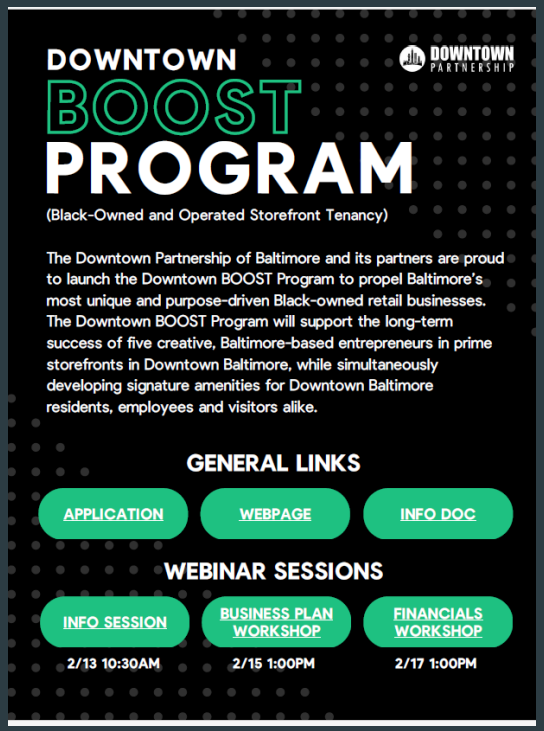


THE PLAN

A Step-By-Step Business Plan Seminar

City of Baltimore Small Business Resource Center

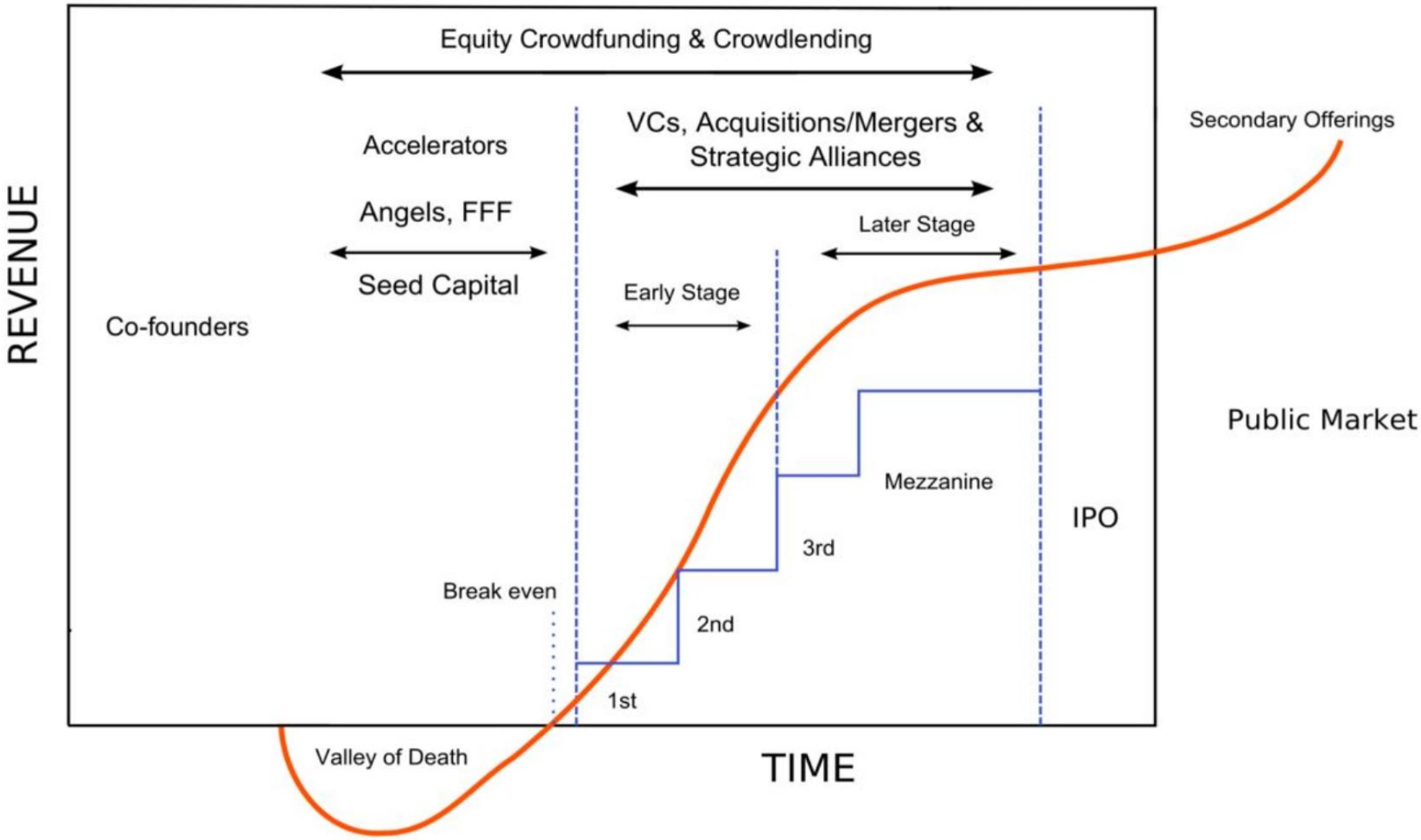
Paul E. Taylor p.taylor@baltimorecity.com

