business and you only need limited amounts of capital, seeking the type of private investor called an "angel" might be the best alternative. Over 700,000 angels invest over $30 billion of equity in small businesses each year. These people generally invest in the $25,000 to $50,000 range, but sometimes you can get more by dealing with several "angels" at once, since *they* sometimes prefer to invest as a group.

Be sure to check out their resumes and two or three references, especially the names of other entrepreneurs the angel has previously financed. Your "angel" could be your lawyer, doctor, accountant, or an interested individual in your community or industry. They are often executives who have been successful in an industry and now look to fund other companies in that area. Generally it is best to offer an angel straight equity, part ownership in your business in the form of common stock. Keep it simple and completely spelled out.

Angels have sometimes been called the “invisible” segment of the venture capital industry. Networking through trade associations, civic organizations and your business community may lead you on the path to an interested angel. With individuals you have a tremendous amount of leeway in structuring the investment. You can structure it as debt or equity and vary the terms and repayment. Sources of personal investors go beyond family and friends.

Read this excerpt from Business Black Belt on our website: “Choosing the Right Investors”

Previous or Present Employer

Your employer may not want to lose your abilities and contributions, should you decide to start your own business. There are situations where this employer can become your first major customer. This can be solidified with a purchase order if you are going to be providing manufactured goods, and also a specifically worded work for hire agreement if you are to provide services to your past employer.

In another situation, your employer may agree with you that it would be wise to spin off an idea of yours into a new company. Providing funds in this type of venture of yours may be a sound investment for the employer, who should already know the market, the competition and your abilities and motivation.

Should this setting unfold, have the appropriate agreements drawn up and signed to protect both sides with regards to resource requirements, payment and delivery. Make sure the employer is made aware of any negative impact the new venture could have on their existing business.

Some additional words of caution: don’t become too dependent on your past employer and don’t expect them to do all that it takes to set up your business. You need to start, run and be financially responsible for your company. Also, should your employer not express the interest to help start, fund or continue funding your new business, ask for a signed statement to that effect. At the same time, to be safe, be able to prove that you developed the concept for your business on your own time and with your own resources.

Employer funded start-ups have worked in many specialized industries, most notably high-tech.

Individual Partners

This is a way to join forces with one or more individuals to expand the capabilities of the business. Like a marriage, the partners bring different, and hopefully complementary resources to the business. For example, one may bring technical expertise, while the other may bring the primary financial resources. Another desirable match may be to team a person who has administrative abilities with a person who has strategic vision.

Know your potential partner well before committing to such a business relationship. Ask hard questions. Make sure the agreement is documented clearly and reviewed or drafted by a competent partnership attorney. Exit strategies and procedures for either partner should be detailed in writing early on to avoid conflicts or confusion later on. Communication between partners is crucial for defining the specific roles each partner is to provide to the business, preventing wasteful overlap of activities or gaps in the execution of functions. Honesty and openness with both good and bad news will allow the business to have the best chance at a healthy life.

A partnership can be a way to get a business up and running while one or both partners still have other work or business commitments. It may also be effective in the early stages of business growth or in turnaround situations.

Corporate Partners

A growing trend in the '90s sees small businesses forming partnerships with larger corporations. Most Fortune 500 companies are now involved with these arrangements as a part of their corporate strategy. In this model, the larger corporation becomes a minority owner of the smaller company.

As a small business you receive the advantage of access to capital. You may also receive, as you grow, access to some of the resources of the larger company, such as distribution capabilities and product development opportunities that could act as formidable barriers to entry for potential competitors of yours. Your partner company gets into attractive markets and will share in your profits.

The place to start looking for such potential corporate partners is with your larger suppliers or customers. Industry journals can also point you in the direction of an interested corporate partner.

Strategic Alliances

In an effort to quickly put together a profitable project, it is becoming more commonplace to have two or more enterprises join forces for collaborative work. A popular book, The Virtual Corporation, by William H. Davidow and Michael S. Malone, touches upon this concept in detail. With businesses becoming more complex and global every day, and with increased emphasis on specialized knowledge and on fast new product development, partnerships are increasingly emerging among companies and entrepreneurs. The movie industry has modeled the concept of strategic alliances for decades. Diverse talent is sought and brought together for a common, defined project. After the movie is completed, many contributing elements to the production are quickly disbanded.

For this type of shared resource alliance to work consistently, the participating companies must build a high level of trust in each other. Strategic alliances and partnerships are often difficult to coordinate and even harder to control. Should you or any of your strategic partners miss a significant milestone, you may lose your market lead, or even your company or significant parts of it. The relationships between the allied companies need a strong foundation and the goals and values of the companies need to be compatible.

Financial strategic partners with a synergistic interest in investing in your business may seek your business out as often as you seek them. Strategic alliances need to be spelled out clearly in written agreements.

The importance of cooperative management (rather than insistence on doing it alone) and detailed coordination of activities is magnified in this business model.

New high speed communication channels and information databases are making it easier for companies to locate and coordinate with strategic partners. The strategic partnership can work if the situation is right and the frame of mind of the participants is conducive to cooperative success.

Private Foundations

With determination and the ability to prove that a "charitable" investment in your enterprise will have positive social impact, benefiting more than just you, finding funding from a private, nonprofit foundation is possible. While some foundations fund entrepreneurs directly, most foundations give money and support services to nonprofit organizations, which seek to accomplish the foundation's mission by coordinating and supervising the distribution of these resources in exchange for the specialized work needed.

According to IRS requirements, foundations with tax exempt status can provide "Program-Related Investment" (PRI) to a recipient enterprise that is also working toward the foundation's charitable mission. PRIs can be grants of low interest loans to entrepreneurs that might be reconstructing areas after a disaster, rebuilding or beautifying disadvantaged communities, or training people in disadvantaged areas in job skills.

State or national charitable organizations channel funding from private foundations, as do churches, school groups, art societies and other community organizations. Check your local library for reference books on funding research resources. Once you have identified appropriate foundations or nonprofit organizations request their application guidelines and their annual reports. Then be prepared to spend time and effort filling out paperwork, writing a proposal and business plan and pitching the right people.

Laurie Blum, a successful fund raiser has written two books that shed light on this subject: The Complete Guide to Getting a Grant (Poseidon Press) and Free Money for Small Business and Enterprise (John Wiley & Sons).

Private Placements

In the United States, there are only two ways to legally offer (sell) the securities of your company to investors.

1) The transaction must either be registered with the Securities and Exchange Commission, as is done when a company "goes public" in the traditional sense (see Going Public below), or

2) The offering must be exempt from SEC registration—often referred to as a private placement or limited stock offering. Due to the considerable legal requirements and the large commitment of time and money involved with a registered Wall Street public offering, many companies may not be ready to go public, and others may not ever want or need to do it. In recent times exempt offerings are becoming more viable alternatives for companies in search of early funding.

Below we will examine the overall process of private placement, the different types of exempt offerings currently available, and generally evaluate which of these may be most appropriate to your situation.

Making the Offering

As a first step in this process you will need to determine whether or not your company is a viable candidate for offering securities to private investors via private placement. Once your company's suitability has been determined and the proper vehicle is selected, you must have prepared the proper documents you need to comply with federal and state securities laws and regulations. Upon completion of paperwork and proper filing, you'll need to identify potential investors, market your offering to them and, most importantly, track your results. By going through this process you will (1) be equipped to generally evaluate your fundraising situation, (2) determine where you may need help, (3) become knowledgeable of current exempt offering issues and regulations, (4) perform the necessary preparatory steps and (5) generate proper documents to effect a Private Placement for your company.

There are Federal laws which the Securities and Exchange Commission governs and State or "Blue Sky" laws that affect securities transactions. If an offering of securities is made outside (interstate) of the issuers domicile state, then Federal securities laws must be coordinated with all States in which investors will be solicited. Regulation D and Rules 504, 505, and 506, as well as Regulation A are all Federal regulations governing interstate offerings.

If an offering is made intrastate, or all within the issuers domicile state, then the State securities laws regarding the sale of securities must be followed. Coordinating an offering to investors in multiple states, is usually a very complex task and often results in much confusion that needs assistance from brokers experienced in these activities.

In March, 1982, under Sections 4(2) and 3(b) of the Securities Act, the Securities and Exchange Commission (SEC), adopted Regulation D to coordinate the various limited offering exemptions and to streamline the existing requirements applicable to private offers and sales of securities. Regulation D establishes three broad exemptions from registration in Rules 504, 505, and 506.

Regulation D, Rule 504

Rule 504 provides a small issuer a federal exemption from registration for offers of securities of up to $1 million in any 12 month period. Although Rule 504 does not mandate that a disclosure document be provided to investors, it is still a good idea to inform a prospective purchaser of the risks associated with a private investment and, that it will be illiquid for a period.

Under Federal Rule 504, an issuer may advertise and otherwise generally solicit to attract virtually unlimited numbers and types of investors. However, most states restrict this under Regulation D. A filing of Form D is required within 15 days of receipt of first funds from the offering.

Regulation D, Rule 505

Rule 505 provides issuers a limited offering exemption for sales of private securities totaling up to $5 million in any 12 month period. Rule 505 has certain restrictions regarding "accredited investors" and "non-accredited" persons. The term "accredited investors" includes banks, insurance companies, small business investment companies, trusts, etc., and sophisticated investors with at least $1 million in net worth, or $200,000 in income with certain restrictions.

Rule 505 is restrictive in the number of non-accredited investors (35) and if the issuer is an operating company, audited financial statements are required. There cannot be general advertising under Rule 505. A filing of Form D is required within 15 days of receipt of first funds from the offering.

Regulation D, Rule 506

Specifically under Section 4(2) of the Securities Act, an offering under Rule 506 requires significant disclosure. Rule 506 is most attractive to growing companies requiring large amounts of capital. Although similar to a Rule 505 offering, under Rule 506, there is no ceiling on the amount of money which may be raised. However, no advertising or general solicitation may be made.

Small Public Offerings: SCOR/U7

As of May 1, 1993, a total of 26 States had adopted the use of the Small Corporate Offering Registration (SCOR) or Uniform Limited Offering Registration (ULOR), also Form U-7. This form, in a question and answer format, is intended to streamline the offering and disclosure process and reduce the costs of compliance without sacrificing investor protection. The form forces a business to create a business plan in order to effectively meet its disclosure requirements for the SCOR offering.

A SCOR offering is essentially a small public offering under Rule 504. This type allows the issuer to sell up to $1 million in a single class of stock in any 12 month period. The share price must be at least $5.00 to separate it from the penny stock soliciting rules, and a maximum of 200,000 shares may be sold. The stock is freely tradable and without restriction. The main benefit of this type of offering is the ability to generally solicit or advertise without restriction and to limit the number of non-accredited investors. Being able to tell people about an offering, advertise in the newspaper, and present the offering through seminars is a strategic advantage over a private placement.

States that have adopted Form U-7 as of October 1995 are listed in the following table. (It is expected that Florida will soon accept some SCOR filings.)

Uniform Limited Offering Registration (Form U-7)

Alaska	Arizona	Arkansas	California	Colorado
Connecticut	Georgia	Idaho	Indiana	Iowa
Kansas	Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Mississippi	Missouri	Montana
Nevada	New Hampshire	New Jersey	New Mexico	North Carolina
North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania
South Carolina	South Dakota	Tennessee	Texas	Utah
Vermont	Washington	West Virginia	Wisconsin	Wyoming

For more information on the Form U-7 and SCOR, contact the North American Securities Administrators Association (NASAA), One Massachusetts Avenue N.W., Suite 310, Washington, DC, 20001, Phone: 202-737-0900

Regulation A

In an effort to increase the availability of public capital to small business, the Securities and Exchange Commission in 1993 increased the dollar ceiling for a Regulation A offering to $5 million from $1.5 million. With loosened restrictions, a Regulation A offering can also be classified as an exempt small public offering that requires the qualification of a prescribed offering statement which has been filed with the Commission, and delivery of a required offering circular.

For more information on federal securities laws, contact the Superintendent of Documents, Government Printing Office, Washington, DC

Limited Partnerships

If you know who your investor(s) will be ahead of time, a limited partnership may be an easy, relatively fast and inexpensive way for you to create a business partnership. This form of raising money for business usually involves one general partner who represents the business owner or management team and several limited partners who remain generally silent and inactive in the operation of the partnership.

Emphasis in limited partnerships by investors has shifted away from tax write-offs toward yield and safety, with a renewed interest in them as a hard-asset component of balanced portfolios.

Examples of situations conducive to funding through limited partnerships in the past have included shopping mall construction, medical facilities, alternative power development, movie productions, and oil and gas ventures.

The limited partners are attracted to this type of deal because of their limited liabilities despite the risk level. They can buy into a niche business without having the burden of running it. The assets to be acquired by the limited partnership are generally defined prior to raising funds. The partnership has a fixed life span of 5 to 30 years; it is then liquidated and capital gains are disbursed to the partners.

If you are the general partner, you will like the fact that the limited partners by law cannot tell you how to run your business. You can sell units in your limited partnership without needing to have a securities sales license. If you are selling your partnerships only in your own state, you must register the partnership with your state's securities board. If you will also be selling outside of your state, you must also register with the federal government.

Tapping into Commercial Funding

One of the greatest benefits of our free enterprise system of supply and demand is the vast network of diverse, targeted funding vehicles that has evolved. It has been fine tuned over recent decades to provide specific types of capital to different businesses in different industries and regions. The opportunities to turn business dreams into reality are in large part carried out through various channels of this vast, commercially-based funding system.

Commercial Banks

The many ways banks loan money:

- Short Term Loan
- Credit Cards
- (Revolving) Line of Credit
- Equipment Loan
- Inventory Loan
- Commercial Loan Factoring
- Term Loan
- Real Estate Loan
- Personal Loan
- Start-up Loan
- Accounts Receivable
- Business Loan
- Commercial & Industrial Mortgages
- Asset Based Loan

In addition to lending money in various ways (see the table above), Banks also provide their business customers with various accounting, collection, payroll and bookkeeping-related services (for fees). These outside services are often less costly than doing it yourself—another way of minimizing your need for additional financing.

How Banks Work

When borrowing money from a bank, it is important to understand the business banks are in and how they reach the decisions they do. It is a banker's primary responsibility to protect the money you and I have on deposit. On demand, they must be able to return our money to us so that we can buy groceries, pay our electric bills, and enjoy a night out on the town. If the bank loans that money out and the debtor doesn't repay it, we don't get our money back! Even if the bank has property as collateral, you and I still can't get our money.

Sure, there is FDIC insurance to guarantee our deposits, but if a bank makes too many bad loans, FDIC closes the institution and sells it to another bank. Usually, at a loss to the original stockholders and at a cost to you and me, the taxpayers.

When it comes to its shareholders, the bank has a responsibility to make a reasonable profit. A bank has to pay interest on the money you and I deposit; that is an expense. It earns its revenue from the interest it charges on loans. If a loan is not repaid, not only does the bank lose the interest revenue, it loses the money it loaned out in the first place.

Read this excerpt from *Business Black Belt* on our website: "Why Bankers Want Your 1st Born"

The Guarantee of Repayment

Because of the conservative nature of lending, a loan officer usually looks for two primary repayment sources plus collateral. The only way a bank can be repaid is with cash. They loan cash, they want cash back! The first source of repayment is the historical ability of a business to produce more cash than it uses. Profits plus depreciation does not equal the cash a business produces each year. Other factors like the collection of accounts receivable, the expansion of inventory, and the payment of accounts payable must also be considered. Bankers will also look at the personal credit history of the owner in many business situations.

The second source of repayment is the apparent ability of the business to produce enough cash in the future. A banker knows that past performance is no guarantee of future potential (ask Eastern Airlines, Chrysler, or International Harvester). The banker will look to see how solidly the cash flow projections have been put together, how knowledgeable you are about the cash coming into your business and how it's being spent, and your ability to avoid a cash shortage.

Even if a business meets these two requirements, a good banker will still look for a third source: personal guarantees or collateral, anything you can show that is available as security for repayment of the debt. Examples of collateral are stocks and bonds, equipment, savings account passbooks, accounts receivable, or the cash value of life insurance policies. Remember, banks are not real estate brokers. They don't want to have to sell your property, they want cash.

Given the conservative nature of banking, those companies with established track records (this excludes new businesses) looking to finance expansion or seasonal changes in cash are the perfect candidates for bank loans. They have the proven ability of past performance, they are able to reasonably project the future and usually have collateral. The sound business usually has the three repayment sources required by a bank.

Successfully Applying for a Loan

With a general understanding of how banks and bankers operate, how do you successfully apply for a loan? The best way is to prepare a complete loan package.

The first page of the loan package should list how much money you want to borrow, how long you want to borrow the money for, the rate of interest you expect to pay, how the money will be used (purpose) and a brief statement of why you need the money (cause). Fox example, you need to borrow $25,000 for inventory. That is the use or purpose of the loan. The cause is the addition of a new product line and the resulting sales growth.

The package should include a page or two history and description of the business. It should state when and where the business was opened, who the owners are, and how the business evolved to where it is today. It should discuss who your customers are and how you market to them. This section also includes a description of your products and services and a statement about your competition. The description of your competition should list their strengths and weaknesses and what sets you apart from them.

Next, you need to discuss your future goals and objectives for the company. This section will include in more detail how the borrowed money will be used and the effect on the company. Inclusive in this section is a set of budgets that will illustrate the future ability of your company to repay the note.

Lastly, you need to include copies of at least the last three years financial statements and IRS tax returns for the business, your personal tax returns for the same period, and your personal financial statement. If you are offering any type of collateral, a description of that should also be included.

Choosing the Right Banker

When applying for any type of loan it is important to choose the right bank and banker. The larger banks are typically looking for the larger customers with long established track records. They like large loan amounts and big deposits. The small, single facility banks are often more flexible, but might have trouble offering you all the services you need and might not have a convenient location.

The county wide bank or the bank with five or six branches often fills the gap between the large and small banks. They specifically target medium size companies in their growth phase.

Some banks, such as Silicon Valley Bank, have been found to specialize in higher risk situations such as start-ups and high tech companies. Their rates tend to be higher, their requirements are more flexible and their knowledge, experience and contacts with their market segment can be very helpful.

If the bank(s) you approach does not want your business, always ask politely for the reasons and for any recommendations for lenders interested in a company like yours. Once you have chosen the right bank, you need to choose the right banker. Make sure the person is someone you respect, understand, and with which you can grow. Also, ask the individual if he or she will be making the loan decision. If not, ask to meet with the person who has that

authority. Invite both the local loan officer and his boss (the person with the authority) to visit your place of business and introduce them to your management team. Take them to lunch! Become their friend and gain their respect. Remember, *you* are what makes your business successful and they must develop a trust in your abilities. It is generally better to be more candid and less “blue sky” with the banker. This will show them you understand the issues and ensure them of your honesty.