THE PLAN

A Plan will help you:

- Move ideas from your head to paper in an organized, clear, convincing manner.
- Avoid the most common mistakes
- Keep your focus on key points

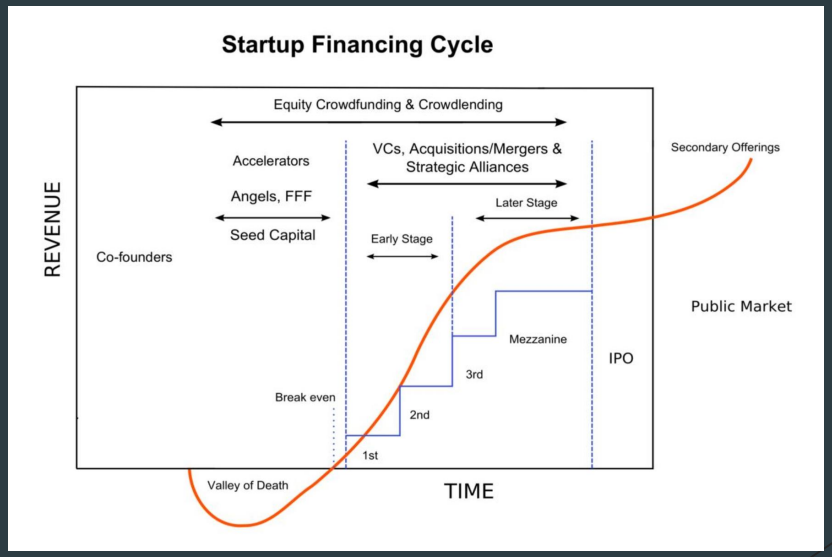
Startup Financing Cycle



INTRODUCTION

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

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



INTRODUCTION

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

INTRODUCTION

It is important that ***you write your*** business plan.

Why?

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

Resources Available to Assist:

Baltimore Source Link: www.baltimoresourcelink.com

Baltimore Sizeup: SizeUp Baltimore - Baltimore SourceLink

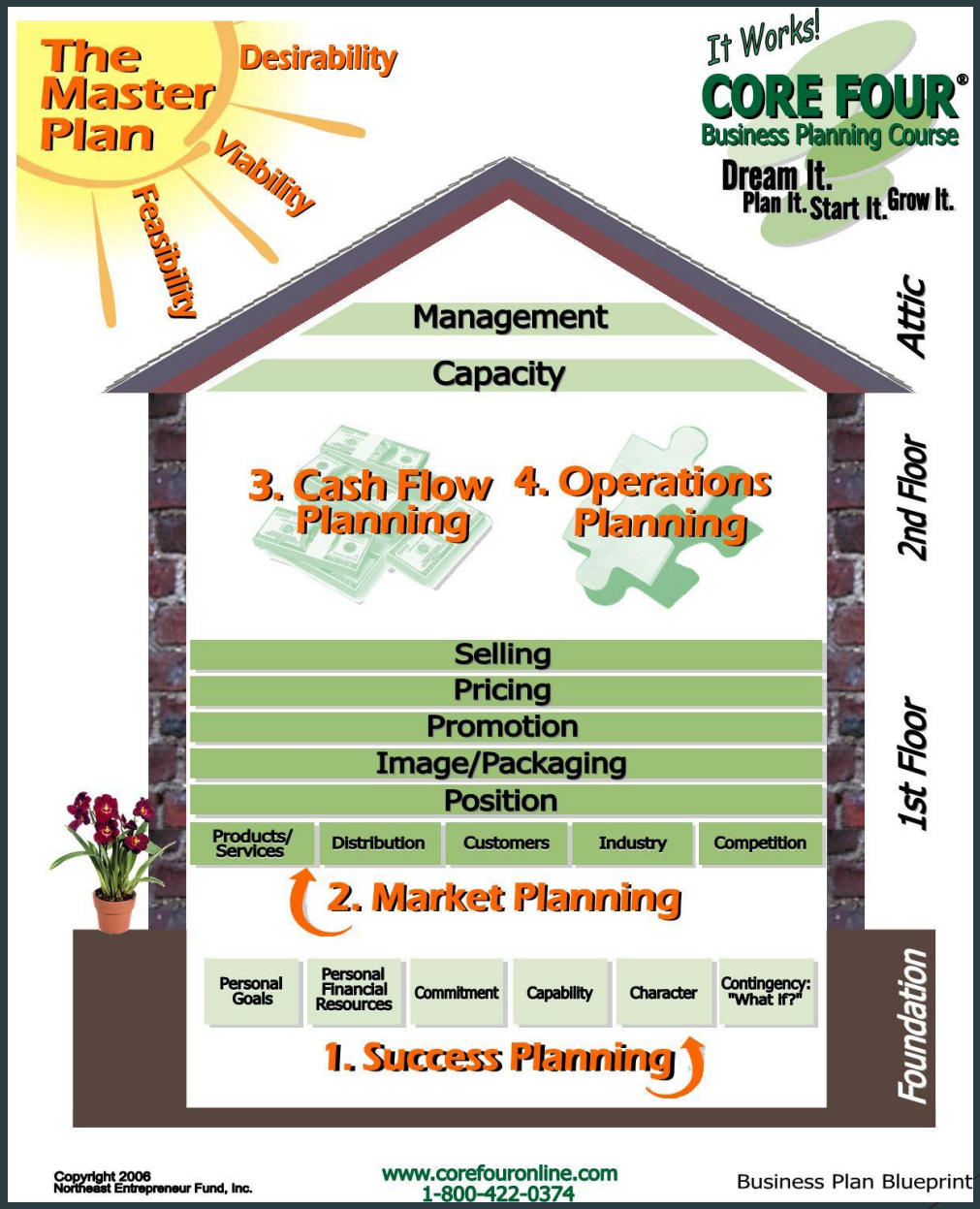
SBA: www.sba.gov

BCAN: https://baltimorecreates.org

SCORE: www.SCORE.org

IBISworld: https://www.ibisworld.com/

Dun & Bradstreet: Dun & Bradstreet - Accelerate Growth and Improve Business Performance (dnb.com)


The Master Plan
Desirability
Viability
Feasibility
It Works!
CORE FOUR®
Business Planning Course
Dream It.
Plan It. Start It. Grow It.
Attic
Management
Capacity
2nd Floor
3. Cash Flow Planning
4. Operations Planning
1st Floor
Selling
Pricing
Promotion
Image/Packaging
Position
Products/ Services
Distribution
Customers
Industry
Competition
2. Market Planning
Foundation
Personal Goals
Personal Financial Resources
Commitment
Capability
Character
Contingency: "What if?"
1. Success Planning
Copyright 2006
Northeast Entrepreneur Fund, Inc.
www.corefouronline.com
1-800-422-0374
Business Plan Blueprint

Business Loan Basics

- **ASK YOURSELF THESE QUESTIONS:**

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

Business Loan Basics

- **LENDERS USE THE EIGHT "C's" RULE:**

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

Business Loan Basics

- **BASIC QUESTIONS A LENDER WILL ASK YOU:**

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

Business Loan Basics

- **BEFORE MEETING WITH A LENDER:**

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

Business Plan Outline

i. Executive Summary
ii. Business Description
iii. Managers and Employees
iv. Operations and Location
v. Marketing
vi. Buying a business
vii. Buying a Franchise
viii. Loan Request

Financial Statements

I. Personal Financial Statement
II. Balance Sheet
III. Income Statement
IV. Cash Flow Statement
    I. Ratios
    II. Formulas
    III. Apendix

EXECUTIVE SUMMARY

- The **Executive Summary** ***(your Cover Letter)***
- *briefly explains the rest of your business plan in about one or two pages.*
- Page two is the **Table of Contents. It shows** the lender on which page each section can be found.

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

Executive Summary

YOUR COVER LETTER SHOULD READ SOMETHING LIKE THIS ONE:

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

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

Briefly mention your markets and customers

Include key facts about your competition.

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

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

December 31, 2004

The Green Rose
456 Oak Street
This Town, USA 67890

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

Re: Loan Request for $300,000

Dear Mr. Nelson,

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

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

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

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

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

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

Respectfully submitted,

Ed Rose *Tim Green*

Ed Rose Tim Green

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

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

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

Business Description

To Do Done

Reasons

for starting, buying, or expanding business.

To Do Done

Products and Services

Provide a summary.

To Do Done

Purpose

Describe the intent of your business.

To Do Done

Goals

Current goals (within the next year)

Long-term (over the next five years)

To Do Done

Industry

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

Business Description

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

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

Purpose: Describe the intent of your business.

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

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

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

LEGAL STATUS: Florida S Corporation

PURPOSE: Produce superior marketing communications material for other businesses.

STATUS: Start-Up. Will open December 2004

BUSINESS TYPE: Service

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

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

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

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

Reasons for starting, buying, or expanding business.

Business Description

Goals:
Include both current and long-term projections.

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

GOALS:

CURRENT: Bring to profitable status that will equal or exceed current income levels. Create relationships with clients. Build ...etc.

LONG-TERM: In four years, we will have 50-100 clients. Hire administrative person ... etc.

INDUSTRY:

100 design firms and designers exist in our territory. Advertising agencies (about 235) are also competitors but their specialty is not design. Many companies have relocated to Orlando so the demand for our services is growing. The number of start-up companies numbered 6000 last year...etc.

PROFESSIONAL RELATIONSHIPS:

ACCOUNTANT:
Larry Stuart, CPA, 123 Main St., Winter Springs, FL 32751. Ph: 407-678-9012, Fax: 407-678-7890

ATTORNEY:
Linda Johnson of Johnson and Smith, 456 Elm St., Winter Park, FL 32789.
Ph: 407-234-5678, Fax: 407-345-6789

BANKER:
John Nelson, Heritage Bank, 678 Oak St., Orlando, FL 32908. Ph: 407-123-4567. Fax: 407-0987-6543.

INSURANCE AGENT:
Linda Doe, Doe Insurance, 321 Grove Ave., Winter Park, FL 32789. Ph: 407-432-7654. Fax: 407-876-5432

PROFESSIONAL ADVISORS:
Claire Vellosa, Vellosa Consultants, 1 Park St., Orlando, FL 32701 Ph: 407-222-1456, Fax: 407-419-1989

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

Managers & Employees

Managers

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

Employees

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

Costs

- Include managers' job descriptions, salaries, benefits and resumes in the **APPENDIX.**

How much are you going to pay each employee?