Any relationship you establish with a bank should be developed for the long run. Sure, you can competitively shop loan rates; but, a banking relationship is more than the loan you might have outstanding. Typically, it will also involve checking accounts and certificates of deposit. However, banks have a lot more to offer. Other services include cash management, wire services, and pension and profit sharing trust accounts. You should consider your banker an informal director along with your lawyer, accountant, and insurance agent.

Determining the Right Type of Loan

The type of loan you choose will depend on the purpose of the loan, the cause, and the repayment source.

Suppose you request a loan for $10,000 to purchase inventory. Although the purpose is short-term, the cause might be long-term, such as excessive sales growth, portions of the inventory are slow selling due to changed customer demand, or the addition of a permanent new line of inventory. If you financed that inventory on a 90 day note, you would find it very difficult to repay when it matured.

Coupled with the purpose or cause for the loan is the repayment source. If the cause is short-term (seasonal growth of current assets such as inventory and accounts receivable), then the repayment source will be the decrease in those same current assets. Any other type of loan (long-term) should be repaid out of the profits (a long-term repayment source) of the business.

For the most part, the only appropriate time a business should be borrowing any money on a note that is due in less than one year is if it is used to finance the seasonal growth of current assets. As the season draws to an end and those current assets return to their normal levels, your business will generate enough cash to repay a short-term loan. Any other debt should be borrowed on a term basis to be repaid over a period of several years. Further, many companies use current earnings and cash in the bank to finance long-term expansion. Although the company may have the cash currently on hand, by using short-term assets (cash) to finance long-term needs (expansion) they severely decrease the liquidity of the company and can cause a cash crunch at the slightest decline in sales.

Now that you have decided how much money you want to borrow and for how long, the following are the various types of loans you will need to choose between.

Short-Term Note

Short-term notes are any loans that mature in one year or less. They can be single payment notes that are due in full in 30, 60, 90, 120, 180, or 360 days or they can be installment notes that pay out on a monthly or quarterly basis. Again, these types of loans should be used for seasonal cash flow needs, taking advantage of a significant bargain, or taking care of an emergency.

Long-term loans are any notes that mature after one *year* (sometimes loans of one to five years are referred to as Medium-term loans). Usually these notes are structured to have payments on a monthly or quarterly basis. These loans can be structured in a variety of ways. Like a car or house loan, they can be set up to be repaid on an equal monthly payment basis or they can have a set principal reduction amount plus interest due each month. This latter has payments that decrease as the loan is paid down, but the initial payments are higher than the equal payment plan. Another option is to take the installment loan (term loan) and "balloon" it prior to its maturity date. A basic example would be a 15 year loan that has equal monthly payments but is due in full at the end of five years. Because the loan would take 15 years to pay out but is due in full in five, the "balloon payment" is usually quite large.

Further, banks can either make the loan on a secured or unsecured basis and can charge either a fixed or a variable rate of interest. Some types of collateral the bank might accept include marketable securities, real estate, an auto, equipment, accounts receivable, and inventory. It should be noted that although a bank will take UCC (Uniform Commercial Code) liens on receivables and inventory, they usually consider it an unsecured loan and will not base their credit decision on the collateral. Remember, the collateral was the third payment source. Therefore, if your accounts receivable were good accounts that paid on time and your inventory was good inventory that could be easily sold on the open market, you wouldn't be having trouble repaying the note. And if you are having trouble repaying the note, then their collateral is probably worthless! The same can be said of equipment loans.

Finally, if the loan is made to the business in the business' name, the bank might require you, the owner, to personally guarantee the note. This is because in a closely held business, the owner and the business are one and the same. The banker figures that you might sacrifice your business in bankruptcy, but you will think twice before you give up your personal assets.

Asset-Based Loan

Asset-based lending is a specialized type of loan designed specifically for fast growing companies. As a company's sales grow, so too do its assets. The logic is that before an item can be sold it first must be purchased and will be held for some time in inventory. Once sold, it may take a month or more to collect the account receivable. Therefore, the cash for cost of goods for future sales must be paid prior to those sales being collected. If the sales growth is significant, it might outpace the company's ability to generate the cash from profits. This is very similar to the seasonal pattern previously mentioned; however, the sales never reverse and the cash is not generated from the reduction of assets at season's end!

In the case of asset-based lending, the bank will use the accounts receivable and inventory as collateral on a floating loan. Usually, they will advance up to 80% on receivables up to 90 days old and 50% on inventory. Therefore, as the level of these assets grows, so too does the outstanding loan. The twist on this type of loan is that the bank usually collects the receivables and forwards the cash to you on an as-needed basis. Also, they will visit your facility on a regular basis to inspect the inventory. Because of the detail and time consumed in these types of loans, only your larger banks make them and they typically require a loan of $1 million or more.

The bank will not allow your note to increase indefinitely. Before they approve the note, they will expect some type of goal to be established where in the coming years, sales growth will slow and the note can be converted to a traditional term note. In this example, sales growth was slowed in the fourth and fifth periods and the loan was able to be reduced.

It is extremely important to remember that significant sales growth is a long term financing need and should never be financed with short term debt. One way to reduce cash needed during the sustained growth is to raise prices (increase the net profit margin), reduce accounts receivable terms (collect A/R in 30 *days* instead of 45) and to turn inventory more quickly (turn your inventory in 45 days instead of 60 days).

Asset-based lending is very risky for the bank and you should expect to become very close partners with your banker if you establish this source of financing.

Bank Trends

Banks have changed (usually tightened) the way they lend. While in 1983 bank lending amounted to 31 % of all money lent to business, in 1992 bank lending was down to 22% of the total. This trend has changed somewhat in 1994, with many banks beginning to loosen up their criteria for small business loans. This reflects the cyclic nature of lending.

A business can quickly reach its short-term borrowing ceiling in its day-to-day activities, and often many small businesses cannot qualify for Small Business Administration guaranteed loans. To qualify for a longer term commercial loan you are required to have at least a three-year history of profits and your Debt-to-Worth Ratio must stay below three, or some similar level deemed worthy by the bank. These conditions make it most difficult for small businesses to raise capital for growth through the banks.

Very recently banks have begun efforts to recapture their share of business lending. They are actively marketing to companies and have even been given some rights by the Federal Reserve to sell and underwrite corporate bonds. Some bankers are becoming more willing to talk to small businesses now that banks are facing more competition than they have experienced in the past. In practically every business instance, it is wise to cultivate positive open relationships with your bankers.

International (Schedule B) Banks

If your enterprise does much of its business with a particular country, it may be wise to investigate bringing your business to banks that are from or familiar with the practices of that part of the world. The advantage of this type of relationship is that the international bank will have knowledge of present conditions overseas. International banks provide most of the same services available through domestic banks and they will have access to names of foreign suppliers, agents and even customers who may benefit your business.

International banks can be found in most major cities, especially in California and New York. Their focus is primarily commercial banking, where they are very competitive in the market between small business loans and corporate financing. It is most important to do in-depth homework and obtain professional advice when considering using international banks.

SBA Funding Programs

The US Small Business Administration (SBA) is alive and well. For those small businesses looking for start-up funds, the SBA might be the best approach. The SBA provides its broad-based Loan Guaranty Program as well as a variety of special financial programs (some of which are described in this section).

SBA Loan Guaranty Program

The best approach for SBA financing is to find a commercial or savings bank that is a certified SBA lender. Although any bank can apply for an SBA guarantee, most do not have the appropriate staff or training to process the applications or monitor the loans according to SBA guidelines. However, those banks that are certified SBA lenders can usually get a response from the SBA in a matter of days.

Under this program, the SBA does not directly fund the loan. What the SBA does is to guarantee up to 80% (sometimes up to 90%) of the loan for the lending institution, to a maximum of $750,000. Although there is no specific break in the interest rate charged, one advantage for the borrower is the ability to repay the note over an extended period of time. The SBA generally caps rates at 2.25 to 2.75 points over prime, plus a fee equal to approximately 2% of the loan. Close to a quarter of SBA loans go to start-up companies.

In order to qualify for the SBA guarantee, the borrower must first be considered credit worthy under normal lending guidelines. The SBA is not in the business of guaranteeing bad loans! Once the lending institution accepts the credit, it recommends it to the SBA. As traditional bank financing to small businesses has become increasingly difficult to obtain, the popularity of SBA loan programs has grown tremendously. In 1.993, close to $6.5 billion of SBA loans were made, more than double the 1988 level.

Typically, the SBA prefers to finance new businesses or the acquisition of existing businesses. It does not like to refinance existing debt and in order to do so, the borrower must be able to demonstrate a significant hardship caused by the existing debt relationship. The SBA does consider guaranteeing mortgage loans for buildings occupied by the business owner.

When reviewing a loan application, the SBA first considers the experience and expertise of management. Secondly, they look at the venture and the particular industry. Lastly, the SBA looks at collateral. Although the SBA will guarantee loans that are not fully backed by collateral, expect them to file a lien against all the assets of the business and to take a second mortgage on your personal residence. The SBA believes the second mortgage is that final incentive for the borrower to give it his or her all before throwing in the towel.

In recent times there have been some allegations of fraud leveled against unscrupulous SBA loan applicants. A 1994 case in Atlanta yielded the first indictment against an SBA loan applicant. This case involved falsified tax returns as part of the loan application. Many other of the questionable applications have been prepared by certain professional “loan packagers,” who, for a fee, help small business owners obtain SBA-guaranteed loans. The SBA, in response to the Atlanta case and several similar allegations, is stepping up its cross-checking of tax-return information with the IRS on all new applications.

The SBA offers many services, like the Small Business Development Centers and the Service Corps of Retired Executives (SCORE), to help entrepreneurs put together loan packages. Check these services out before turning to the professional “loan packagers". If you need professional assistance, ask your bank to recommend a loan packager. They charge around $1000 to $1500 to complete the volumes of paperwork. Look at the track record and ethical practices of anyone you consider.

A final remark about the SBA concerns the Small Business Development Centers. These organizations are partially funded by the SBA and by state governments. Although not in the business of lending money for small business, this organization is an excellent source of information. They offer all kinds of continuing education courses and one night seminars specifically for the business community. These courses are usually free or require only a minimal fee. The SBDC also offers free counseling. They will not write your business plan or find the best location for your business, but their core of experienced counselors are usually superb sources of advice and guidance. The SBDC is organized on local levels and has offices at about four dozen universities and junior colleges. To locate an SBDC look in the phone book under the US Government listings for the office nearest you.

SBA Direct Loans

Although the SBA is making direct loans for small businesses, they are being done on a much more limited basis than the loan guaranty program. SBA direct loans have a maximum of $150,000 and are presently available only to Vietnam-era or disabled veterans, businesses in high unemployment areas, or participants in the SBA's minority contractor program.

Before the SBA will even consider a direct loan, your business' loan request must have been turned down by at least one SBA recognized loan correspondent bank (or two banks in a city of over 200,000 population). You must have a thorough business plan included with your application and proof of your ability to repay the loan in a timely manner.

SBA Disaster Loans

Physical Disaster Assistance and Economic Injury Disaster Loans are available through special SBA offices to help businesses recover from officially declared disasters like floods, earthquakes, hurricanes and tornadoes. While the SBA has four regular field offices through which disaster loans can be issued, the SBA also usually establishes an on-site office in the area of the declared disaster for loan information and assistance.

SBIC

The SBA licenses Small Business Investment Companies (SBIC) to provide capital for start-ups and expansions. SBICs (more than 300 exist in the US) are independent enterprises that dispense SBA funds along with their own capital. Often they specialize in supplying equity capital and extending unsecured loans to qualifying small enterprises in a certain industry or who provide specific product preferences. These corporations are very selective in their investments and require extensive documentation from the applying company. A business must have profits of less than $2 million and equity of less than $6 million to be eligible for SBIC assistance.

The SBA will invest three dollars for every dollar invested by an SBIC. The SBIC will usually ask for equity in the business in return for their investment, and may provide (and charge for) management consulting assistance. Generally SBICs work on your deal quickly and with less red tape than regular SBA loans, however they require a written, sound business plan.

Small Business Development Companies (SBDC)

Small Business Development Companies or Corporations operate in the same fashion as SBICs, except that all financing is sponsored through private sources like utility companies, large corporations, banks, private foundations, etc. The Small Business Development Company will either offer a loan or may often ask for equity in your business in return for its investment, and may provide (and charge for) management consulting assistance.

MESBIC

Similar in execution to SBICs and Small Business Development Companies, Minority Enterprise Small Business Investment Companies (MESBIC), offer venture capital and loans to young, minority-owned firms. They raise their own capital and are subsidized with matching funds from the SBA, which sells bonds to the Federal Financing Bank. MESBICs have invested in thousands of minority-owned enterprises over the years.

Micro-lenders

In the '90s micro-loans have become popular in areas where ready access to business funding has traditionally been limited. Micro-lender programs tend to be revolving funds offering a few hundred dollars to $25,000 loans. This money is usually provided at high market-rate interest and is often coupled with training and technical assistance to the qualifying entrepreneur. Thus, this vehicle for funding should be used cautiously as a resource if traditional loan sources do not prove to be helpful.

The SBA has its Micro-loan Program, which began in 1993, that bypasses banks and works through a network of community development (primarily non-profit) corporations. Call the national SBA Answer Desk in Washington, DC, (800) 827-5722 to obtain more information.

Approximately 300 (both private and SBA sponsored) micro-lending programs have been set up throughout the US Some micro-lending programs help channel foundation funding to entrepreneurs that help address many social issues like family stability, fighting poverty, and creating jobs. (See Private Foundations below.)

SBIR

If your company has the ability to do technological research and development, then you should investigate the Small Business Innovative Research Grants (SBIR) program. Several federal agencies offer SBIR grants to applying companies for specific research and development. This program began in 1982 and was designed to stimulate technological innovation. It is coordinated through, but not managed by, the SBA.

Out of the 40,000+ applications received each year, several thousand SBIR awards totaling around $440 million are made. Originally limited to $50,000, during recent years first-phase funding grants have ranged up to $100,000, and second-phase funding has increased up to $750,000 from an original limit of $500,000. Participating agencies set aside percentages of certain R&D funds for grants to small firms. These percentages are slated to be increased by more than half by 1997, so these funds should become available to an increased number of companies.

Currently eleven government agencies provide monetary awards in over 160 technology areas. Four times a year (in March, June, September, and December) the SBA publishes the agencies' pre-solicitation announcements of the types of research or products needed and the closing dates for bids. By far the biggest providers of SBIR grants are the Departments of Defense, Energy, Health and Human Services; the National Aeronautics and Space Administration and the National Science Foundation. Other participating agencies are the Departments of Agriculture, Commerce, Education, and Transportation; the Environmental Protection Agency and the Nuclear Regulatory Commission.

Your company retains any commercial rights to the product you develop under the SBIR grant. A service called the Commercialization Matching System has been established to help locate additional funding for SBIR awardees who have developed innovative results. Cuts in defense spending in recent years may not cut back the SBIR program, but rather stimulate its application for small defense companies toward the conversion to dual (military and civilian) use of manufacturing capabilities.

For more detailed information on SBIR grants or the Pre-Solicitation .Announcement contact the Office of Innovation Research & Technology, SBA, 409 Third Street, SW, Washington, DC 20416.

Venture Capital

Venture Capitalists are usually looking for high growth candidates in certain niches in which they specialize their expertise. A large portion of venture capital investments are poured into technology and health care companies. VCs (as they are called) assume relatively high risks. One third of their investments are partial or total losses, a third are between break-even and two times cash on return, while the other third of VC investments realize returns of greater than two times. The big winners have to make up for all the losers and marginal performers.

Even if you do fit their narrow parameters, their money often comes with various demands, including specific performance requirements, legalities to comply with, and often intrusion into your company's goals and operations. Typically, they want to see proprietary and protected technology (patented), opportunity for significant growth, a clear "exit strategy" (go public, be an acquisition, leveraged buyout or merged within 5-10 years, etc.) and most importantly a cohesive, seasoned and committed management team. They bet as much on the jockeys as they do on the horse. That includes sometimes replacing jockeys—which could be you. They will want a comprehensive business plan, but it better grab their attention in the first couple of pages or else they'll toss it. These guys play hard ball, so you'd better be prepared to play their way. This is often a very narrow option not available to 99% of businesses.

Some of the most common ways to raise venture capital funding are described in the following paragraphs.

Venture Capital Funds.

Venture capital usually refers to a fund or pool of money established for the sole purpose of making an equity investment in small, high growth companies. The VC fund accepts and manages investments from individuals and invests that money in small companies with high growth prospects.

Investment Banking Firms.

Venture capital is also raised occasionally by investment banking firms. Traditionally investment bankers concentrate on investment in established, larger companies, however they do invest in specific new ventures in emerging growth industries. They'll typically form a syndicate of investors for a qualifying venture proposal. Deals with investment banking firms generally start in the $5 - $10 million dollar range on up.

Boutiques.

A variation on investment banking firms are investment "boutiques." The "boutiques" operate on a smaller scale, aiming at local or regional companies who need capital in the $1 to $10 million range. They raise funding for ventures through private individuals, banks, finance companies and investing their own capital.

Because venture capital funds make their money investing other people's money, they have a "fiduciary responsibility" to exercise "due diligence" in their research of potential investments. This means the fund has to thoroughly investigate each investment and assess all the potential risks. If they don't and the fund goes bankrupt, the investors are sure to sue. This is why that out of 100 plans submitted to funds, maybe 10 get reviewed and possibly one will actually be funded.

To improve your chances of being that one company, you need to be thoroughly familiar with venture capitalist and the types of businesses they are looking for. First, funds come in varying sizes and some may specialize in specific industries. A fund managing a total of $5 million certainly will not invest in a request from a business looking for $5 million. No one puts all their eggs in one basket. And the firm managing $100 million probably will not review a request for $100,000. It takes just as much time to perform their due diligence on $5 million as it does on $100,000. So the first task you need to do is to identify the venture capital fund appropriately sized for your needs.

Next, a firm specializing in computers is not going to invest in a biochemical company no matter how strong the opportunity. It is not in their field of expertise. The second step is to identify those firms that specialize in your industry.

Finally, you need to be sure your business fits the mold venture capital is looking for: small, high growth companies. Venture capitalists like businesses on the leading *edge* of technology or new industries. They like to see the potential for sales to at least double on an annual basis and the possibility of a multimillion dollar industry being developed. The advantage of venture capital over bank loans (asset based lending) is that they don't have to be repaid. It is an equity investment.

The repayment does lead to a major concern of venture capitalist. Their investment is not permanent. They usually like to fund the company for five to ten years and then want to be bought out. They are not long term investors. Therefore, part of the initial offer must be the objective of going public or being purchased by a larger company. Either way, you must be able to prove that the fund will be able to find a ready market for their investment at some point in the intermediate future.