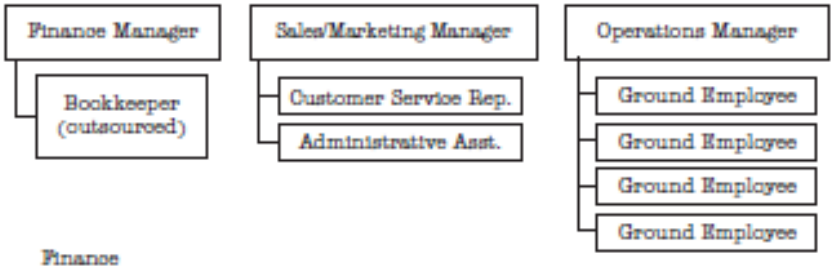
What are the employee benefits and their costs?

What employee training is needed and how much will it cost? How will it occur?

General

- Describe any resources available from outside the business. *For example, you may use an accountant for financial reporting.*
- Some functions can be outsourced. The monthly cost for this service is

The Good Earth Organizational Chart



Finance

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

A bookkeeper will be outsourced.

Sales & Marketing

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

Two office staff: One full-time customer service representative and one full-time administrative assistant. Each will be paid $25,000 annually. They will receive health insurance, ten paid sick days, paid holidays, and two weeks of vacation. These benefits will cost ...

Operations

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

Four (4) full-time grounds employees starting at minimum wage for working Monday- Friday, 7:00 a.m. to 3:30 p.m. A two-day training program is required before joining the company. Employees will receive paid health insurance, five paid sick days, paid holidays, and one week of vacation. These benefits will cost ...

Operation & Location

HOW WILL YOUR BUSINESS OPERATE?

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

SUPPLIERS

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

LOCATION

- What kind of space does your business need?
  - Why is the area and location desirable?
  - Does this location affect your costs?
  - How much are utilities, taxes, and other expenses?
  - Is it easily accessible? Is public transportation available? Is there adequate parking?
  - Does your business comply with zoning laws?
  - Do you own or lease the building? Include zoning statements from local government in the **APPENDIX** and approval letters from local and state inspectors. If owned, provide a copy of the deed in the **APPENDIX**. If leased, the term of the lease must be renewable to match the loan period you are requesting. Include a copy of the lease (or proposed lease) with terms, conditions, length, and cost in your **APPENDIX**.

Are improvements, renovations, furniture, fixtures, equipment or machinery necessary? Show quotes in the **APPENDIX**.

Retailers:

> Research and show traffic patterns in the **APPENDIX**.

> What other businesses are in your immediate area?

Wholesalers, manufacturers and other businesses:

> Are you located near your customers and suppliers?

> Do you have easy access to major highways, railways, and airports?

rovide photos and a summary of your location cluding a floor plan, blueprint or plot plan (if uilding) in the **APPENDIX**.

CLOTHES WITH CLASS

We are a school uniform shop. Business hours will be from 10 to 6, Monday through Saturday. Our plan is to purchase fixtures to display uniforms and furniture to create a relaxed retail atmosphere. A computer system to track customer purchases and inventory will be leased. These costs are included in the Appendix.

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

The five-year lease we have signed on a 1,800 sq. ft. building is included in the Appendix. The building is located within 18 miles of 22 private and parochial schools who require uniforms that we will stock. Our building is on a major thoroughfare, conveniently located right off Highway 83.

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

Marketing

- **MARKETING** has been defined as “the activity of presenting products or services to customers and potential customers which makes them eager to buy.”
- Especially in today’s crowded marketplace, where competition is fierce, savvy small business owners should never underestimate the power of smart marketing.
- The right product or service at the right price is only the beginning. You must also identify your audience, promote your product and find the best distribution method.

Marketing

THE PRODUCT OF ALL YOUR HARD WORK

First and foremost, believe in the success potential of your product or service. Then think about things like:

- Benefits of your product. If you're not clear on them, no one else will be.
- Research and development. Will you need it? If so, include detailed plans and costs in the **APPENDIX.**
- What licensing requirements, restrictions, registrations or regulations affect your business?
- What about legal issues? Are there patents, copyrights or trademarks to think about? What are the costs involved?

Marketing

- **THE PRICE IS RIGHT**

Determining just the right price for your product or service is a delicate matter. Keep in mind that:

- The price will be affected by the quality of your product, customer demand and the competition.
- The selling price must cover all your operating expenses (materials, labor and overhead) and also include a margin of profit. To determine what this is, you need to calculate your breakeven point.

Marketing

PLAN TO PROMOTE, THEN PROMOTE YOUR PLAN

Your promotional plan will be implemented with several marketing tools. These days, a web site is paramount and a mobile website is critical. In addition, there are a handful of proven methods for promoting your product, such as:

Advertising

- Advertising tells your target market about your product or service.
- But how do you approach it, with so many choices available?
- Which publications are best? Is radio and TV advertising where you should be?
- Researching web sites is a good place to start your advertising plan.
- Ask professional organizations for referrals when looking for designers and writers to help develop ads. Media buyers help you reach the biggest audience for your dollar.
- When putting together your business plan, include advertising ideas, schedules and budgets in the APPENDIX.

Direct Marketing

Direct Marketing means contacting prospects by traditional mail, email or phone.

- Take, for example, a nature camp company that wants to mail out brochures.
- Buying a list of subscribers to an outdoor magazine seems smart. But measuring results is key. Say you mail 5,000 postcards and get 100 responses.
- That's a 2% response level. Of those, how many turn into orders or become clients?
- Keeping track of these things helps you determine which databases are best, and how much it costs to gain an order or client.

Public Relations

Public Relations (PR) is more than getting publicity.

It's a great way to build an image or a brand identity.

Through your business activities, you influence the attitudes of your audience.

- For example, your company makes sun block, so you sponsor a sandcastle contest at the beach. In order to get publicity — media coverage at no cost to you — you send press releases with pertinent information well in advance to area news-papers, radio and TV stations.

Promotional/Sales Material

- **Promotional/Sales Material** rounds out the marketing picture. Items like:
- a logo
- a catalog,
- a price list,
- and business cards

can position you as a polished marketer, helping the sales process go more smoothly. Think about what promotional materials you'll need and what they'll cost. Include samples, costs and ideas in the business plan **APPENDIX.**

Trade Shows

- **Trade Shows** can be a great way to get your product in front of people, to get leads and take orders.
- Shows can be a great place for your sales force to meet your customers in person.
- In addition, it’s a chance for you to talk with others in your industry and share information.

Many times, trade associations are present at shows, presenting an opportunity for you to gain valuable insights.

Marketing

- **FULL SALES AHEAD**
- Who will sell your products?
- Can you do it yourself or will you require a sales staff, reps, agents, brokers or wholesalers?
- Think carefully about their compensation — will they work for a salary, commission, or both? Include sales expenses in the **APPENDIX.**

MARKETING

KNOW YOUR CUSTOMERS

- It is crucial to figure out who is most likely to use your product

  or service. These important group or groups are your market or markets.
- In most cases, slicing your market into smaller groups (called segments) is helpful in targeting them. For example, if your product is gourmet dog biscuits and you want to do a postcard mailing, you would naturally want to narrow your mailing list down to dog owners.
- How do you get started gathering customer and marketing data? There’s a wealth of knowledge on web sites, through case studies, in magazines, newspapers, reference books, trade journals and government statistics.

MARKETING

- **QUESTIONS TO ASK YOURSELF**

• Where are your customers — local, regional, national or international?

• What's the size or your target market? Is it small (ballet students in Des Moines, Iowa) or large (new parents across America)?

• When will your product be used — daily, weekly, monthly? Is there a peak season or will demand be steady?

MARKETING

- If you're targeting consumers, what are the demographic similarities? Think about age, income, gender, education, type of residence, marital status, profession, lifestyle, hobbies and size of household.

- If you're targeting businesses, what size are you targeting? Know their annual sales, the number of employees and the number of locations. Be sure to identify the decision maker in the business. For example, if you're sending a letter to physicians, you should know that generally, doctors only get the mail that makes it past the office manager's desk.

Marketing

YOU'VE GAINED A CUSTOMER. NOW WHAT?

- How will you get your product to the consumer? Consider the cost of product storage, packing material, handling and shipping.
- Will you accept credit cards? Determine (1) the cost of leasing or buying credit card equipment and (2) the percentage paid for credit card sales.
- Who will help customers with information requests, new orders, status inquiries and returns?
- Will you allow customers to pay you at a later date? What are your credit policies (for example, do you want invoices paid in 30 days)? What is your follow-up procedure for slow-paying customers?

Marketing - Websites

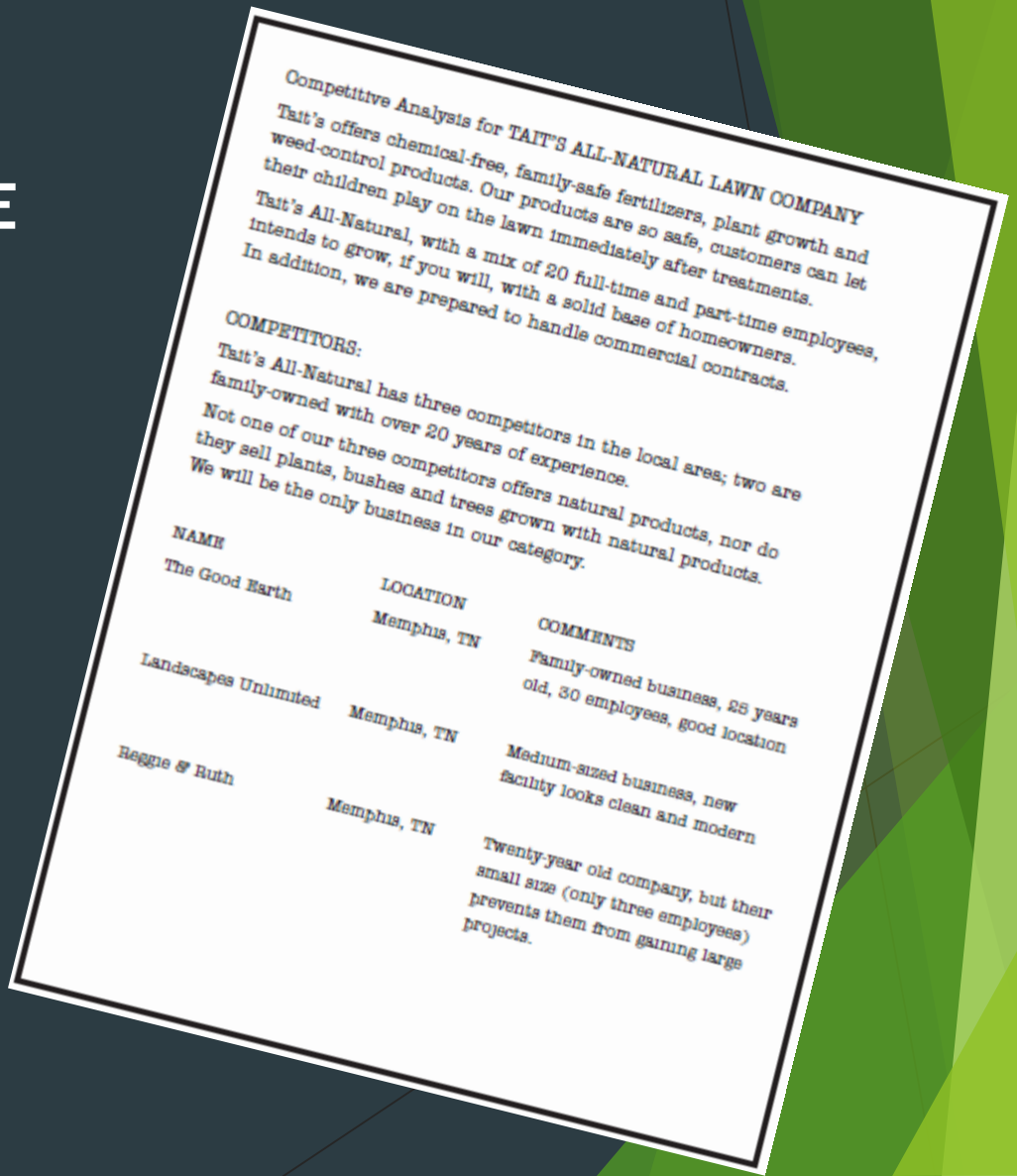
WHY DO I NEED A WEB SITE?