The venture capitalist is taking a large risk that your company will fail altogether or will not grow sufficiently so that they can sell their stock. For this risk, they require a substantial return on their investment. This return can be in the form of dividends during the growth phase or might be in the form of a substantial profit on the sale of the stock. Either way, expect the venture capitalist to want a big chunk of the business and a big return on his investment.

If your company fits this description and venture capital is the course you choose to take, you need an introduction. Because venture capitalists are bombarded every day with hundreds of requests, it is important that yours stands out for some reason. An introduction from a respected member of the firm or member of the community always helps. Begin with your accountant or lawyer. These people make it their business to have these contacts. An introduction from one of them might be just what you need.

When dealing with the firm, act and dress for success. Although some venture capitalists consider themselves innovative and open minded, most are established businesspeople with distinctive careers. They tend to look unfavorably upon the look, sound, or act of behavior that is not in the traditional business mold.

Finally, do not shop your plan around, at least not too flagrantly. Most of the people know each other and might resent what you are doing. It is best to find the firm that best fits your business and plans, and to negotiate with that firm in good faith.

State Venture Capital Funds

Many states now provide financial assistance to small businesses through their own venture capital funds. Some of these are the Massachusetts Community Development Finance Corporation, the Enterprise Fund of Nebraska, the New Mexico R&D Institute, and the Corporations for Innovation Development in Indiana and in New York. While the purposes of these programs are basically the same, the programs have different ways to obtain their funds and different parameters for placing their investments. Some offer equity capital while others provide loans to qualifying businesses that show promise for building the state's economy.

Several states provide tax incentives to private investors who provide capital for their state venture capital funds. To find out if state venture capital funds are available in your area, contact your state or local chamber of commerce and your state's industrial development offices.

Going Public

For certain companies with proprietary products or unique services in "hot" industries, an Initial Public Offering (IPO) or selling shares to the public is an enticing, yet expensive way to obtain large amounts of capital. This market was booming in the mid-eighties, then went into the doldrums after the major stock market setback in 1987, and is now somewhat returning to prominence in the mid-nineties.

According to the Securities Act of 1933, a public offering must be registered in advance through the Securities and Exchange Commission of the federal government. Based on the Securities Exchange Act of 1934, the offering is then subject to regular reporting to the SEC and annual reports must be made open to the public. Most public offerings use the comprehensive registration form called S-1, sometimes called the full form. A simplified form S-18 has been available for companies seeking a public issue of up to $7.5 million.

Since August of 1992, a new Regulation SB, with a simplified registration form called SB-2, has been in effect for registered stock offerings for businesses with revenues and outstanding securities of less than $25 million. This regulation was designed by the SEC to further cut the paperwork and costs of raising capital for relatively smaller firms hoping to go public.

On the positive side, going public is a way to obtain cash for significantly growing a business quickly. It is also a way for the CEO/owners to "cash out", to pay off debt and the stock option reward to key employees, and to attract top notch talent into your company. Achieving success after an IPO will help facilitate additional fund acquisition for equity increase or more favorable terms on future borrowing. Mergers and acquisitions may also be more easily accomplished with stock transactions, instead of using cash.

Proceeding with an IPO is a major decision that requires much specialized expertise, 18 to 24 months to execute, and significant expense. An investment banking company typically underwrites the deal and may collect from six to ten percent of the offering's gross proceeds. Legal and accounting fees often top $100,000 for an IPO, as can other printing and registration fees. Other down sides to an IPO are high levels of required disclosure of information to the government and to investors, some loss of owner's control and management flexibility, higher susceptibility to a takeover and short term pressure on performance/dividend.

The decision to go forward with an IPO should not be done lightly. Only after weighing the pros and cons, and also exploring all the other alternatives, if you are convinced that going public is the best course of action, seek out an expert who has taken other companies public in order to develop your IPO strategy.

Franchising

In the US, there are over a half million franchised outlets that account for over a third of all retail sales. Internationally there may be over 100,000 more. It has been a very fast growing phenomenon, especially during the last couple of decades. Franchising involves a franchisor, who owns, produces or distributes a particular product or service, who grants exclusive local distribution rights to a franchisee, who agrees to certain standards of business and who provides a payment or royalties to the franchisor.

As a funding method it can be looked at from two directions: as a franchisor you can extend your existing business to multiple locations and areas; as a franchisee you can quickly start a new business or speed up the growth of your existing business. From both directions, franchising involves using another person's, or business', capital to mutually expand one's own business. In addition to funding benefits, both parties can grow because of standardized marketing, name, controls and facilities. Each can benefit from the inherent economies of scale. As a franchisee you can view this situation as one that lessens the overall risk of getting into business.

The franchisor often helps the franchisee obtain and guarantee a loan or lease. Since the franchisor has supposedly put together a proven package of product or service and a method of doing business, and the franchisee brings additional capital and the business motivation, the lending institution will generally have more comfort in lending needed funding. The franchisor generally receives an up front down payment or fees, plus a piece of future sales and/or profits.

While franchising has many appealing aspects, it also carries disadvantages to both franchisor and franchisee. For the franchisor, there is a continuous responsibility to work with new businesses in new areas. Rules and regulations for doing business may vary considerably. Do your market research or verify the research that a potential franchisee has proposed to you when considering to offer a new franchise. Also you should require certain minimum sales and profit goals for your franchisees to stay solvent and to promote the total image of success for your franchising operation. A few incidents of mismanagement and failures at the individual franchise level can cast a negative shadow on your entire business.

For the franchisee there can be high front-end buy-in costs that can take sometime from which to recover. Sometimes the restrictiveness imposed on you by the franchisor can sap your entrepreneurial energies. Know your strengths, weaknesses and needs as you explore and begin to negotiate your franchise opportunity. Check out the reputation of any franchisor you are considering. Investigate both successful and unsuccessful franchisees that have done business with the franchisor. Then know up front the details of responsibility for operations, financing and future exit strategies before you sign on any dotted lines.

The International Franchising Association provides in-depth information on franchising. There are a variety of books, periodicals and trade publications that list franchising opportunities and the issues surrounding them. Your local newspaper classifieds may be a good place to start looking for what may be available in your area.

Institutional Term Lenders

Term lenders supply capital for all types of longer-term financing (usually 5-10 year range, all the way up to 25 years), provided you have sufficient assets available as security. Rates for term loans are generally slightly higher than bank loans and are usually fixed for at least five years, after which time they can be renegotiated. Bank loans, on the other hand, are shorter term with rates adjusted more regularly.

A variety of major institutions, including trust companies and mortgage companies, are major players in offering term loans to businesses. These institutions usually finance business mortgages on land and buildings for 20 years on up. (See also Insurance Companies and Pension Funds below.)

Commercial term lenders focus on land, building and major equipment financing. Often times they also offer leasing. Check the credentials, references and track record of term lenders before signing any deals.

Insurance Companies

During recent years major insurance companies have become big-time financiers of industry in more ways than in the past. For example, since 1991 business loans by life insurers have increased by over $50 billion according to the American Council of Life Insurance. In addition to providing term loans, as described above, insurance companies have also opened their own autonomous venture capital units, as evidenced by Travelers, John Hancock, Prudential, Allstate and many other major firms. They are particularly interested in providing capital for buildings and equipment. Like venture capitalists, they share in the profits (and shortfalls) of their own investment decisions.

This type of funding is available to large size, large stake venture requiring millions in investment. Significant research, a thorough business plan, and a medium-to-low risk business concept are all needed if you want to work with any insurance company.

Pension Funds

Pension funds have considerably expanded in numbers and scope during the last decade. *They* now provide an array of funding options to primarily larger companies or projects. They offer term loans as well as some instances of venture capital.

Pension fund investments are generally conservative in nature. Your likelihood of success in raising capital through this avenue is enhanced if real estate with buildings is part of the deal. Loans through pension funds usually begin at six figures and are generally longer term (10-20+ years) than most other commercial sources.

The usual method for securing financing from a pension fund is by first approaching the fund's commercial bank. If the bank cannot supply the type of long term financing your business requires, it may call in the pension fund representative to look at putting together your financing.

Commercial Finance Companies

Commercial finance (or loan) companies have evolved out of large manufacturing companies that established subsidiary companies to finance the parent company's receivables. Many of these financing subsidiaries grew successfully to the point that they began using their surplus funds to provide similar services to other companies.

For companies who get turned down by commercial banks, commercial finance companies will often be more accommodating. Because these finance companies are willing to make loans to relatively high risk borrowers, their loan rates are generally higher than commercial banks and other sources. Credit lines usually run at prime rate plus 2-6 percent, plus a closing fee in the range of one percent.

A revolving credit line is the most popular form of funding offered by commercial finance companies. They are almost exclusively secured lenders requiring collateral, and usually advance up to 80% of accounts receivable or inventories. Some commercial finance companies are also involved with fixed asset financing and factoring. (See Factoring and Leasing sections below.)

Commercial finance companies are commonly described as "asset based lenders." Businesses often use their financing services when they are growing rapidly or rebuilding after isolated setbacks. Commercial finance companies are often involved with leveraged buyout acquisitions. In these situations they provide funds to a third party that is taking the company private, usually to avoid a hostile takeover. The money is generally paid back later through funds from operations and the sale of assets.

To do business with these institutions you'll need a significant amount of hard assets and a willingness to allow their staff members to become very familiar with your business. Commercial finance companies keep a close eye on businesses they have lent to. Among their activities they will monitor and audit your financial records and collections procedures and they will do their own appraisals of the actual value of your business collateral. Weigh your trade-offs before proceeding down this avenue.

Credit Unions

Although credit unions usually emphasize personal lending, they are, in some parts of the US, an active source of small amounts of funding to small businesses. Credit unions are usually managed by people with local orientation, familiar local industries and the local business climate. For this reason they will more often go out on a limb for a promising local business more readily than the bigger nationally and internationally based capital sources.

There is a wide range of how well different credit unions are financed and managed. It is important that you investigate and monitor the ability of the credit union to meet your business needs. Begin by checking with the Credit Union Association or the credit union licensing authority in your area. If you are already a member of a credit union, look closely at the business benefits it may already have available to you. Otherwise consider joining a credit union that may have funding or other services that you and your business may need down the road.

Savings & Loan Associations

Savings and loan associations, sometimes called savings banks in some parts of the US, have traditionally not been commercial lenders, but have focused on being sources of mortgage funds. With some deregulation in this industry, S&L's are now providing a variety of services previously dominated by banks. Although the percentage of their assets that they can offer for lending to businesses is limited by government regulation, S&L's are focusing more on small businesses than ever before.

The well publicized financial difficulties of many S&L's during recent years have put a damper on their ability to lend. Nonetheless, there are S&L's that are willing and able to provide solid lending and many other "banking" type services. It is important that you investigate and monitor the ability of the Savings and Loan Association to meet your current and future business needs. You can start by checking with the Federal Savings and Loan Insurance Corporation and also with S&L regulators in your state.

Factoring Companies

Factoring is a method of receiving money as a loan based on your accounts receivables. The factoring company, in effect, buys your company's accounts receivable and then either provides money on the date invoices come due or advances money before the invoices come due.

Large factoring firms generally charge a commission of 1-2% of the total dollar volume of the invoices bought. If advancing funds, which can be up to 80% of the value of the invoices, the factoring firm charges 2-3% above the prime rate.

While factoring is relatively expensive, it is a way to generate needed cash in a hurry. The factoring companies are proficient at knowing the credit track record of your customers, since they interface directly with them in collecting on their loans to you.

Leasing

During the last twenty years leasing has become a popular form of receiving funding by using your acquired assets as security. Leases work best when the leased asset involved is usable for a long term, has value independent of use at your business, and takes relatively little management time or effort if the item should be reacquired at the end of the lease or if you should default on payments.

Leases can be arranged through many asset suppliers or through third parry companies that deal primarily with the financial aspects of the deal. In an operating lease situation, the leasing company owns the equipment and provides services such as repair and insurance. In a financial lease, you are responsible for the services while the lessor merely owns the equipment.

While leases are more expensive than commonly used loan sources, you may find several advantages in leasing for your small or growing business. You will need little or no cash up front to acquire your asset; the requirements for leasing credit approval are relatively liberal and long term; if the asset will be less than fully amortized, your payments will be lower than if you purchased. There may also be tax advantages to your engaging in a lease instead of a purchase.

There are many variations to how leases can be set up. Examples include 1) having your company buy the equipment and reselling it to the leasing company, which then leases it back to you; 2) locating your asset and prearranging the financing on your lease with the leasing company, who does the actual purchase. In any scenario, it is important to have agreement up front and clear documentation of the deal, so that there are no logistical or legal surprises along the *way*. Understand the fine print of what you are getting into.

The types of leasing terms that will be available to your company will depend on your stage of development. If your company is very small and young, you may also need to give personal guarantees to obtain a lease. Learn the situations where a lease might be a worthy solution for your company. You can locate leasing companies by checking with major suppliers of equipment and capital goods, as well as experts in your industry and the classified sections of industry publications and the telephone directory.

Warehouse Receipts Financing

Your business situation may be suitable for working with lenders of secured loans who prefer warehouse receipts financing. This method of raising funds involves placing some of your finished goods inventory, or certain raw materials, in a bonded warehouse as security in exchange for a loan. You would receive portions of your inventory back as you pay off portions of the loan or replace the inventory with other suitable security. Of course, you would not want to warehouse any inventory that you intend to sell in the short term.

If you, for some reason cannot pay off the loan the lender can sell off the merchandise and keep as much of the proceeds as is necessary to pay off the loan. The left over funds would go back to you.

Lenders will often be able to advance up to 80% of the value of the inventory you have placed in the warehouse, at 1 to 4% above prime. Some warehousing companies offer this type of funding on their own, while certain major banks offer warehouse receipts financing in conjunction with warehousing companies.

Wholesale Floor Planning

This is a practice whereby a manufacturer of items for retail arranges third party financing so that product inventory can be shown on the seller's floor. The lender collects on the investment from the seller. This is commonly done with automobiles and seasonal vehicles such as recreational vehicles, boats and snowmobiles. (Ever wonder how those dealerships can have so many vehicles on their lot?) This floor plan method of financing enables a retailer or distributor to stock items at the beginning of the prime sales season.

Due to often high interest rates, it is important to plan well and time these purchases closely with your expected sales. Be careful to check out the terms and reputation of the prospective third parry floor planner. Coordinate and communicate with your supplier.

Procurement Assistance Programs

A method of improving the financial position of your company is to assure additional business by obtaining government contracts. There are a number of programs that help funnel government procurement contracts to small and disadvantaged businesses. Each year over $70 billion is paid by the US Government to small businesses, contractors and subcontractors. The overwhelming majority of these procurement contracts are for $25,000 or less.

The Small Business Administration, in accordance with the Small Business Act, has developed cooperative programs with several major government purchasing agencies to award contracts for products and services to qualifying small businesses. The SBA maintains a database of nearly a quarter million registered small businesses. This database, called the Procurement Automated Source System includes the contracting capabilities of each business and is made available to the participating procurement agencies.

Similarly, the Department of Defense, which is the largest procurer of all government agencies, conducts its own program for identifying, assisting and awarding contracts to small businesses. Called the Defense Procurement Technical Assistance Program, this program is available through your regional Defense Contract Management District, administered by the Department of Defense's Defense Logistics Agency.

Surety Bonding Companies

Traditionally government agencies, and now more frequently private-sector customers, require contractors to have proof of bonding in the form of a surety bond in order to be able to bid on projects. This helps the agency assure that the work will be completed (even if they need to call in a replacement contractor).

There are bonding companies that will back you as a contractor, providing the surety bond to enhance your eligibility for landing contracts or subcontracts. While bonding companies do not provide you with capital directly, their resources are in effect used as collateral to support you in your bidding for, landing and completing the contract.

For information contact the national Association of Surety Bond Producers (phone 202-686-3700) or the American Subcontractor Association (703-684-3450). The SBA has a Surety Bond Program that is administered through the SBA's 10 regional offices along with participating surety bonding companies throughout the US. The SBA's Surety Bond Program has guaranteed over $20 billion worth of small business government contracts during the last two decades.

SBIDC

State Business and Industrial Development Corporations (SBIDC) are available in about half the states. They are often setup as not-for-profit corporations, chartered (through various agencies) to use private funding to make SBA-guaranteed loans to small businesses. Sometimes these entities are simply called Business Development Corporations or Local Development Companies.

They are often more flexible than some other financing sources and are particularly useful in underdeveloped areas with potential.

Veterans Administration

As a benefit to honorably discharged veterans, the Veteran's Administration has long offered a small business loan guaranty program similar to what was described earlier in this chapter in the SBA Loan Guaranty Program. The Veteran's Administration will work with you to guarantee the majority of your loan in order to help your chances of loan approval through traditional lending avenues. Look in your phone book to locate the Veteran's Administration office closest to you.

The SBA also gives disabled and Vietnam era veterans special considerations under the SBA's regular 7(a) loan program.

Farmers Home Administration

For decades the Farmers Home Administration (FHA) has offered a loan guaranty program to farmers and ranchers similar to what was described earlier in this chapter in the SBA Loan Guaranty Program. Despite some of the hard times suffered by farmers and the FHA in the '80s the FHA program is still available, especially to first time buyers.

The FHA will work with you to guarantee the majority of your loan in order to help your chances of real estate loan approval through traditional lending avenues. Look in your phone book to locate the Farmers Home Administration office closest to you if this type of financing applies to your situation.

Parting Tips

Recurring themes throughout this chapter have been about learning the financial needs within your company and also becoming aware of the various alternatives of financing that are available to you. Look at these issues early and often as you develop your business. Read, ask, look and listen. If having sufficient capital to grow your business stays high on your business priority list, the opportunities will be there for your benefit.

Cash for jets or just jets?

In 1991 Darrin Perdue had three partners, with ten years combined flying experience and a vision for a jet charter company. His plan was to first raise money and then buy a jet. The first investor laughed him out of his office. Then, while pursuing other investors, Darrin remembered that he knew a gentleman who owned two Lear Jets. Darrin used his business plan to convince the jet owner to let Darrin's company, SP Aviation, manage the planes. The company prospered.

Recently, Darrin used his business plan once again to approached a large corporation to manage the chartering of their Gulfstream G4 business jet. Today, Darrin's company has 12 pilots and is on call 24 hours a day—providing jet charter services to executives, celebrities and medical transplant teams throughout Northern California. How did he do it?

***"My business plan wasn't extremely complex.
I just edited through the Executive Summary,
following the easy instructions that BizPlanBuilder gave me,
and then put it all together."***
~ Darrin Perdue, President & CEO, SP Aviation

Important Lesson Here!

Darrin originally thought he needed money, until he remembered that his goal was jets. There are many ways to get what you need to build your business—It doesn't always take lots of money. The most important ingredients are an imagination, some nerve and a logical and thorough plan of action.

Be inquisitive and open minded, yet be cautious and safe. Check on both the institutions and people with whom you may be dealing. Know their track records during both the good times and bad times of their other customers. Know about second sources for any financing path you may intend to follow.

You are the navigator of your business. Ideas, money and action are the fuels of your business. Use the right fuel wisely and you will be able to reach your business goals without having to sputter to a halt somewhere along the way. Many funding vehicles are available to the alert and forward-looking business person. The economic climate of the '90s is becoming more favorable because many people are willing to take risks to pursue their own new business ideas or to fund other people's good ideas. If you lay out your plan, and utilize the tools that are out there, you will reach the business destination for which you have set out.

Glossary of Business Terms

There are 2 sections: The 1st for General Business & Finance, the 2nd for Marketing

If you think life is a battle, you'll spend every minute looking for a fight.
If business is war, then who are you fighting? And why?

Accounts Payable • A current liability representing the amount owed by an individual or a business to a creditor for merchandise or services purchased on an open account or short term loan. Accounts Payable is one of the most common liabilities which normally appear in the Balance Sheet listing of liabilities.

Accounts Payable Days • The number of days, on average, that you take to pay your suppliers. One method to estimate this is to take your accounts payable balance at the end of the year divided by your total cost of goods sold for the year.

Accounts Receivable • The money that is owed to your company for goods and services provided to customers on credit. The accounts receivable amount is an asset of your company and is listed on your Balance Sheet.

Accounts Receivable Days • The number of days, on average, that it takes to collect payment for your sales. It is also referred to as Days of Sales Outstanding.

Accrual Basis Method • A way of determining when income and expenses are computed for tax purposes. This method recognizes income and expenses when they actually occurred or wee rendered, rather than when the payment was made.

Accumulated Depreciation • The total depreciation taken for an asset since it was placed in service. Also known as life-to-date depreciation and depreciation reserve. Accumulated depreciation is an account in the asset section of the balance sheet that s

Acid Test Ratio • A ratio of the ready-cash items like cash, accounts receivable, and marketable securities, to the current liabilities of a company. Acid Test ratio is a test of your company's ability to meet its immediate cash requirements. See also "Quick Ratio."

Advertising Opportunity • A product or service may generate additional revenue through advertising if there is benefit from creating additional awareness, communicating differentiating attributes, hidden qualities or benefits. Optimizing the opportunity

Agent • A business entity that negotiates, purchases, and/or sells, but does not take title to the goods.

Amortization • The process of reducing principal and interest in equal installment payments at specific intervals over a set term. Such payments must be sufficient to cover both principal and interest. Writing off an intangible asset investment over the projected life of the assets.

Asset • Anything having commercial or exchange value that is owned by a business, individual, institution, or government, whether or not there is another claim on the item. Assets are any possessions that have value in an exchange. The primary classifications of assets are: current assets, long-term assets, prepaid and deferred assets, and intangible assets.

Asset Turnover • Sales divided by total assets. Asset turnover measure you ability to generate sales for every dollar's worth of assets—it measures your ability to use what you have to make money. Asset turnover is a standard business ratio.

Available Credit • The amount of open but unused lines of credit. Too much available credit can negatively impact your Credit Score because you may get to a place where it is difficult to pay it all off.

Balance Sheet • The Balance Sheet statement presents a projection of your financial position at the end of each month in the first year; At the end of each quarter for years 2-3; And at the end of each year for years 1-5. (The calculation begins on the month and year you entered in the "Budget Assumptions" section.) This encompasses everything a company owns (Assets), owes (Liabilities) and the equity of the owner(s). Assets must equal Liabilities. Some say/think/feel that this financial statement shows the value of a business at a particular point in time—a good investment banker or business broker will show you how your business can be worth a lot more.

Bankers • Provide loans for equipment and expansion. They're lending money deposited by people who have been guaranteed to get it back, with interest. The money was deposited with the idea that there is little risk, so bankers won't risk it.

Beginning Month & Year • These cells establish the dates for the assumptions sections and financial statements. Replace the sample month value by entering a number between 1 and 12 that represents the first month of your budget period (1=January, 2=February ,...). Replace the sample year value by entering the year in which your budget period begins (you may enter the year as four digits, such as 2005, or as two digits, such as 05).

Benchmark • A standard or guideline used to compare some aspect of a business to some objective or external standard measure.

Billable Hours • The number of hours per period (such as a year or month) that a company expect to be working at the client's expense.

Book Value • The original purchase price of a Capital Expenditure minus accumulated Depreciation. Long Term Assets are listed on a Balance Sheet at Book Value.

Brand Equity • The added value a brand name identity brings to a product or service beyond the functional benefits provided.

Brand Recognition • A customer's awareness that a brand exists and is an alternative to purchase. Brand recognition also establishes a certain perception in the customer's mind as to the quality, characteristics and mindset of the people behind the products or company. Brand recognition is a process whereby a firm has to develop enough publicity for a brand that its name is familiar to and how it is perceived by consumers.

Break-Even Analysis • This analysis determines at what point revenues equal expenditures based on fixed and variable expenses. It is a standard financial analysis that measures general risk for a company by showing the sales level needed to cover both fixed and variable costs. The Break-Even Analysis presents a summarized projection of revenues, fixed costs, and variable costs (beginning on the month and year you entered in the "Budget Assumptions" section), and calculates the monthly Contribution Margin, Break-Even Sales Volume, and Sales Volume Above Break-Even for both Income from Operations and Net Income After Taxes. This statement is usually used as an internal tool to anticipate the effect that sales volume increases or decreases will have on your income stream.

Break-Even Point • The point of activity at which a company earns zero profit. It is reached when total revenue equals total expense—the level of sales whereby you are neither making a profit nor incurring a loss. Break-even point is a combination of sales and costs that will yield a no-profit, no-loss situation and is also known as Break-Even Sales. How far you must go before you stop losing money.

Break-Even Pricing • Pricing at a level that will enable a firm to break even.

Break-Even Volume • The point of sales and production at which you are neither earning a profit nor incurring a loss.

Broker • An intermediary that serves as a go-between for the buyer or seller.

Budget • The Budget statement presents a projection of revenues, cost of goods sold, and detailed operating expenses for years 1-5 (beginning on the month and year you entered in the "Budget Assumptions" section). In year 1, the budget is calculated monthly; Quarterly for years 2 and 3; Annually for years 1-5. This statement calculates the percentage of Total Sales each sales item represents, and the total amounts for Sales, Gross Profit, Income From Operations, and Net Income After Taxes, as well as totals for each operating expense category in the time period.

Budget Assumptions • The Budget Assumptions section allows you to enter the first month and year for your budget period, and to estimate each revenue and expense item that is included in the first year's budget. This assumptions section also allows you to specify the label you want to use to identify year 1 on the financial statements (see Projection Methods). The results of these assumptions will be displayed in the "Gross Profit Analysis" and "Budget" statements located on separate worksheets in the "Integrated Financials."

"Burn Rate" of Cash • The net amount of cash you spend every month. Total monthly expenses.

Business Brokers • Agents who can assist you in selling or purchasing a business.

Business Cycle • (also called the Operating and Cash cycle) begins when you purchase raw materials or inventory and ends when the inventory is sold and the cash collected. Depending on the nature of your business, this may take a few days to a year or more.

Buy-Sell Agreement • An agreement designed to address situations in which one or more of the entrepreneurs wants to sell their interest in the venture. Useful to provide for the untimely death of a partner, whereby the surviving partner(s) can buy back the share of the business from the dearly departed's estate and not be stuck with his/her evil spouse as a new business partner.

CAGR or Compound Annual Growth Rate • The year over year growth rate applied to an investment or other aspect of a firm using a base amount for comparison.

Cannibalization • The term used for the undesirable tradeoff where sales of a new product or service decrease sales from existing products or services and minimize or detract from the total revenue contribution of the organization.

Capacity • The ability of your present facility to produce your product or deliver your service, and how your product plans affect manufacturing schedules or affect the way production is currently done.

Capital expenditure • The spending on capital assets like plant and equipment or fixed assets, or long-term assets. Usually capital expenditures may not be deducted in the year they are paid, even if they are paid in connection with a trade or business.

Cash Basis Method • A way of determining when income and expenses are computed for tax purposes. This method recognizes income and expenses when the payment was made rather than when the items occurred or were rendered.

Cash-Flow Projection • A monthly forecast of the cash (checks or money orders) a business anticipates receiving and disbursing. Cash Flow Projection is useful in anticipating the cash portion of a business at specific times during the period projected.

Cash-Flow Statement • A summary of the inflows and/or outflows of the business over a period of time. Cash flow statement is divided into 3 sections, namely, operating cash-flow, investment cash-flow, and financing cash-flow.

Cash-Flows Statement • The Cash-Flows statement, also called a Statement of Changes in Financial Position, presents a projection of your sources and applications of cash (beginning on the month and year you entered in the "Budget Assumptions" section). In year 1, the statement is calculated monthly; Quarterly in years 2 and 3; Annually for years 1-5. This statement calculates the monthly net increase or decrease in Cash, and annual totals for each cash source and application.

Channel Conflicts • Situations where one or more channel members believe another channel member is engaged in behavior that is preventing it from achieving its goals. Channel conflict most often relates to pricing issues. Do you sell your products through retail stores as well as directly from your own website and/or through your own sales reps? Why should a customer buy from a store when they can buy directly from you for less? (Sell directly at higher prices often remedies this situation.)

Channels of Distribution • Methods whereby you can deliver your products or services to your customers. Distributors-->Retail Stores, Direct Sale, Direct Mail, Multi-Level, Online, OEM

Commercial Finance Company • A company that makes business loans for equipment collateralized or secured by the equipment itself. Interest rates at a Commercial Finance Company are typically higher than at a bank.

Company Description • A section in a business plan that describes the company's current situation and overall big picture. Describes your business, its name, legal organization, location and sites, and type of business you are in. It also describes the current state of your business; new, existing, etc.

Competitive Analysis • The process of assessing and analyzing the comparative strengths and weaknesses of competitors; this may include their current and potential product and service development as well as marketing strategies and financial health.

Consumer Finance Company • A company that makes small personal loans secured by collateral, like a car title. Interest rates are typically higher at a consumer finance company than a bank.

Contribution Margin • This value represents the excess of total revenue over total variable costs, reflecting the sales dollars available to pay for fixed costs or provide a profit. Usually used to compare the success or viability of products and services.

Contribution Margin Percentage • Shows the percent change in income as a result of changes in sales and expressed as a percentage. Calculate sales minus the variable costs associated with those sales. Divided sales are expressed as a percentage.

Controller • An executive officer whose job embraces the accounting and audit functions of the business. The person who is responsible for managing your company's operations. Part of this task is the comparison of the company's actual performance to its projected performance.

Core marketing strategy • What you will do to assure your dominance or leadership of a specific target market—likely the one in which you have the greatest success and profitability.

Corporation • A business incorporated under the laws of a state or other jurisdiction. Corporations are recognized as entities unto themselves separate and distinct from the owners. They have limited liability so owners cannot be sued for the debts of the business unless they have personally guaranteed those debts. Therefore, the only potential loss to owners is the investment. An S-Corporation has the same legal liability properties as a C-Corporation and the shareholders must vote or elect to become an S-Corporation. S-Corporations are owned by shareholders, shares may be sold or transferred. They are separate legal entities and organized under state law. An S-Corporation differs from a C-Corporation in regard to a few tax considerations. Visit our Knowledge Base at www.jian.com for more information.

Cost of Goods Sold • The costs of materials and production of the goods a business sells. For a manufacturing company COGS is materials, direct labor, and factory overhead. For a retail shop COGS would be what it pays to buy the inventory that it sells.

Cost of Goods Sold - Fixed COGS Allocation • These are the various costs, in addition to materials, required produce the finished good/service. These costs include Labor (the human effort required in production and operation); Factory overhead (gas & electricity) and other production factors whose price does not change—these are often added to the COGS by percentage to derive a more accurate and complete COGS number.

Cover Letter • The cover letter introduces yourself, your business and your plan to the prospective evaluator of your business plan. In it, you should ask for an appointment for a face to face meeting and presentation.

Credit – the 5 "C"s • Credit history, Capacity, Character, Cashflow and Collateral, used by bankers when evaluating a loan request package. (You could also look in the dictionary and add a number of other 'C' words as well: Cash in hand, etc.)

Credit Score • A number calculated from a variety of factors designed to reflect the likelihood you being able to meet your debt obligations. Your Credit Score is reported to potential lenders when they review your credit report.

Current Assets • Includes cash, accounts receivable, inventory, securities, business equipment, assets that last less than five years or are depreciated over terms of less than five years.

Current Liabilities • The money owed by a business that must be paid within one year, for example, Accounts Payable and Loan Principal and Loan Interest that is due within one year.

Current Ratio • Your total current assets divided by your total current liabilities. These values come from your balance sheet. Your current ratio indicates your ability to pay your current debt out of your current assets. Although it varies from industry to industry, a general rule of thumb is that a current ratio of 2 to 1 or greater is desired and considered "healthy."

Days Sales Outstanding • Average length of time your trade debt is outstanding.

DBA or Doing Business As • A company name, also commonly called a "Fictitious Business Name."

Debt & Equity • The sum of liabilities and capital. Debt + Equity should always be equal to total assets.

Debt to Assets Ratio • Total liabilities divided by total assets. How much does your company owe compared to how much it owns—(The more it owns the better!) the Debt to Assets Ratio is a measure of the riskiness of a business.

Debt to Net Worth Ratio • Also called Debt to Owners' Equity, this ratio compares the total liabilities of your business to your net worth. If you own more, you are more likely to stick around to assure success.

Demographic Information • The data about the company's existing and potential customers such as age, income, ethnicity, family size, etc. that can be used to design targeted marketing strategies. The US Census Bureau is a prime source of Demographic Information. See also Psychographic and Technographic.

Depreciation • An accounting and tax concept used to estimate the reduction of value of assets over time.

Dictionary of Occupational Titles • A publication from the Department of Labor that has descriptions and details about various job titles. It's not very good! It seems it was created some time in the fifty's and never updated—watch for JIAN's HiringBuilder coming soon!

Dilution • The part of ownership in your company that you have traded to get cash. The key is to not sell too much too soon. Pay for as much of the early development as possible out of your own pocket Selling early will cost you more dilution than selling later. The more milestones you pass, the greater your valuation, and therefore less dilution when you take in investments.

Direct Costs • The costs that are directly related to production and change with the level of sales such as costs for Raw Materials (for a manufacturer) or Inventory bought for resale (for a retailer). Also known as Variable Costs.

Direct Marketing • Any method of distribution that gives the customer access to your products and services without intermediaries (800# directly to your salespeople, buy factory-direct); also, any communication from you that communicates with your market to generate a sales-producing response.

Diversification • A product-market strategy that involves the development or acquisition of offerings new to your company and/or the introduction of those offerings to target markets you have not previously served.

Diversification Goal • Your desire to move your business into totally new and different markets.

Dividends • The money distributed to the owners of a business as profits, per the number of shares owned.

Earnings • The amount of profit a company realizes after all costs, expenses and taxes have been paid. Earning is calculated by subtracting business, depreciation, interest and tax costs from revenues. Earnings are the ultimate measure of your business' value.

EBITDA • Earnings Before [deducting] Interest, Depreciation and Taxes. EBITDA is calculated by subtracting costs of sales and operating expenses from revenues. EBIT is often used to gauge the financial performance of companies with high levels of debt and interest expenses.

Economies of Scale • Per unit cost savings that increase as the number of items produced increases. As the number of units produced increases, Fixed Costs remain the same; therefore, the cost added to each unit to recover Fixed Costs is reduced.

Ending Balance • The amount of cash left over at the end of the month on a Cash-Flow Statement, after all cash outflows have been subtracted from the total inflow of cash. Ending Balance always equals the Opening Balance of the next month.

Equity • Money you personally invested in the company, plus your profits—the value of the owner's share in the business. Also defined as the value that is left after your liabilities are subtracted from your assets.

Equity Investor • A person who invests money in a business and in return receives part ownership of the business, usually as shares (in a corporation). An Equity Investor would be compensated in the form of Dividends and/or when s/he later sells his/her ownership stake at a profit.

Excess Capacity, Use of • A company's use of resources that are currently under-used or idle in order to improve it profits.

Exclusive Distribution • A distribution strategy whereby a producer sells its products or services in only one retail outlet (or store chain) in a specific geographical area.

Executive Summary • A generalized synopses of the entire business plan—may be a summary, a mini-business plan, etc.—designed to introduce your business and inspire a would be investor or lender to read on.

Exit/Payback Strategy • Your plan that describes to your investors how and when you will pay them back or how they will make a profit hen you sell your company or take it public. (More convincing if you dwell on who will acquire you.) It must be backed up by your financial projections. It tells your potential investors how they can turn their investment back into cash—a lot more than what they put in..

Experience Curve • A collaborative mental concept, often based upon a function of time, from exposure to a process that offers greater information and results in enhanced efficiency and operations advantage.

Factoring • The process of selling commercial accounts receivable (invoices) of your business at a discount. Often the factoring companies will advance you as much as 80% of your invoices, but charge you as much as 5%/month until your customer pays their bill.

Fatal 1% Rule • The concept according to which if company can sell to just "1%" of your total market share it will be successful. This percentage can be unattainable based on the approach, limited resources, and/or structure of the industry. It demonstrates that you really haven't done your homework (or the math) to determine how big your market is and how you will effectively reach it.

Fictitious Business Name • See also 'DBA' or 'Doing Business As.' A company name, not your own, which is usually made up, by which your business is called.

Financial Plan • The section of your Business Plan that states your business assumptions, points to and highlights your projections, and provides data on your overall financial picture. Summarizes all the financial data from your financial statements. Includes analysis and supporting spreadsheets or other suitable descriptions of your business and your capital requirements.

Financial Projection • Conclusions based on future business assumptions and research rather than on actual historical data generated by your business. Also called Pro Forma statements.

First-Mover Advantage • Having a leadership position in a market by virtue of having been one of the first companies in the sector. Key first-mover advantages includes the reputation effect, experience curve and customer commitment and loyalty. Sounds good, but most first movers rarely maintain their advantage – Dell is now the #1 computer maker, Microsoft hardly invented software, etc. "Another axiom to consider is, *"The 2nd mouse gets the cheese."* Giving rise to the…

First-Mover Disadvantage • Arises when costs of pioneering and the missionary marketing work are sizable, and loyalty of first time buyers is weak. *"Pioneers get arrows,"* suggests that the 1st mover can do a lot to awaken a market, but everyone else succeeds by learning from the 1st mover's mistakes. First mover disadvantages includes resolution of technological uncertainty, resolution of strategic uncertainty, Free-rider effect - others duplicating or reverse-engineering the technology, etc.