These days, having a web site is like having a business card. Even a simple web site will:

- Act as a virtual storefront to sell your product or service
- Make your company more visible to a worldwide audience
- Position you as a resource for information
- Complement your other marketing efforts

Marketing – Your Competition

- DON'T UNDERESTIMATE THE POWER OF THE COMPETITION
- PUT IT ON PAPER



Competitive Analysis for TAIT'S ALL-NATURAL LAWN COMPANY

Tait's offers chemical-free, family-safe fertilizers, plant growth and weed-control products. Our products are so safe, customers can let their children play on the lawn immediately after treatments.

Tait's All-Natural, with a mix of 20 full-time and part-time employees, intends to grow, if you will, with a solid base of homeowners. In addition, we are prepared to handle commercial contracts.

COMPETITORS:

Tait's All-Natural has three competitors in the local area; two are family-owned with over 20 years of experience.

Not one of our three competitors offers natural products, nor do they sell plants, bushes and trees grown with natural products. We will be the only business in our category.

NAME	LOCATION	COMMENTS
The Good Earth	Memphis, TN	Family-owned business, 25 years old, 30 employees, good location
Landscapes Unlimited	Memphis, TN	Medium-sized business, new facility looks clean and modern
Reggie & Ruth	Memphis, TN	Twenty-year old company, but their small size (only three employees) prevents them from gaining large projects.

BUYING A BUSINESS

QUESTIONS THAT NEED ANSWERS:

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

LOAN REQUEST

HOW MUCH WILL YOU NEED?

You must invest of 25%-50% your own money.

Show how much and where your money will come from. Also provide information about money coming from investors. Show how much money you are requesting from the lender.

LOAN REQUEST

HOW WILL THE MONEY BE USED?

Uses include inventory, furniture, fixtures, equipment, machines, repairs and improvements, and working capital (money for the business' day-to-day activities). Your business' income (and other money) must cover your expenses.

LOAN REQUEST

HOW LONG ARE YOU ASKING FOR REPAYMENT?

- ***Short Term (less than a year):*** Short-term loans are called Lines of Credit (LOC) or Revolvers and work like a credit card, with a pre-determined amount. Lines of credit are primarily used for working capital and must

  be paid in full within that year.

- ***Intermediate Term (1-10 years):*** Like a car loan, payments are monthly. Use for buying the business, equipment, or for long-term working capital.

- ***Long Term (10 years or more):*** Like a mortgage, used to buy commercial real estate, commercial vehicles, and heavy equipment.

LOAN REQUEST

HOW WILL THE LOAN BE REPAID?

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

AMOUNT NEEDED
- Amount Requested $ _____
- Owner's Investment $ _____
- Other Investors $ _____

Total $ _____

USE OF FUNDS
- Inventory $ _____
- Working Capital $ _____
- Equipment, Machinery, Computers $ _____
- Furniture & Fixtures $ _____
- Other $ _____
- Real Estate $ _____

Total $ _____

Repayment
- Period: _____ years
- Source: Business Cash Flow
- Collateral:
  - Accounts Receivable $ _____
  - Inventory $ _____
  - Equipment & Machinery $ _____
  - Furniture & Fixtures $ _____
  - Equity in Real Estate $ _____
  - Other $ _____

Total $ _____

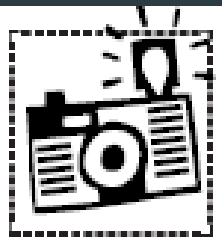
Financials

1

Personal Financial Statement

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

2



Balance Sheet

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

3

Income Statement

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

4

Cash Flow Statement

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

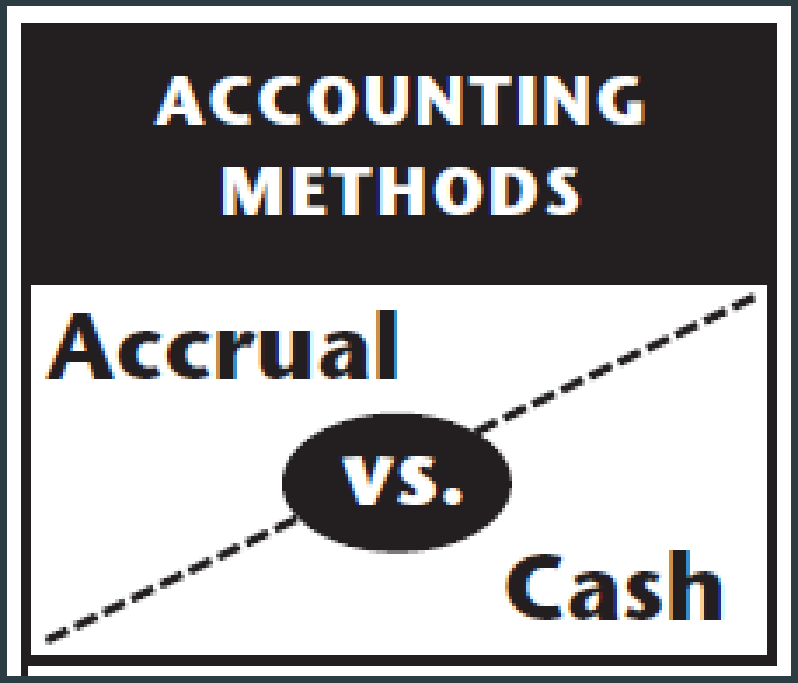
HINTS FOR DEVELOPING FINANCIALS:

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

Financials – What for these common financial problems:

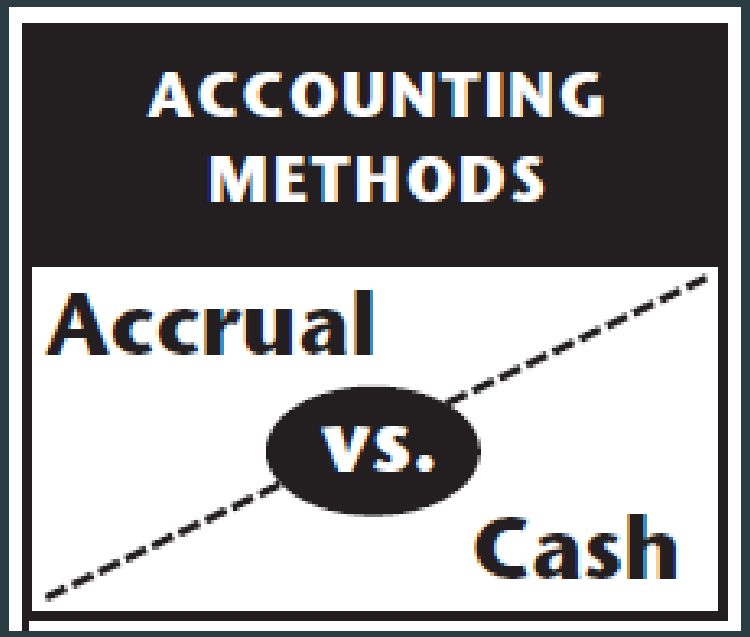
- Limited capital
- Little or no record keeping
- Failure to seek outside help
- Poor management
- Reluctance to invest in the business
- Failure to personally guarantee the loan repayment

Financials



*There are two ways to handle yourm accounting - **accrual or cash**.*

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



2. *The **accrual method**,* the one lenders want, means:

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

PERSONAL FINANCIAL STA

PERSONAL FINANCIAL STATEMENT

Date _____

Your Name and Address _____

Business Name and Address _____

Social Security _____ Date of Birth: _____

Phone: _____ Fax: _____ E-mail: _____

ASSETS & LIABILITIES

ASSETS (what you own)

Cash	$ _____
Savings Accounts	$ _____
Retirement Accounts	$ _____
Accounts & Notes Receivable	$ _____
Life Insurance, cash surrender value	$ _____
Stocks & Bonds (market value)	$ _____
Real Estate (market value)	$ _____
Automobiles (market value)	$ _____
Other Property	$ _____
Other Assets	$ _____
TOTAL ASSETS	$ _____

LIABILITIES (what you owe)

Accounts Payable	$ _____
Notes Payable	$ _____
Residential Mortgage, balance	$ _____
Investment Mortgage, balance	$ _____
Installment Loan Balance, auto	$ _____
Installment Loan Balance, other	$ _____
Unpaid taxes	$ _____
Other liabilities	$ _____
TOTAL LIABILITIES	$ _____

NET WORTH (assets less liabilities)	$ _____
TOTAL LIABILITIES + NET WORTH	$ _____

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

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

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

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

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

Unpaid taxes: Describe in the **APPENDIX** the type of tax, who taxes are owed to, the amount, when it is due and whether there is a lien on any property.