Fiscal Year • A period of 12 consecutive months without regard to the calendar year. The fiscal year is designated by the calendar year in which it ends. The federal government's fiscal year begins October 1 and ends September 30. The fiscal year can be useful if your want to even the number of days between payments (like payroll – and pay on every other Friday)

Fixed Assets • Assets of a long-term character which are intended to continue to be held or used, such as land, buildings, machinery, furniture, and other equipment. Fixed assets are normally represented on the balance sheet at their net depreciated value.

Fixed Costs • The running costs that are usually considered to keep the business open: usually rent, overhead (utilities, services, some salaries)—Expenses that you must pay regularly regardless of producing and selling your product or services. Technically, fixed costs are those that the business would continue to pay even if it went bankrupt.

Full-Cost Price Strategy • Costs that consider both variable and fixed costs (total cost) in the pricing of a product of service.

Future Value Projections • The process of projecting the future value of a venture and/or an investment in the venture. Future value projections typically consider an expected rate of return, inflation, and the period of time to assess future value.

General Partnership • An ownership arrangement in which every partner is fully responsible for all debts and contracts. Unless otherwise specified in the partnership agreement, the partnership dissolves immediately upon death, insanity or insolvency of any one partner. Every partner is fully responsible for all debts and contracts of the entire partnership.

Goals • The necessary levels of achievement that must be met to achieve a company's mission.

Goodwill • Any advantage, such as a well-regarded brand name or symbol, that enables a business to earn better profits than its competitors. Goodwill generally is calculated as the purchase price for a company over the fair market value of the company.

Gross Profit • Revenue minus the COGS used to manufacture the items that were sold; or Revenue minus the cost of buying items for re-sale. Gross Profit is calculated for each individual item sold and for the business as a whole.

Gross Profit Analysis Statement • The Gross Profit Analysis presents a projection of revenues and costs of goods sold by sales item for years 1-5 (beginning on the month and year you entered in the "Budget Assumptions" section). In year 1, the analysis is calculated monthly; Quarterly for years 2 and 3; Annually for years 1-5. This analysis calculates the gross profit for each sales item by subtracting the costs for Material, Labor, and Fixed Cost of Goods & Services from the sales for each item in the corresponding time frame. (The Fixed Cost of Goods & Services are allocated to each sales item based on the percentages you entered in the "Fixed COGS Allocation" assumption section.)

Gross Profit Margin • A measurement of your company's manufacturing and distribution efficiency during the production process. Gross Profit Margin can be calculated by dividing gross profit by total revenue.

Gross Profit Margin • The dollar difference between net sales and the net cost of goods sold during a stated time frame. Gross margin percentage is calculated by dividing net sales into the net cost of goods sold.

Guerrilla Marketing • Refers to unconventional marketing techniques for achieving maximum results from minimal resources—many things you can do yourself without hiring anyone or spending much money. A great book: *Guerrilla Marketing* by Jay Conrad Levinson.

Income from Operations • Can be calculated as gross profit minus all operating expenses such as R&D, labor, marketing, rent, utilities, etc. (Before you subtract interest payments and taxes.)

Income Statement (Profit & Loss Statement) •

Income Statement • A financial statement that shows sales, cost of sales, gross margin, operating expenses, and profits or losses. (Beginning on the month and year you entered in the "Budget Assumptions" section). In year 1, the statement is calculated monthly; Quarterly in years 2 and 3; Annually for years 1-5. This statement calculates the percentage of Total Sales each sales item represents, and the total amounts for Sales, Gross Profit, Income From Operations, and Net Income After Taxes, as well as totals for each operating expense category in the time period.

Indirect Costs • Costs related to expenses incurred in conducting or supporting research or other externally-funded activities but not directly attributable to a specific project.

Innovation • "The intersection of invention and insight, leading to the creation of social and economic value." – from a recent congressional proposal to spur innovation in the USA.

Insolvency • The inability to pay one's debts as they mature. Even though the total assets of a business might exceed its total liabilities by a wide margin, that business is said to be insolvent if the assets are such that they cannot be readily converted into cash to meet the current obligations of the business.

Insolvent • An individual who has ceased to pay his or her debts, or is unable to pay such debts, as demanded by creditors.

Interest Payable • The portion of Loan Interest that is due within the next year. Interest Payable is a Current Liability.

Inventory • A company's merchandise, raw materials and finished and unfinished products which have not yet been sold.

Inventory • The name given to an asset of a business. Inventory is of two general types (A) Direct inventory consists of raw materials, work in process and finished goods. (B) Indirect inventories, in general, are all supplies used to carry on the business and not purchased for resale.

Inventory Turnover • Total cost of sales divided by inventory. Inventory turnover is usually calculated using the average inventory over an accounting period, not an ending-inventory value.

Investor • An individual whose principle concerns in the purchase of a security are regular dividend income, safety of the original investment, and, if possible, capital appreciation.

Jobber • A small-scale wholesaler or distributor who buys from producers to sell to retailers and offers various additional services with that function.

Legal Form of Business • A description of how a business is owned, its legal liability with regard to creditors and taxes, and what agencies or regulations it is governed by. Forms of business include proprietorship, partnership, corporations, LLCs and more. Take a look at www.jian.com under the link "Starting Up" look for "Choosing a Business Structure" – there is a web-based wizard that walks you through a brief questionnaire that scores which structure will best suit your purpose(s).

Liability • A financial obligation, debt, claim or potential loss. Usually debt on terms of less than five years is called short-term liabilities, and debt for longer than five years in long-term liabilities.

Life Cycle, Product • There are four cycles or stages of product viability: (1) introduction, the stage where the new product is originally made available for sale; (2) growth, where product sales and marketing are expanding; (3) maturity, steady, predictable performance; and (4) decline, where sales decline at end of useful product life.

Limited Liability Company (LLC) • LLCs are a hybrid form of business. They provide the equivalent tax benefits of a Limited Partnership and the equivalent protection of a C-Corporation or an S-Corporation. LLCs can only be privately held companies. Take a look at www.jian.com under the link "Starting Up" look for "Choosing a Business Structure" – there is a web-based wizard that walks you through a brief questionnaire that scores which structure will best suit your purpose(s).

Limited Partner • A member of a partnership who is not personally liable for incurred debts of the partnership. By law, at least one partner must be fully liable. Only the general partners have any decision-making authority or any type of input as to the operation of the business. The limited partner contributes capital only and cannot participate in the running of the business.

Liquidity • A company's ability to meet current obligations with cash or other assets that can be quickly converted to cash. Liquidity is one of the most important characteristics of a good market. Liquidity also refers to how easily investors can convert their investment in a company back into cash.

Loan Interest • The expense of borrowing money. A total loan payment would consist of Loan Interest plus the repayment of Loan Principal.

Loan Principal • The original amount of money borrowed (the part you are paying interest on).

Long Term Assets • Assets like plant and equipment that are depreciated over terms of more than five years, and are likely to last that long, too.

Long Term Liabilities • The amount owed for leases, bond repayment and other items due after 1 year.

Loss • An accounting concept, the exact opposite of profit, normally the bottom line of the Income Statement, which is also called Profit or Loss statement. Start with sales, subtract all costs of sales and all expenses, and that produces profit before taxes.

Management Team • People who provide the leadership for your business and must include combined strength in both management and technical areas. The management team should be selected for complementary talents rather than overlapping or duplicate skills. Better to have a hole than fill it with someone not competent.

Manufacturability • The feasibility of your company to produce your product. This includes factors such as availability and training of labor, appropriate materials and machines, sufficient finances, availability of supplies, and suitability of site.

Market Analysis • Explains what market you are targeting and the characteristics of that market; what segment you may focus on, its size, its potential, its projected growth, and current and future competition.

Market Expansion Goal • The market share you hope to attain for your existing product or service in an existing market.

Market Maintenance • Maintaining your status quo in the existing marketplace.

Market Penetration • Marketing strategy that increases market-share into an existing market segment. A means of reaching a specific market by offering an existing product to an existing market or offering a new or improved product to an existing or similar market. May also be defined as a measurement showing the percentage of possible customers who are current customers?

Market Segmentation • The categorization of potential buyers into groups based upon common characteristics such as age, gender, income, and geography or other attributes like psychographic or technographic similarities relating to purchase or consumption behavior.

Market Share • The total sales of an organization divided by the sales of the market they serve.

Marketing Plan • A written document containing description and guidelines for an organization’s or a product’s marketing strategies, tactics and programs for offering their products and services over the defined planning period, often one year.

Marketing Plan • Based upon your market analysis, explains your strategy for reaching your customers. Their demographics, why they will want to do business with you, your sales goals and your promotional plans, including marketing budget.

Marketing-Cost Analysis • Assigning or allocating costs to a specified marketing activity or entity in a manner that accurately captures the financial contribution of activities or entities to the organization.

Miranda Complex • Already anxiously wanting the next thing before even taking delivery of the last thing you so desperately wanted…

Mission • A brief description of an organization's purpose with reference to its customers, products or services, markets, philosophy and technology.

Mission Statement • A statement that captures an organization's purpose, customer orientation and business philosophy. Preferably not some long-winded BS, but some kind of mantra that everyone can remember to keep them inspired.

Net Income (Net Profit) • The remaining balance from earnings and profits after all costs, expenses, and allowances for depreciation and probable loss have been deducted. The operating income less taxes and interest.

Net Profit Margin • A ratio comparing net profit after taxes to revenue.

Net Worth • The amount by which total assets exceed total liabilities. Also known as shareholder's equity or book value, net worth is what would be left over for shareholders if the company were sold and its debt retired.

Non-Disclosure Agreement (NDA) • The non-disclosure statement is a legally binding agreement to not reveal information about the business. A document signed by an evaluator of your business plan to protect your company, ideas, assets and competitive position from inappropriate use of your confidential information.

Objectives • The overall achievement of a certain end-game. Requires specific and measurable actions that result in the attainment of many milestones along the way. You may have one or many goals, each of which contribute to reaching an objective.

OEM • Original Equipment Manufacturer. An example of OEM sales are a tire company selling their tires to a car manufacturer—the product is sold as a component part of another [company's] product.

Opening Balance • The amount of cash on-hand at the start of each month before any sales have occurred or any other inflow of cash on a Cash Flow Statement. The Opening Balance is always equal to the previous month's Ending Balance.

Operating Expenses (aka Overhead) • The expenses incurred by the business that are not directly related to production such as utilities, salaries, office supplies, etc. Operating Expenses do not necessarily change when the business' level of production rises or falls. Operating e

Operating Income • The profit realized from the day-to-day operations of the business. Operating income is net sales less direct and indirect operating costs and before deducting cost of capital, extraordinary items and taxes.

Opportunity Analysis • The process of identifying and exploring revenue enhancement or expense reduction situations to better position the organization to realize increased profitability, efficiencies, market potential or other desirable objectives.

Outsourcing • The process of subcontracting mfg. operations and/or support to an organization outside the company to replace performance of the task with an organization's internal operations.

Partnership • A legal form of business defined as an association of two or more persons to *carry* on as co-owners of the business for profit.

Percentage Analysis • Comparison of your company's performance to other companies in your industry, and to your own business' performance over time. Although a direct dollar for dollar comparison can be impractical, percentage comparisons are very useful.

Personal Financial Statement • A balance sheet summarizing your personal financial position. It may also present specific information about your savings accounts, credit accounts, securities and other personal financial details. Often requested of the CEO and possibly other top management of a company by investors.

PEST Analysis • A technique for identifying and listing the Political-legal, Economic, Socio-cultural and Technological factors in the general environment most relevant to your organization at the time. PEST analyzing is often used for generating marketing ideas, product ideas, etc.

Phishing • refers to e-mail scams that try to trick users into revealing sensitive information by masquerading as a legitimate bank or credit card issuer.

Pisaddointed • Angry at yourself for doing something stupid.

Positioning • Devising an organization's offering and image to occupy a unique and valued place in the customer's mind relative to competitive offerings. A product or service can be positioned on the basis of an attribute or benefit, use or application. Avis is #2 therefore they "try harder."

Premium • A product-oriented promotion that offers some free or reduced-price item contingent on the purchase of advertised or featured merchandise or service. The term Premium is also used for the amount payable for an insurance policy.

Price Elasticity • The measure of how price sensitive demand for a product is. If demand is elastic, unit sales fall sharply as the price of the item is increased, leading to an overall decrease in sales revenue. If demand is inelastic, unit sales may still fall when the price is increased but total sales revenue will rise. Alternatively, in a market where demand is inelastic, a price reduction will not lead to a sharp rise in unit sales and therefore overall profit will be less.

Pro forma Income Statement • A projected Income Statement. Pro forma in this context means projected. An income statement is the same as a profit and loss statement, a financial statement that shows sales, cost of sales, gross margin, operating expenses,

Pro Forma Statements • the financial statements that project the results of future business operations. Examples include a pro forma balance sheet, a pro forma income statement, and a pro forma cash flow statement.

Product / Service Strategy Section • The section of your business plan that describes what you sell, your products and services, both in the present and in the future. Includes information such as why your product and/or services will be successful, who your customers are, who your competition is, research and development requirements or accomplishments to date. Note to engineer types: It's not the product or service that makes the money, it's the company that produces, promotes and sells the products /services that makes the money. Investors are interested in your overall business as a money-making machine, so keep this section brief and simple.

Product Fulfillment • The method a company utilizes to respond to requests for products and product information. Includes monitoring and managing the delivery, billing, warranty handling, list management, and repairs of your product.

Product Line • A group of products marketed by an organization to one general market. The products have some characteristics, customers and uses in common and may also share technologies, distribution channels, prices, services and other elements of the

Product Selection Criteria • The set of factors or parameters you use to decide what ideas to turn into a product or service based upon market need, competition, uniqueness, and other factors.

Profit • An accounting concept, normally the bottom line of the Income Statement, which is also called Profit or Loss statement. Start with sales, subtract all costs of sales and all expenses, and that produces profit before tax. Subtract tax to get your Net Profit. The money remaining after your company has paid all of its bills. (I think of it as the value YOU add to the product or service that you sell, and to your customers. You add or bring value, then you deserve a profit! – BF)

Profit Objective • The profit goal of a profit seeking organization, which is achieved by efficient use of available resources.

Profitability • The ability of a business to generate cash.

Profitability Ratios • Various measures of company performance based on the net income that the company generates. Includes Return on Owner's equity, Gross Profit Mar-gin, Operating Profit Margin and Net Profit Margin.

Prospectus • The document that presents a stock offering. The offer must describe the quality of the stock as regulated by the Securities Exchange Commission.

Quick Ratio • A measure of a company's liquidity, used to evaluate creditworthiness. Quick ratio is calculated as quick assets divided by current liabilities. Also called the Acid-Test Ratio, includes those current assets that can be most readily used to pay bills today. This is a more probing test of liquidity of a business than the current ratio because it looks only at the most liquid of a company's current assets and compares them with the short-term obligations of the company. Calculated by taking current assets minus inventories divided by current liabilities. The Quick Ratio is a good indicator of how well your company is able to meet your current liabilities in a crunch situation.

Ratio Analysis • The Ratio Analysis in BizPlanBuilder presents projections of 31 financial ratios. These ratios cannot be judged as good, bad or average just based on their value. What the values for these ratios indicate is dependent upon the nature of your company, comparisons to your company's historical ratio values (if available), and comparisons to competitive companies in the same industry. (Standard ratios for many industries are available from on-line database services, and are also published in various reference books available at most libraries.)

Raw Materials • Unprocessed natural resources or products used in manufacturing.

RSS • Really Simple Syndication – a technology chiefly used to pull summaries of new entries on news sites and Web journals.

Research & Development (R&D) • Activities that a company undertakes to turn a product concept into a prototype, and a prototype into a final product. Applies the findings of science and technology in creating a firm's products or services.

Retained Earnings • The profit made by the business that has not been paid out to the owners as Dividends. Retained Earnings are available for reinvestment into the business. On the balance Sheet, Retained Earnings is listed as a Liability.

Return on Investment (ROI) • A return ratio that compares the net benefits of a project, verses its total costs. ROI is a measure of operating performance and efficiency in utilizing assets by a company. The net profit (after taxes) generated by your product or service divided by the total amount invested in developing and marketing it. In short, ROI = Profit divided by investment. (1) The amount earned in direct proportion to the capital invested. (2) The type of benefit customers receive for their purchase. Including time saved, effort lessened, or quality improved.

Return on Net Worth • The ratio comparing your organization's net profit to its net worth, providing a measure of the rate of return on a shareholder's investment.

Return on Owners' Equity • This ratio compares the net profit of your business to the equity (net worth) of your business. It is calculated as net income after taxes (from your income statement) divided by total owner's equity (from your balance sheet).

Revenue • The total flow of funds into a company, mostly from sales of its goods or services. Revenue is the earnings of a company before any costs or expenses are deducted. Revenue includes all net sales of the company plus any other revenue associated with its business.

Sales Assumptions • This section will allow you to estimate revenues for up to ten Product/Service sales items. Specify your sales items by typing the names of your products or services over the "Product/Service" sample labels. Your specific sales item names will be used for the subsequent assumptions sections and the financial statements.

Salvage Value • The value of a capital asset at end of a specified period. Salvage value is also known as scrap value, trade-in value, and residual value. Salvage value is the current market price of an asset being considered for replacement after it has been fully depreciated and is no longer useful to your company.

S-Corporation • A hybrid form of corporate ownership created especially for small businesses. It has tax benefits because S-Corporations are taxed like partnerships, thus eliminating corporate level double taxation (the corp pays tax, then you pay tax on what the corp pays you). Requirements: Must be domestic. Can issue only two classes of stock: voting & non-voting. Only individuals may own stock. No non-resident aliens can be shareholders. S-Corporations cannot own subsidiaries or be part of an affiliate. (See also "Legal Form of Business" for more ideas.)

Securities & Exchange Commission (SEC) • Established by Congress to protect investors. This regulatory agency is chartered to administer federal laws applying to securities, assure that corporations issuing securities and investment bankers selling them must make full disclosure of the character of the securities, etc.

Shipping Terms • Determines when customer takes title of the goods, is responsible for freight charges, establishes the cost of unloading, and responsibility for any damages in transit.

Small Business Administration (SBA) • An agency of the US Government created in 1953 to aid small businesses with either managerial advice or financial assistance.

Sole Proprietorship • A business owned and managed by one person, who is personally liable for all business debts and obligations. For tax purposes, the owner and his or her business are one entity, meaning that business profits are reported and taxed on

Sole Proprietorship • A form of business with a single owner who personally holds title to the business and its assets. Sole Proprietorships can be dissolved, or the business closed, at any time. These business entities automatically cease upon the owners death. The owner is personally liable for all debts and contracts. Proper usage may include "proprietorship," "sole proprietorship" or even "individual proprietorship."

Standard Industrial Classification System (SIC) • A numerical system developed by the US Bureau of the Budget to classify establishments by type of activity for purposes of facilitating the collection, tabulation, presentation, and analysis of data relating to such establishments and for promoting uniformity within US agencies.

Standard Ratio Values • Comparisons of significant values from your company's financial statements to those of competitive companies in your same industry. These industry wide ratio values are available from on-line database services, from organizations that collect financial data (such as www.bizstats.com, Dun & Bradstreet and Robert Morris Associates), and from various reference books available at most libraries.

Stock Offering • A way of selling shares in your company to the public in accordance with the registration requirements of the Securities & Exchange Commission. They are presented in a document called a prospectus and represent a certain amount of ownership in a business that corresponds to a given cash value for each share.

Straight-Line Depreciation • A method for calculating the yearly amount of Depreciation for an item. Yearly Straight-Line Depreciation is the original purchase price of the item divided by the number of years that your business expects to use the item.

Strategic Partnerships • Two or more businesses joining forces for collaborative work. An agreement with another company to undertake business endeavors together or on each other's behalf; can be for financing, sales, marketing, distribution, or other activities.

Sunk Cost • The past expenditures for a given activity that are typically irrelevant in whole or in part to future decisions. The "sunk cost fallacy" is an attempt to recoup spent dollars by spending still more dollars in the future.

Supporting Documents • Includes example materials and operational details for your business such as copies of your advertising or detailed spreadsheets summarized in your financial section. These are usually attached to your business plan to provide depth and backup to the concepts discussed in your plan.

Switching Costs • The costs incurred in changing from one provider of a product or service to another. Switching costs may be tangible or intangible costs incurred due to the change of this source.

SWOT Analysis • An acronym for an organization's internal Strengths & Weaknesses and external Opportunities & Threats. A formal framework of identifying and framing organizational growth opportunities.

Table of Contents • The list of sections in your business plan along with page number.

Target Market • A defined segment of the market that is the strategic focus of a business or a marketing plan. Normally the members of this segment possess common characteristics and a relative high propensity to purchase a particular product or service.

Taxes Incurred • The term used for all the taxes owed but not yet paid.

Title Page • A cover page and a listing of the order and parts of the business plan. Helps the reader to find the parts they want to read quickly. Especially helpful when they want to contact you with questions and/or cash!

Total Assets • The total sum of all property owned by the business including permanent assets such as buildings, machinery, etc. Total Assets is calculated as Long-Term Assets plus Current Assets.

Total Costs • The total sum of all money owed by the business and calculated as fixed Costs plus direct costs.

Trade Credit • A business has received Trade Credit when it buys goods from a vendor who does not expect immediate payment.

Underwriter • (From Coopers & Lybrand's own glossary) - A PERSON OR FIRM THAT SUBSCRIBES AND PURCHASES FOR ITS OWN ACCOUNT SOME OR ALL OF AN ISSUE OF STOCK WITH A VIEW TO SELLING IT TO THE INVESTING PUBLIC. There is another unrelated definition that applies to insurance policies only, but what is above is germane to you. Many people use "underwriting" to mean only doing due diligence. Some use it to mean preparing offering memoranda paperwork for clients and the clients must do all of the marketing themselves (a sure way to fail). A full underwriter has connections with investment brokers and has them sell the issue. The full underwriter guarantees a certain level of funds and will pay for them out of his own pockets if the brokers cannot sell the full offering. You may need to get a party you are talking to to put what they mean by underwriting in writing. This is very important. In earlier backgrounders I show a couple of examples of budgets for underwriting. The full underwriter takes a percentage of the offering for their services.

Unit Variable Cost • The specific labor and materials associated with a single unit of goods sold. Unit variable cost does not include general overhead.

Valuation • The term used for estimating the value of a piece of property usually by considering its replacement cost, its actual cash value or by comparison with a comparable item or business.

Variable Costs • The costs that fluctuate in direct proportion to the volume of units produced. The best and most obvious example are physical costs of goods sold (COGS), direct costs, such as materials, products purchased for resale, production costs and overhead.

Venture Capital Firm • An investment company that invests its shareholders' money in start-up businesses and other risky but potentially very profitable ventures. These are professional investors who typically invest between $500,000 and $30,000,000 in companies having a potential for fast growth and are good candidates for a public offering of their shares or acquisition in the not too distant future.. Generally, Venture Capital firms tend to invest in an industry or industries in which it has some specific knowledge and many useful contacts, and focuses on early stage (not typically start-up) investment in a company.

Vertical Expansion • Expanding your business to incorporate selling products and services that you previously purchased from others or that your customer also buys or requires in order to use your products or services. For example, a printer might expand vertically, by selling paper, graphic design, packaging, delivery, etc. Expanding horizontally is selling additional products in a new way in an attempt to penetrate a new market or new demographic group.

Vision & Mission • Describes your company's personality. It is the way the business thinks about itself. Explains to your reader why you are in business and what you hope to achieve. Vision: Imagine Walt Disney describing DisneyLand while it was still an orange grove. (May be confused with hallucination!) Mission: What your business does for your customers. JIAN's mission is to simplify business.

Working Capital • The excess of current assets over current liabilities. Includes the accessible resources needed to support the day-to-day operations of an organization. Working capital is commonly in the form of cash and short-term assets including accounts receivable, prepaid expenses, and short-term accounts payable. In other words, it is capital (debt or equity) that is used to generate sales on a current basis. Varies directly with sales volume because as sales increase or decrease, so do many of your current assets and liabilities (such as cash, inventory, accounts receivable and accounts payable).

Working Capital Ratios • Ways of measuring how well a company is able to meet its short-term obligations. Consist of Current Ratio, Quick Ratio, and Average Accounts Receivable Days, and Average Inventory Days.

Glossary of Marketing Terms

Some of these definitions originally came from our friend Jay Lipe at Emerge Marketing

Ad specialty • A product (i.e. key chain, coffee mug) carrying a logo or promotional message that helps increase awareness for your company (or product). AKA "Chochky"

Advertising • Any paid form of non-personal communication or presentation of a product, service, idea or company.

Advocate • Your company's most loyal customers who usually provide very valuable word-of-mouth about your company and its products.

Affiliate • In Internet marketing terms, a quasi-partner who offers your product or service for sale to their customers by placing your link on their website for a percentage of your sale.

Affiliate Marketing • A relationship between two parties, usually an online advertiser and an online publisher, whereby revenue is shared based on performance measures such as purchases, registrations or clicks.

Affiliate Networks (Affiliate programs) • Networks of firms who sell complementary products and benefit from sharing customers.

Affinity • An association or relationship (e.g. church membership) that indicates a similarity in lifestyle between individuals.

Algorithm • A set of rules that a computer uses to perform certain calculations like those used by a search engine to rank the results from a search request.

Appeal • The stated advantage of buying a product, as described in marketing communications for that product (e.g. advertising, promotions, publicity, sales literature).

Attributes • The features of a product that are thought to appeal to customers.

Audience • People watching, reading, seeing or listening to a given media vehicle.

Awareness • Consciousness about your product, service or company that has moved into a prospect's active mind. Often the desired objective of an advertising campaign and a principal goal of public relations.

Back-End • All marketing activities designed to convert inquiries into orders, as well as promotions directed at previous buyers. See also Front End.

Banner Ad • The most common form of online advertising, banner ads come in a variety of standard sizes, and appear on a Web page as a box containing text, images, animation or other effects. Users who click on a banner follow a hyperlink to the advertiser's Web site.

Benefit • The satisfaction or fulfillment of needs that a customer receives from your products or services. In "My factories make cosmetics, we sell hope", hope is the benefit.

Billboard • popular name for outdoor advertising signage.

Blog • (From "Web log.") A blog is basically a journal that is available on the web. The activity of updating a blog is "blogging" and someone who keeps a blog is a "blogger."

Body Copy • The words in a marketing message that support, expand upon and clarify the headline & subhead. The purpose of the body copy is to convince someone to buy your product once they have been attracted by the headline.

Brainstorming • An idea generating process that encourages open communication and full participation while withholding any criticism. Commonly used in new product development.

Brand • The combination of symbols, words, or designs that differentiate one company's product from another's. Brand is also used to describe a company's family of products. A brand of car, for instance, might include its passenger cars, trucks, as well as, its economy and sports cars.

Brand Awareness • The extent to which a brand or brand name is recognized by potential buyers.

Brand Equity • The intangible value of a well-known brand.

Brand Extension • The application of a brand beyond its initial range of products, or outside of its category. Be careful you do not exceed your customers' perception of what you are good at… what if Starbucks started making furniture?

Brand Identity • The desired customer perception of a product or brand.

Brand Image • A group of associations that a consumer attributes to a specific brand.

Brand Name • A protected, proprietary trademark of a manufacturer or products or services.

Brand Value • The value a brand holds when viewed on a company balance sheet.

Break-Even Analysis • The analysis of a product or service to determine the sales level required to cover both fixed costs of providing the product and the marketing & sales costs behind it.

Break-Even Point • The specific sales level required to cover the fixed costs + marketing & sales costs of providing a product or service.

Brochure • A printed communication piece that's typically printed on heavy, slick paper stock and features details, photos, diagrams, etc. about a company, its products or services.

Browser • A software program that allows users to read pages on the World Wide Web.

Budget • The detailed financial component of a plan that guides the allocation of resources. It should also provide a means to measure deviation of actual vs. desired results for analysis.

Bundling • Offering several complementary products together or offering services, together with a product, in a single package deal. The price of the bundle is typically lower than the sum of the prices of the individual products or services included in it.

Business Cycle • the movement of a business over time from birth through growth and maturity to decline. This is especially important these days as change comes about very quickly.

Business Plan • A comprehensive written document that details your business' goals and the marketing, operational and organizational directions, including financial requirements and projections it will take to achieve these goals over the next 3-5 years.

Business-To-Business • (B2B) Advertising or promotion intended to influence corporate awareness and purchase of products and services intended to be used by another business.

Call-To-Action • A highly motivating statement that tells the reader what action they should take next and exactly how to do it (example: "Call 1-800-555-1213 now to order"). I'm sick of calls to action myself.

Call Now! No! Call Today! No! What about, “When you car starts to blow smoke, call us.” OK.

Campaign • A coordinated advertising and promotion effort intended to continue thematically over time.

Capabilities Brochure • A promotional brochure stating what your company does and the general capabilities you offer customers. It can include general information as well as very specific details about the company and its operations.

Category Management • The management of product categories as strategic business units. The practice empowers a category manager with full responsibility for the assortment decisions, inventory levels, shelf-space allocation, promotions and buying.

Cause Related Marketing • A partnership between a company and a charity in which the charity financially benefits when the company sells specific products. What makes it work is that the company’s offering to support a charity is newsworthy, and the charity, wanting to be supported will contact the media to tell them about it... The company benefits from the PR and likely makes more than their cost for the donation to the charity!

Channel • A group of retailers or distributors through whom a product is distributed. A company may have several channels, each of which is used to reach different end-users or categories of customers.

Channel Distribution • The network of institutions and agencies that performs all the functions required to bring together producers and end customers.

Channel Marketing • A way of organizing marketing functions in a company that puts individuals in charge of selling to specific classes of trade or distribution channels.

Classified Advertising • A type of print advertising with special insertion rates and usually exhibiting uniform type sizes and fonts. Includes help wanted ads and offers to sell lower priced products.

Client • A person or organization taking advice from an attorney, accountant, or other professional person.

Cloaking • The act of getting a search engine to record content for an URL that is different than what the search results return.

Collateral • The term used to describe overall printed materials designed to support a brand or company’s promotional effort.

Competition • Businesses competing for the same customers’ dollars.

Competitive Analysis • assessing and analyzing the comparative strengths and weaknesses of competitors; may include their current and potential product and service development and marketing strategies.

Consumer • The person who actually uses the product or service. Also called a ‘customer,’ ‘patron,’ ‘buyer,’ ‘shopper,’ or ‘end user.’ “Consumer” seems pretty dumb sounding—I picture a bunch of PacMan like creatures infesting the Earth sucking up everything in sight. It’s one of those words used in marketing meetings that should never see light of day, let alone be exposed to people who actually buy things from you.

Consumer Deal • Usually set within a time period, this offers the customer various products with discounts or special purchases.

Consumer Segment • A group of possible future customers selected from a database, and that exhibit particular similar characteristics.

Content • All forms of website information including HTML pages, interactive and/or dynamic Web pages, images, animation, video and sound files.

Contingency Plan • An acceptable alternative plan that can be implemented in the event a basic plan is aborted or changed for any reason.

Conversion Rates • Distinct measurements that determine how many of your prospects take your preferred action step. Typically, micro-conversions (for instance, reading different pages on your site, or signing up for a newsletter) lead to your main conversions (making a purchase, or contacting you for more information).

Cookie • A text file placed on a user's hard drive when certain web pages are visited.

Co-operative Advertising • An arrangement whereby a product or service is brought to the public's attention using the names of the supplier and the intermediary (e.g. Starbucks benefits as United Airlines benefits by promoting the fact that they serve Starbucks coffee.)

Copyright • Protection to the originator of material in order to prevent use without permission or acknowledgement of the originator.

Copywriting • Writing text for an ad or promotional piece.

Corporate Identity • The visual expression of an organization's (or brand's) unique identity through the systematic use of words and symbols. Includes typefaces, type sizes, colors, graphics, and logo(s). These elements typically appear in standard positions and proportions defined by the company thus reinforcing the identity.

Cost Per Click • (CPC) A system where an advertiser pays an agreed amount for each click a visitor makes on a link leading to the advertiser's web page. Not a great idea… wait until someone in a 3rd world country hammers your website with 30,000 clicks in a day expecting to be paid a nickel apiece…

Cost Per Thousand (CPM) • The advertising cost to reach 1,000 units of audience. Used to compare or evaluate the cost efficiency of different media. For publications, it is determined by dividing the specific advertisement cost by the number of readers.

CPI • Cost Per Inquiry. Divide your total promotional costs by the number of inquiries (example: $9,500 promotional costs/95 inquiries=$100 CPI)

CPO • Cost Per Order. Divide your total promotional costs by the number of orders (example: $7,500 promotional costs/75 orders=$100 CPO)

Crawler • Part of a search engine that accumulates listings by automatically "crawling" web sites.

Creative • The general description of the activities related to the development of promotional materials. Includes concepts, design, copy, music, photography, etc.

Creative Strategy • A blueprint used by advertising and marketing agencies that lines out the idea that is to be communicated, to whom it is targeted and with what tone.

Cross Promotion • The promotion of one product through the use of another product's marketing efforts. Also describes the promotion of a website using other traditional forms of advertising such as magazines, newspapers, radio, TV, billboards, etc.

CTR (Click-Through Rate) • The percentage of those clicking on a link out of the total number who are exposed to the link.

Customer • Any buyer of a product or service, at any trade level. Also called a consumer or patron. Similar to Client: A person or organization taking advice from an attorney, accountant, or other professional person.

Customer Feedback • Compliments, criticisms, requests, or general information provided to a company by its customers about products, services or other aspects of the business.

Customer Lifetime Value (CLV) • the profitability of a customer over the entire relationship, in contrast to profitability on just one transaction.

Customer Loyalty • Feelings or attitudes that encourage a customer to continue doing business with a company.

Data Mining • Taking a database and extracting the data to determine specific characteristics of the entrants.

Data Warehouse • An electronic system that stores data from transactions and is used to be queried against and to generate reports.

Database Marketing • The use of information that's been electronically stored and analyzed about prospects or customers behaviors. This information is then used to determine appropriate marketing activities in order to influence purchases and future sales.

Deadline • A not-to-exceed time limit used to force action. Can be used for projects, sub-projects, offers and a variety of other marketing uses.

Deal • A promotional sale that enables a customer to save money on the purchase of a product or service.

Deceptive Advertising • Advertising that makes incorrect claims and/or statements, or creates a false impression.

Demographics • Statistics about the socio-economic makeup of a population including age, address, gender, race, occupation, income, education.

Description Tag • HTML tag used by web page authors to provide a description for search engine listings. This is what people read when your page appears in the rankings. Google displays 158 characters including spaces.

Differentiation • Establishing a distinction in the mind of a customer about products, services or a company.

Direct Mail • Marketing materials sent directly to a prospect or customer via the U.S. Postal Service or a private delivery company with enough information and compelling copy to convince the prospect to call you or contact you to place their order.

Direct Marketing • a form of marketing where promotional messages are delivered directly to consumers, Products are then ordered by the customer and are shipped directly to their homes.

Direct Response • a promotional method where consumers are directly solicited and asked to respond directly to the advertiser through mail, phone, or e-mail.

Directories • a type of search engine whose listings are gathered through human efforts, rather than by automated crawling of the web.

Directory • websites with look-up capabilities that assign other websites to categories. Directories are edited by humans, as opposed to search engines, which are edited by spiders.

Discount • A reduction in the stated rate or list price, usually offered in the form of a percentage and used as an incentive to make a purchase. Our testing shows that people respond more favorably to an actual dollar amount as opposed to a percentage (when the deal was mathematically identical).

Distribution • The delivery or conveyance of a good/service to a market.

Distribution Channel • The chain or intermediaries linking the producer of a good to the customer.

Distributor • A firm or individual, particularly a wholesaler, who sells or delivers merchandise to retail stores.

Distribution Allowance • A price reduction offered by a manufacturer to a distributor, which allows for the cost of distributing the merchandise. More often than not this is simply a form of extortion to get more out of you. At least get them to give you creative approval of any promo materials created.

Distributor's Brand • A brand not owned by a manufacturer but rather by a distributor.

Diversification • to reduce the risk of relying on a narrow product range, companies increase the variety of goods and services they produce.

Domain Name • The text-based URL or address of a Web site. Domain names usually consist of several different segments. The name www.jian.com, for example, includes the generic "www" (world wide web) and ".com" (commercial, education, organization) identifiers, along with the unique company or product name in between

E-mail Marketing • Marketing electronically through the use of e-mail messages. Think in terms of a 5%-7% open rate – only 7% of people even open the email!

Eighty-Twenty Rule • Originally postulated by the Italian mathematician Pareto — a general rule for the typical product category. Eighty percent of the products sold will be consumed by twenty percent of the customers. 80% of your sales will be sold by 20% of your sales force, etc.

Effective Frequency • The number of times an ad should be shown to one person in order to achieve the highest impact of the ad without wasting impressions. Some say it takes seven impressions before a customer makes a purchase. I think an ad should show some sales on its first impression – at least enough to give you the feeling that the [magazine/radio/TV/newspaper] is a good place to run your ad.

E-mail • A system for electronically sending and receiving messages over a computer network. Figure a response of about one thousandth of one percent. (.00001 x the list size.)

End-User • The person who actually uses a product, not necessarily the one who purchases it.

Extranet • A website that reaches several different audiences. Usually an extranet connects directly with specific existing computer systems at a company allowing suppliers, distributors, and customers to communicate with the company.

Exit Interview • An interview conducted at the end of an employee's term of employment to obtain honest employment feedback. Give them space to tell you off here and reduce their need to sue you later.

External Analysis • analysis of those factors outside your business, which present opportunities or threats.

FAQ (frequently asked questions) • A list of questions and answers related to a particular product, service, software application, Web site or issue. FAQ's can help users get answers without overburdening your support staff and they can be used strategically to attract traffic in a web site.

Feature • A characteristic or property of a product/service such as reliability, price, convenience, safety, quality, size.

Field Sales (marketing) • Sending representatives to retail outlets or directly to customers in order to build brand and support sales.

Fixed-Sum-Per-Unit Method • A method of determining an advertising budget that is based on number of units sold.

Flighting • A media schedule that allows more advertising during certain times and less advertising during other time periods.

Flyer • An inexpensive, 1-page promotional sheet (usually 8 ½ x 11") typically intended for handout or bulk mailing.

Focus Group Interview • A research method in which a trained interviewer assembles a small group of consumers to discuss their impressions, opinions, ideas and/or reactions about a product and/or its advertising.

Forum • An online communication method that lets users submit and respond to messages that are categorized by subject, and remain available for all users to see for a designated period of time.

Four Ps • Stands for Product, Price, Place (i.e., distribution), and Promotion. The building blocks of modern day marketing. There are many more Ps however: positioning, packaging, PR, (open up the dictionary to P and keep going!)

Frequency • How many times a person buys from you, how many times a marketing message is exposed to a target audience or how many times a program is run.

Front-End • All marketing activities designed to generate inquiries. See back end

Gantt Chart • A planning tool and the basis for marketing timelines in this book. In simple terms, a timeline showing the temporal relationship between events.

Gatekeeper • Someone within an organization who doesn't directly consume a product or service but does control access to decision makers and thus, wields considerable influence in the purchase decision making process.

Goal • Individual or organizational objective to be achieved within a particular time period.

Goal congruence • Personal or team goals work together with continuity or in compliance with overall organizational goals.

Going-Concern Value • Value of a company as a business to another company.

Guerilla Marketing • Innovative, often highly targeted methods of getting a message across to a market.

Hard Goals • A goal that can be quantified and measured.

Hard Offer • As typically used in mail-order marketing, requires the prospect to pay for the product in advance. The seller ships the product only after payment is received via check or credit card number. However, a hard offer is expanded to include offers that result in a face-to-face or voice-to-voice like:

Call (800) 123-4567 to schedule an appointment.

Call (800) 123-4567 for a free phone consultation. See also Soft Offer.

Headline • A sentence, phrase or words that appear above a body of text. The purpose of a headline is to attract attention and prod the reader to continue reading.

Hierarchy-of-Effects Theory • The series of steps a consumer takes in order to receive and use information in order to reach decisions about actions they will take.

Hit • A hit is the result of a file being requested and served from your web site. This can be an html document, an image file, an audio track etc. Web pages that contain a large number of elements will return high hit scores. Hits are of very little consequence when analyzing your visitor demographics.

Holding Power • The ability to keep an audience throughout a broadcast and prevent having them from changing channels.

Home Page • The main (or first) page of a website.

Horizontal Marketing • Joint marketing efforts that allow two companies to produce different products yet market them together. Sometimes horizontal marketing is referred to as symbiotic marketing.

House Agency • An advertising agency that is operated and owned by an advertiser which also handles the advertiser's account—this is useful to get discounts on media purchases, usually 15%. Always ask for the house agency discount.

House List • A list of names already owned by your company consisting of purchasers or buyer inquiries and that is used by your company to promote your company's products & services.

Hyperlink (or link) • Web developers use HTML to create hyperlinks that a user clicks on to view another Web page. Hyperlinks can appear as graphics or as areas of differently colored or underlined text.

Hypertext • Generally any text on a website that contains links to other documents. Clicking on these words or phrases causes another document (usually a web page) to be retrieved and displayed.

Hypertext Markup Language (HTML) • Hypertext Markup Language the programming language that is the basis for the World Wide Web. HTML lets you create hypertext links, fill-in forms and clickable images (i.e., images that you click to access another area).

Image • The way a company or organization is perceived by the public and its customers.

Impressions • The total number of exposures given for a particular medium.

Inbound Link • A hypertext link that points to a particular web site. Inbound links are a measure of web popularity and are used by search engines for positioning of web pages in search engines indexes.

Index • The accumulation of data a search engine has that searchers can query against.

Indexability • Refers to if a site can be indexed - or recorded - by a search engine spider. If a site is not indexable, or if a site has reduced indexability, positioning will suffer.

Inserts • Extra printed pages or cards inserted loosely into printed pieces. Inserts are often advertising supplements to a newspaper or magazine.

Integrated Marketing Communication (IMC) • The concept under which a company carefully integrates and coordinates its many communications channels to deliver a clear, consistent, and compelling message about the organization and its products.

Internal Analysis • Analysis of the internal strengths & weaknesses of your company.

Internal Marketing • The process of gaining support for a company (or its initiatives) among its own employees.

Internet • A network of networks, built upon a set of widely used software protocols that link millions of computers around the world. Services such as email and the Web use the Internet to transfer data.

Interstitial Ad • A window that pops up between page loads and is displayed for a period of time, and then goes away without forcing viewers to manually close the window.

Java • Developed by Sun Microsystems, Java is a programming language that can be safely downloaded to your computer through the Internet and immediately run without fear of viruses or harm to your computer or files. Using small Java programs (called "Applets"), web pages can include functions such as animations, calculators, or others.

Joint Venture • where two firms combine efforts to manufacture or market a product, and thus reduce the risk of market entry.

JPEG (Joint Photographic Experts Group) • one of the two most common image types used on the Web. (GIF is the other.) JPEG is used mostly for photographic reproductions. Also referred to as jpg. To make your web pages load faster, you want to use a program like Macromedia Fireworks to optimize your .jpg images (make them smaller in data, but same image size).

Keeper • An incentive used to tempt a consumer to take some action, such as completing a survey or trying a product.

Key Account Management • The marketing and service functions as they take personal care of your company's most important customers.

Keywords • Descriptive words that are embedded in your website code. These are words a search engine or user will search for specifically – enabling your page to be found. Common places to use keywords are 1) In your web pages 2) For search engine registration 3) For directory listings.

Landing Page • The page a visitor reaches after clicking a search engine listing. Marketers must improve conversion rates by testing different landing page creative, which includes the entire user experience including navigation, layout, and copy.

Leap-Frogging • A strategy aimed at overtaking your competition and creating the future shape of the industry.

Lead • A new and unqualified prospect or client, previously unknown to a sales person or company. Also called an inquiry.

Lead Generation • Marketing tactics used to solicit leads for sales follow up and including direct mailings, tradeshows, networking and others.

Leave-behind • Documents or premiums that a salesperson leaves with prospects or customers to remind them of the product or service.

Lifetime Value • The total profit or loss estimated or realized from a customer over the active life of that customer. A common theory is that it costs just 20% as much to get an existing customer to buy another product as it does to get a new customer to buy their first product from you.

Link • A function that takes a user, with just one click, from one page on the web to another. Same as hyperlink.

Link Exchange • Exchanging hyperlinks with a quality site that is somehow related to a company's product or service. Good link exchange tactics can increase a company's Page Rank and increase the number of targeted visitors.

List Broker • A person or company who prepares, rents and maintains mailing lists.

List Price • The price regularly quoted to customers before applying discounts. These are usually the prices printed on dealer lists, invoices, price tags, catalogs or dealer purchase orders.

List Segmentation • The use of subgroups within a list usually sharing similar demographic, target niche or buying characteristics.

Logo • A distinctive company symbol that helps create an image or brand.

Lurking • To read a message in a forum or newsgroup and not add additional comments.

Mailing list • A list of customers or prospects used to mail catalogs or sales announcements. It is not a marketing database because it does not provide for a two-way communication with customers.

Market area • Geographic area from which the primary demand for a specific product or service is expected

Market Follower • A firm that follows leaders into new markets, rather than leading the way. Oftentimes this results in lower marketing expenditures

Market Penetration • The percentage of buyers you have as compared with the total households or businesses in the area you've selected as your market.

Market Profile • A summary of market features, such as the typical purchaser and competitor as well as comprehensive information on the economy and retailing patterns of an area.

Market Research • Data pertaining to customers within a market segment.

Market Segment • A group of actual or potential customers who can be expected to respond in approximately the same way to a given offer.

Market segmentation • The act of dividing up a market into distinct groups of buyers so as to better target your marketing efforts.

Market Share • The % of total buyers for a product/service who choose to buy that offered by the company.

Marketing Audit (or assessment) • A analysis of the company's current marketplace, current marketing capabilities and potential opportunities.

Marketing Consultant • An individual or firm who by training and experience is qualified to help a company with its marketing efforts.

Marketing Firm • A business that influences the distribution and sales of goods and services from producer to consumer.

Marketing Integration • The coordination of all marketing strategies so they work together to establish a maximum impact in the market.

Marketing Metrics • Measurements, such as market share and response rates, that help quantify marketing performance.

Marketing Mix • The combination of all elements used to market a product or service. These include product, price, place (distribution) and promotion.

Marketing plan • The annual planning document that sets the marketing direction for a product, service or company. It spells out the strategies, tactics, timelines and budgetary details for accomplishing the marketing objectives.

Marketing Research • The orderly gathering, recording, analyzing, and use of data concerning the transfer and sale of goods and services from producer to consumer. Internal market research uses your own data from your own sales. External market research is looking for data about customers who may buy from you. Better to run direct response ads and measure what really happens, then test, test, and test to prove what really works best for you.

Marketing Strategy(ies) • The broad directional thrusts a business uses to achieve its marketing goals. Characterized by broad decisions concerning price, product, distribution and/or promotional issues.

Marketing Tactics • The executable elements or actual steps the marketers will take to achieve the objectives and strategies.

Mass Marketing • A marketing strategy in which a seller develops one product offering for all buyers in the market.

Medium (pl. media) • A type of publication or communications method that conveys news, entertainment and advertising to an audience. Examples include newspapers, television, magazines, radio, billboards and the Internet.

Meta Tags • Hidden descriptions of your web pages that describe the page's content and help point search engines to the right places.

Mission Statement • A formal statement of the reason your company or organization exists. It may include a series of goals or objectives that the organization wishes to achieve.

Mnemonic device • Any device designed to enhance the recognition or memorability of a brand. "Where's the beef?" "Is it live or is it Memorex?"

Multimedia • Information that combines different types of content, such as text, images, animation, video and audio.

Narrow Casting • The use of a broadcast medium to address an audience with a special interest.

Networking • The continuous prospecting method of making and utilizing contacts.

Niche Marketing • A way of finding a special product that appeals to only one group, and selling that product very profitably only to that group, ignored by others.

Non-profit Marketing • The marketing of a product or service that is not meant to make a monetary profit for the marketer.

Objectives • Medium-term goals which are: Specific, Measurable, Realistic

OEM (Original Equipment Manufacturer) • A company that produces equipment bearing another company's label.

Offer • What you offer, as an inducement to buy, in your direct mail (e.g. buy one, get one free)

One-On-One Marketing • When marketing efforts are specifically designed to communicate with individual users.

Opt-In Vehicles • Any marketing vehicle (but usually Internet-based vehicles) that allow all recipients to first agree to receive the vehicle. With opt-in vehicles, the recipient tells you it's okay to send him or her future editions of the vehicle. These vehicles generally generate better response because the recipients have indicated an interest from the outset.

Order(s) • The point where a customer agrees to exchange money for goods or services provided by a company. Can also be called a purchase order.

Outbound Links • Links on certain web page that lead to other web pages regardless of whether they are within the same web site or other web sites.

Packaging • The material that protects goods and used to present the brand and its identity.

Page View • A page view is registered each time a page from your website is loaded or reloaded onto someone's browser. It is not a good indicator of how many different people are visiting your web site. Yet, it can be a good way to judge the "stickiness" (ability to retain visitors' interest) of your site.

Pass Along Rate • Advertising sales rep BS about how many other people are going to read a magazine… They tell you the subscriber base is 500,000, but the total readership is 2,000,000 because they have a 4x pass-along rate, meaning for every subscription, four other people will read the publication. I believe it for an airline in-flight magazine, but not for many others. (In-flights, I would also judge by the number of "enplanements" (passengers) – how many people are actually going to sit in the seats and pick up the magazine.))

Paid Placement • A method of advertising where pages are guaranteed to be included in a search engine's index and also guaranteed placement by paying more than other advertisers.

Patent • An exclusive ownership interest in an invention for a designated period of years, granted by the government.

Pay-Per-Click • A type of search engine marketing where advertisers pay a set amount every time their ad is clicked by a prospect.

Penetrated Market • The set of users actually consuming a service or product.

Permission Marketing • Obtaining customer consent to receive information from the company. Permission marketing in the online world takes the form of email promotions and newsletters.

Personal Sales • The sales tactic where direct contact between the company representative and the customer takes place for the purpose of making a sale.

Personalization • Adding personal information like the person's name to a mailing piece.

Planning • The process of pre-determining a course or courses of action based on assumptions about future conditions or trends. Eisenhower said that the plan is worthless, but the act of planning is everything. If you are working by yourself and have the mind of an air traffic controller, you may get away with no plan, but for anything complex, involving the coordination of other people and a changing situation…

Podcasting • Lets everyday users distribute audio files over the Internet for playback any time on computers or digital music players.

Portal Site • A website that becomes a user's internet start page or is often used in the beginning of Internet exploration by providing valuable services and information.

Position • The perception that a marketer attempts to convey about a brand and its benefits vis-à-vis the competition.

Positioning • A marketing strategy that attempts to positively influence the perception of a company, product or service relative to its competitors & competitive products & services.

Positioning statement • The succinct statement of the positioning the company hopes to achieve in the minds of its target customers.

Potential Market • A unit of consumers who claim some level of interest in a designed market proposition.

Pre-Test • The testing of a research survey (or, for that matter, any marketing program) before launching it in order to fine tune the survey administration.

Press Kit • A collection of publicity materials, including press releases and general company information, that is packaged and sent to media outlets.

Press Release • A document that communicates information to the press. Press releases can publicize good news such as positive earnings and new product launches, or they can help control the damage caused by bad news.

Price • The amount of money asked for in the transfer of products and services from the provider(s) to the consumer(s).

Pricing Strategy • Pricing for long-term advantage rather than short-term profits.

Privacy Policy • a written policy that states your company's position on exactly how it will use information provided by visitors of a website.

Product • A manufactured good that possesses objective and subjective characteristics that are manipulated to maximize the item's appeal to con). In general, appeals are directed at satisfying people's basic needs for things such as health, security, wealth, love or accomplishment.

Product Differentiation • The process of creating unique product differences in an attempt to influence demand.

Product life cycle • The pattern of growth and decline in sales revenue of a product over time.

Product positioning • The consumer perception of a product or service as compared to its competition.

Promotion • All forms of communication other than advertising that call attention to products and services, typically by adding extra value to the purchase. Includes temporary discounts, allowances, premium offers, coupons, contests and rebates.

Promotional Mix • The use of several types of mediums to support marketing goals such as advertising, personal selling, publicity, and sales promotions.

Prospect • Identified consumers, be they individuals or companies, who show good potential for buying a company's products or services and have made contact with a company. See also Suspect.

Psychographics • Consists of the emotional and behavioral qualities of your target market: lifestyle, motives, needs, interests (leisure pursuits, sports, etc.), purchase history (recent buyers of your product) emotions, rationales, psychology and thought processes behind the decision to buy your product. They may also include your customers' interests, associations to which they belong, other similar or related products they've purchased, activities in which they're engaged, the length of time they remained with a particular job, etc. Demographics define the qualities of those people who may *need* your product, while psychographics are the qualities of those who may not need your product as much as they *want* your product.

Public Domain Information • The tremendous wealth of information that is open and available to anyone who seeks it.

Public Relations • Communication with various sectors of the public—including media relations, employee relations and community relations—and designed to influence their attitudes and opinions in the interest of promoting a person, product or idea.

Publicity • Information with news value used to promote a product, service or idea in the media.

Pull Promotion • A promotional method that focuses on creating demand among customers, who go into store looking for it, which then "pulls" the product through the distribution chain.

Push promotion • A promotional method that focuses on distribution representatives to "push" the product to the customer.

Qualitative • In research, verbatim or verbal feedback achieved through a non-scientific, non-quantifiable, and non-projectable research.

Quantitative • In research, measurable, projectable data used to help determine needs or wants.

Query • The words or phrases a searcher enters into a search engine's search box.

Rank • The numerical order that a particular web site is listed after a search query.

Rationale • A logical reasoning for choosing a strategy.

Reach • The total number of individuals or companies that are exposed to a marketing vehicle.

Recency • A term for how recent a person has purchased from your company. It is well established that people who have bought most recently are more likely to buy from you again on your next promotion.

Relationship Marketing • Understanding the customer so well that their needs are met to a consistent standard of excellence which turns customers into very loyal customers.

Sales Forecast • Educated guesstimates of future revenues segmented into individual SBU or product sales.

Sales Incentive • A reward, usually in the form of cash or product, for members of the sales staff who achieve a specific goal or an annual quota.

Sales Message • The ideas, concepts and points a company conveys via various selling methods.

Sales Plan • The definable steps a company takes to secure sales.

Search Engine • online software that helps users locate information and other sites on the Internet.

Search Engine • an online database that enables Internet users to locate other websites, containing information they need. Every search engine has its own strategy for collecting data so, one search usually turns up different results on different search engines. Public search engines such as Google constantly index Web sites and add information about these sites to their databases. Many individual Web sites also use their own built-in search engines. Directories such as Yahoo are not search engines – they use human researchers to categorize Web sites.

Search Engine Marketing • The marketing of a website through search engines either by improving search engine optimization techniques, purchasing paid listings, or a combination of both.

Search Engine Optimization • The act of altering a web site so that it does well in the crawler-based listings of search engines.

Segment • A portion of a list or file selected on the basis of a special set of characteristics.

Self-Mailer • A direct mail piece, such as a postcard or tabbed newsletter, which does not require an envelope or wrapper for mailing.

Service • Any activity provided by a person or company to another person or company that is intangible. Services can be provided separate from products or they can be bundled together with a product.

Signature File • Your distinctive address at the bottom of your e-mail message that often includes your contact information and a short promotional message with a link to your website or a particular web page.

Slogan • Short, memorable advertising phrases: Examples include “Coke Is It,” “Just Do It,” and “Don’t Leave Home Without It.” Slogans are different from taglines in that slogans change with campaigns while taglines remain static.

Soft Offer • As typically used in mail order marketing, is an option which allows the prospect to review the goods first and then pay for them afterwards. However for purposes of this book, a soft offer is expanded to include offers that don’t require a face-to-face or voice-to-voice follow up on the company’s. Soft offers include: Call (800) 123-4567 for a brochure. Visit our website at www.[Company].com for more information. See also hard offer.

Spam • Slang term for unsolicited commercial email. “Spamming” people with unwanted commercial email solicitations is considered unethical and it is now illegal in several U.S. states. Most ISPs will terminate a users account if they use it to send spam.

Spiders • An automated program that indexes web documents, titles and/or a portion of each document. These documents are acquired by the spider as it automatically explores the Internet.

Spin • An attempt to manipulate the facts represented in mass media in order to create desired public relations.

Stickiness • A website metric that measures the actual retention rate for a website.

Strategic alliance • The sharing of information, methods, marketing and finance between complimentary businesses.

Strategic Business Unit (SBU) • A company division, product line or single brand that can be marketed independently from the rest of the company.

Strategic Market Planning • The planning process that produces a decision about how a business can best compete in its chosen market.

Strategic Window • The precise period between certain events during which there is a chance to capitalize on a marketing situation.

Strategy(ies) • Any broad plan for achieving goals or objectives.

Strength • An asset, capability or intangible of a company that potentially could provide it with a competitive advantage.

Submission • The act of submitting to a search engine's URL for inclusion. Note this does not guarantee a listing.

Supply chain • The channels of suppliers, manufacturers and distributors involved in the production and delivery of goods.

Suspects • Identified consumers, be they individuals or companies, who show good potential for buying a company's products or services but have not yet made contact with a company. See also Prospect.

SWOT Analysis • An analysis that depicts the company's Strengths, Weaknesses, Opportunities and Threats.

Tactics • The actual programs and techniques used to accomplish a strategy.

Tagline • A phrase that communicates the most essential product attributes or benefits that the marketer wants to convey.

Target Market • The defined group of consumers that a marketer considers to be prime prospects (i.e. most likely to purchase).

Target Market Identification • The process of using income, demographic, and life style characteristics of a market to locate the most favorable locations.

Target Marketing • Where different products, pricing, distribution methods and promotions are developed to meet consumers varying needs and preferences.

Task • An individual unit of work that is part of the total work needed to accomplish a project.

Technographics • Describes the relevant level of technology embraced by your customers and the role technology plays in their buying decisions for products such as yours.

Telemarketing • Using the telephone to sell, promote or solicit products and services.

Test Market • Trial market for a new product, service, offer or other marketing effort.

Timeline • A specific action plan, laid out in a visual way, that lines out the various tactics the company will pursue and the subsequent deadlines.

Title Tag • A descriptive title that appears at the top of each page of your site. It is extremely important that every Title tag contain well-researched key phrases and is written in a way that entices a user to click through. The title tag is a crucial part of your search marketing campaign – and every page should have its own title tag.

Touchpoint • Any place where a business comes into contact with its customers or prospects. Generally considered to be personal contact points (e.g. trade shows, phone calls) as opposed to non-personal ones ((e.g. brochures, websites, advertisements).

Trade Sales Promotion • An incentive offered to resellers to promote purchases.

Trademark • The name, phrase, logo, image or combination of images of a product/brand claimed as owned by a marketer. Often marked as if the mark has been applied for and © if it has been registered. The term is often used to include service marks, which apply to businesses providing services as opposed to selling products.

Trial • The initial customer use of a product/service. Either given away free or sold at a nominal price, to gain customer experience with the brand.

Trial Offer • The offer to a consumer to try a product for a stated period of time before deciding whether or not to purchase.

Two-Step • In direct mail, a selling process that first solicits a request for information (inquiry) then, as a second step, follows up with additional mailings to close the sale.

Uniform Resource Locator (URL) • a website address.

Unique Selling Proposition • The key, unique benefit that differentiates your product/service from all your competitors. Made famous by Rosser Reeves, an ad giant of the 1950's.

Unique Visitor • someone with a unique IP address (when you log onto the Internet, you are assigned a unique IP address) who enters a Web site for the first time, during a set period of time. Different traffic monitoring programs define this period differently, however you'll find most defining it between 2 hours and 24 hours. This measure is, by far, the most accurate way of analyzing web site performance.

Upsell • A technique to increase the value or quantity of a sale by suggesting additional options or upgrades. For example, a fast-food restaurant may upsell by suggesting that a customer buy a larger portion of a drink.

URL • Universal Resource Locator. The text address that allows users to find a particular Web site or Web page. The links on Web pages also consist of URLs, which are embedded in the HTML code on the page. URLs comprise of a domain name followed by the file path to a particular file on that domain's Web server.

Usability • the ease with which visitors can the exact information they need when they need it. Anything that makes the process slower (like Flash animation to a dial-up customer) inhibits usability. Conversely, easy, intuitive navigation and strong, informative text enhance usability.

Valuation • The valuation of your company is the price someone would pay for your business. Contrary to what is taught in school, most companies are valued on "comp" (comparison) basis much like it is done in real estate. The value of your company is often based on what similar companies in your market, at your stage of development, in your area have sold for (or had an equivalent investment in) recently.

Value-Added • Any promotional, product or service technique that seeks to add value to the product.

Value-Added Reseller • A dealer, say in the high tech industry, who specializes in "solution sales" which combine consulting, needs analysis and bundling of turnkey packages. Opposite of a retailer who, in this business, sells "shrink-wrapped boxes".

Viral Marketing • Any marketing effort that propagates itself. An example of a viral marketing effort • encouraging e-mail recipients to pass along messages to others in order to generate additional exposure.

Web Browser • A program that allows an individual to view Web pages.

Web Host • A service that operates Web servers for its clients and publishes their Web sites.

Web Page • A page in a Web document. Unlike printed pages, a Web page may be just a few words long or it may include thousands of words, images and other content.

Web Server • A computer that publishes a Web site on the Internet. It usually includes the Web server software, the appropriate software protocols such as TCP/IP, the Web site content and occasionally other software such as e-commerce or database applications. When the Web Server receives a request from a Web client (or browser), it delivers the appropriate page or performs the requested task.

Wholesaler • A business that buy goods from manufacturers, then sells the goods, usually in larger quantities, to retailers, who in turn, sell them to the end user. A middleman between the manufacturer and the retailer.

Word-of-Mouth Advertising (or just word-of-mouth) • Getting satisfied customers to recommend the product or service to friends, family, co-workers or anyone else they're familiar with. This kind of advertising costs the provider nothing and very often is viewed as more credible than information provided directly by the provider or manufacturer.

World Wide Web (or the Web) • An Internet service that links collections of documents, or Web sites, both internally and to other sites. In addition to formatted text, Web pages may include graphics, audio, video and other Multimedia content.

Resources

Nine-tenths of wisdom consists of being wise in time.
~ Theodore Roosevelt

Federal Government

Bureau of the Budget

Standard Industrial Classification Manual: This publication lists the SIC numbers issued to major areas of business: for example, the SIC number for piano tuning is #7699. Standard Metropolitan Statistical Areas

Bureau of the Census

Issues publications covering demographic and economic surveys.

Copyright Office

Information & Publication Section, LM-455, Library of Congress, Washington, DC 20559

Catalogue of materials published; Highlights of new copyright law; Copyright basics; Trademarks

Patent & Trademark Office

US Department of Commerce, 2121 Crystal Park 11, #906, Washington, DC 20231 202-308-4357

Write and ask for catalogue of publications.

Department of Commerce

Main Commerce Bldg., 14th St. & Constitution Ave. NW, Washington, DC 20230 703-442-2000

Census of Business: Retail Area Statistics Census Tract Manual County & City Data Book: This book is updated every three years and contains statistical information on population, education, employment, income, housing, and retail sales.

County Business Patterns Directory of Federal Statistics for Local Areas Facts for Marketers Measuring Markets: A guide to the use of federal and state statistical data.

Small Business Administration

409 3rd St. SW, Washington, DC 20416 202-205-6600

SBA Small Business Answer Desk: 800-368-5855

National Directories for use in marketing, small marketers aids, and statistics and maps for Market Analysis.

State Government

State Department of Commerce

Office of the Secretary of State, State Bookstore

Local Government

Regulatory Agencies

Urban and Redevelopment Agencies

Other Sources

Bureau of Consumer Protection
Division of Special Statutes, 6th & Pennsylvania Ave. NW, Washington, DC 20580 Write for information related to your specific business.

Consumer Product Safety Commission
4330 East-West Highway, Bethesda, MD 20207 301-504-0580

Bureau of Compliance
5401 Westbard Ave., Bethesda, MD 20207

Request catalog of booklets available, for example: The Federal Hazardous Substances Act Consumer Product Safety Act of 1972 Flammable Fabrics Act

Federal Trade Commission
Division of Legal & Public Records, 6th & Pennsylvania Ave. NW, Washington, DC 20580 703-326-2180

Request trade practice rules applicable to your business.

Food and Drug Administration
5600 Fishers Lane, Rockville, MD 20857

301-443-3285

Send for requirements governing packaging and labeling of food and food-related products.

Internal Revenue Service
1111 Constitution Ave. NW, Washington, DC 20224

800-829-1040

Request list of publications such as: *Tax Guide for Small Business #334*

Manufacturer's Agents National Association
1131 Pennsylvania Ave. NW, #1500N, Washington, DC 20004

Agent and Representative Company: 626 N. Garfield Ave., Alhambra, CA 98 101

Publishes a geographical and alphabetical directory of association members along with information about lines and territories handled.

Superintendent of Documents
US Government Printing Office, 732 N. Capitol St. NW, Washington, DC 20402 202-512-2034

Request subject bibliography listings. There are fees for most publications.

US Department of Commerce
Office of Consumer Affairs, 14th St. & Constitution, Washington, DC 20233 202-482-1551

Offers free booklets such as: Product Warranties, Advertising, Packaging, and Labeling

US Department of Labor
200 Constitution Ave. NW, Washington, DC 20210 202-219-7316

Request catalog of publications.

US Small Business Administration (SBA) 409 3rd St. SW, Washington, DC 20210 202-205-7713

P.O. Box 15434, Fort Worth, TX 76119

Local Sources

Banks; Chambers of Commerce; Community and State Colleges; Entrepreneurs (local business owners); Merchant Associations

Association of Limited Liability Companies
1000 Thomas Jefferson St. NW, Suite 600, Washington, DC 20007 202-965-6565

Association of Small Business Development Centers 1313 Farnam, Suite 132, Omaha, NE 68182-0472

National Association for the Self Employed PO Box 869023, Plano, TX 75086-9899

National Association of Female Executives PO Box 469031, Escondido, CA 92046 800-634-6233

National Business Association PO Box 870728, Dallas, TX 75287

Retired Entrepreneurs

S.C.O.R.E. counselors may be contacted through the SBA. See address for SBA above.

Suppliers and Wholesalers

Trade Associations (Clearing houses for information passing between industry, government, and the general public)

SBA Publications

Request order form/send payment to the above address. Check must be payable to: US Small Business Administration. A sample listing of materials available from the SBA follows.

Small Business Start-Up Information Packages

Business Plan for Small Business Firms, Management Aids 2.022 Locating or Relocating Your Business, Management Aids 2.002 Fixing Production Mistakes, Management Aids 2.011

Business Plan for Small Service Firms, Management Aids 2.022 Business Plan for Retailers, Management Aids 2.020

Business Plan for Small Manufacturers, Management Aids 2.007 Effective Business Communication, Business Development MP 1

The Business Plan form Embossed Business, Business Development MP 15 Should You Lease or Buy Equipment, Business Development MP 8 Developing a Strategic Business Plan, Business Development MP 21

Problems in Managing a Family Owned Business, Business Development MP 3

How to Get Started with a Small Business, Computer Business Development MP 14 Accounting Services for Small Service Firms, Business Development FM 6 Business Plan for Small Service Firms, General Management MP II Recordkeeping in Small Business, Financial Management FM 10

Library-Printed Materials

Reference Publications & Directories

The library is the temple of learning,
and learning has liberated more people than all the wars in history.
~ Carl Rowan

Business Periodicals Index. A monthly listing of business articles appearing in a wide variety of business publications.

Directory of Directories: Describes over 9,000 buyer's guides and directories.

Dun and Bradstreet Directories: List companies alphabetically, geographically, and by product classification.

Encyclopedia of Associations: Provides information on every major trade and professional association in the United States

Marketing Information Guide: Provides a monthly annotated bibliography of marketing information.

Standard and Poor 's Industry Surveys: Updated statistics and analyses of industries.

Statistical Abstract of the US: Updated annually, provides demographic, economic, and social information.

US Industrial Outlook: Provides projections of industrial activity.

Books

Somewhere in the world there is defeat for everyone.
Some are destroyed by defeat, and some made small and mean by victory.
Greatness lives in one who triumphs equally over defeat and victory.
~ John Steinbeck

Alarid, William. *Money Sources for Small Businesses*. Santa Maria, CA: Puma Publishing Company, 1991.

Bell, C. Gordon with John E. McNamara. *High-Tech Ventures, The Guide for Entrepreneurial Success*. Reading, MA: Addison-Wesley, 1991.

Berle, Gustav. *SBA Hotline Answer Book.* New York: John Wiley & Sons, Inc., 1992.

Blanchard, Kenneth, Patricia Zigarmi, and Drea Zigarmi. Leadership and the One-Minute Manager: Increasing Effectiveness through Situational Leadership. New York: William Morrow, 1985.

Blum, Laurie. *The Complete Guide to Getting a Grant*. New York: Poseidon Press, 1993.

Blum, Laurie. *Free Money for Small Businesses and Entrepreneurs*. New York: John Wiley & Sons, Inc., 1992.

Brandt, Stephen C. Entrepreneuring, The Ten Commandments for Building a Growth Company. New York: NAL Penguin Inc., 1982.

Bygrave, William B. *The Portable MBA in Entrepreneurship*. New York: John Wiley & Sons, Inc., 1990.

Chimerine, Lawrence, Robert F. Cushman and Howard D. Ross. Handbook for Raising Capital.• Financing Alternatives for Emerging and Growing Businesses. Homewood, IL: Dow Jones Irwin, 1987.

Davidow, William H. and Michael S. Malone. The Virtual Corporation. New York: Harper-Business, 1992.

Field, Drew. Take Your Company Public. The Entrepreneur's Guide to Alternative Capital Sources. New York: New York Institute of Finance, 1991.

Fritz, Roger. Nobody Gets Rich Working for Somebody Else, An Entrepreneur's Guide. New York: Dodd, Mead & Company, Inc., 1987.

Frost, Charles L. and Eugene E. Valdez. How to Prepare a Bank Financing Proposal For Your Business (The Way a Banker Would). Study Guide and Workbook. Valdez, Frost & Co., Business Finance Consultants, 1992.

Gaston, Robert J. Finding Private Venture Capital for Your Firm: A Complete Guide. New York: John Wiley & Sons, Inc., 1989.

Hopkins, Tom. *How to Master the Art of Selling.* Scottsdale, AZ: Champion Press, 1982. Iacocca, Lee with Sonny Kleinfield. *Talking Straight.* Boston, MA: G.K Hall, 1989.

Jones, Seymour, M. Bruce Cohen and Victor V. Coppola. *The Coopers & Lybrand Guide to Growing Your Business.* New York: John Wiley & Sons, Inc., 1988.

Kishel, Gregory F. and Patricia Gunter Kishel. *How to Start, Run, and Stay in Business.* New York: John Wiley & Sons, Inc., 1993.

Kouzes, James M. and Barry Z. Posner. The Leadership Challenge. How to Get Extraordinary Things Done in Organizations. San Francisco: Jossey Bass, 1987.

Krallinger, Joseph C. and Karsten G. Hellebust. *Strategic Planning Workbook.* New York: John Wiley & Sons, Inc., 1989, 1993.

LeBoeuf, Michael. The Greatest Management Principle in the World. New York: Putnam, 1985.

Malburg, Christopher R. *All-In-One Business Planning Guide.* Holbrook, MA: Bob Adams, Inc., 1994.

Malburg, Christopher R. *Business Plans to Manage Day-to-Day Operations.* New York: John Wiley & Sons, Inc., 1993.

Mancuso, Joseph. *How to Start, Finance and Manage Your Own Small Business.* Englewood Cliffs, NJ: Prentice-Hall, Inc., 1984.

McCormack, Mark H. *What They Don't Teach You at Harvard Business Schoo*l. Toronto, New York: Bantam: 1984.

Merrill, Ronald E. and Henry D. Sedgwick. *The New Venture Handbook.* New York: AMACOM, 1993.

Ogilby, David. *Ogilvy on Advertising.* New York: Vintage Books, 1985.

Pollan, Stephen M. and Mark Levine. *The Field Guide to Starting a Business.* New York: Simon & Schuster, 1990.

Ries, Al and Jack Trout. *Marketing Warfare.* New York: McGraw Hill, 1986.

Ries, Al and Jack Trout. *Positioning: The Battle for Your Mind.* New York: McGraw Hill, 1986.

Rosenberg, Jerry M. *The Investor's Dictionary.* New York: John Wiley & Sons, Inc., 1986.

Schilit, W. Keith. *The Entrepreneur's Guide to Preparing a Winning Business Plan and Raising Capital.* Englewood Cliffs, NJ: Prentice-Hall, Inc., a division of Simon & Schuster, 1990.

Sherman, Andrew J. One Step Ahead, the Legal Aspects of Business Growth. New York:, Amacom: 1990.

Product Notes

Use this page to record information you may need later.

Serial Number: ________________________________

Purchase Date: ________________________________

Purchased From: ________________________________

Installed on: Windows [ ] Vista [ ] XP [ ] 2000 [ ] Macintosh

Office/Word/Excel versions: ___________________________________

Notes:

BizPlanBuilder is a powerful first step toward your business success. Now you can go even further with these popular tools and resources.

Knowledge Base online is full of answers

We collect great ideas, articles and links you can use to build your business. Visit www.jian.com from time to time get answers to questions and to help you make important decisions.

Cash for sales referrals

Visit our website and sign-on as a JIAN Affiliate. We provide text, graphics and links you can add to your website to generate extra income while you sleep.

Success stories improve your search engine ranking

Send us your success story with your web address and we'll add it to our website. Your link on our site will add to the number of links to your site and improve your search ranking.

Consultants nearby can help

Perhaps some specialized help is needed to complete your project or give it a professional review. Visit our website and click on Community to enter your request for help.

More proven software tools

Next you'll need a full-blown Marketing Plan (picks up where BizPlanBuilder leaves off…), then a PR campaign (we give you a plan plus a collection of Press Releases, etc.), there's more.

Investors

Need funding? Take look here. Also, drop us a line (email works) and we'll see if one of our investment banker friends can help you.

Remember to watch the videos!

"The thinking Behind Your Business Plan" is a very informative and entertaining video you can watch right on your computer.

Please visit our website
www.jian.com