PERSONAL FINANCIAL STATEMENT

Annual Expenses: Multiply your monthly expenses by 12.

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

INCOME & EXPENSES

ANNUAL INCOME:

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

ANNUAL EXPENSES:

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

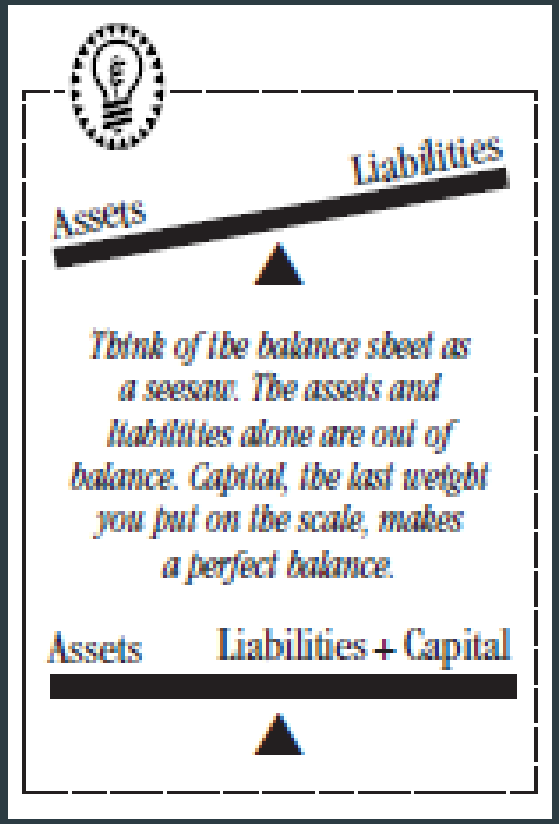
This statement is true and accurate.
I authorize any inquiries necessary to verify its accuracy.

(your signature and date) _____

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

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

BALANCE SHEET



Max Computer Company
Balance Sheet
December 31, 2004

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

BALANCE SHEET

ASSETS
What the company owns

Current Assets
Can be converted into cash in one year

Accounts Receivable
Sales made but not collected

Inventory
Inventory on hand, waiting to be sold

Total Current Assets
Add up all of the Current Assets

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

Fixed Assets
This includes property, plant, and equipment

Less Depreciation
Subtract Accumulated Depreciation

Fixed Assets (net)
Fixed Assets minus Accumulated Depreciation

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

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

Total Assets
Add Current Assets and Non-Current Assets

LIABILITIES
How much the company owes

Current Liabilities
Liabilities due within one year

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

Note Payable
Due within one year

Max Computer Company
Balance Sheet
December 31, 2004

ASSETS		
Current Assets:		
Cash	10,000	
Accounts Receivable	75,000	
Inventory (ending)	85,000	
Total Current Assets		170,000
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Long-Term Liabilities		
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Total Long-Term Liabilities		54,000
Total Liabilities (150 + 54)		204,000
CAPITAL OR NET WORTH		
Owners Investment	20,000	
Retained Earnings	67,000	
Total Capital		87,000
Total Liabilities & Capital (204 + 87)		291,000

INCOME STATEMENT

YOUR INCOME STATEMENT INCLUDES THE FOLLOWING:

SALES

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

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

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

Purchases
Used to make product

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

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

Total Cost of Goods Sold
Compute the Cost of Goods Sold

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

EXPENSES

Selling Expenses
Salaries and expenses related to sales only

General and Administrative
All other expenses used to run the company

Operating Income (or Loss)
Shows how the business performed

Interest Expense
Subtract interest expense

Net Profit before taxes
Less: Income Taxes
Tax rates depend on your business' legal status

PROFIT

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

INCOME STATEMENT

Net vs. Gross Sales
Gross sales is the amount before adjustments (like returns and allowances). The adjusted figure is Net Sales.

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

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

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

Max Computer Company
INCOME STATEMENT
December 31, 2004

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

Date:
Represents activity for an entire period, at the end of that time period.

$75,000 was the ending inventory for the previous year and became the beginning inventory for 2004.

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

Important Note: Compare numbers in the current year's Income Statement with the previous year. For control purposes, you need to know if income/profits and expenses are going up or down.

Cash Wants vs. Needs

People have **WANTS**,

Businesses have **NEEDS**

Cookie Jar Exercise

	Monday	Tuesday	Wednesday	Thursday	Friday
Cash on hand (in your pocket)	0	-1	-3	4	1
Plus cash in (from your cookie jar)	10	10	10	10	10
Minus cash out	-11	-12	-3	-13	-12
= Ending cash (in your pocket)	-1	-3	4	1	-1

CASH FLOW STATEMENT

WHAT'S THE BIG IDEA?

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

Tips for preparing Cash Flow Statements:

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

- Begin with income at the top, followed by expenses and repayment of the loan.

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

The Coffee Shop – Cash Flow Projection

	START-UP	April	May	June	July	August	Sept	Oct
TOTAL SALES								
From Misc.								
TOTAL CASH IN FROM SALES								
CASH OUT FOR GOODS								
Food								
Coffee								
Supplies								
TOTAL CASH OUT FOR GOODS								
CASH OUT FOR OPERATIONS								
Wages								
Tax on wages								
Rent								
Electric								
Telephone								
Insurance								
Licenses/Permits								
Heat/Utilities								
Accounting/Legal								
Office Supplies								
Repairs/Maintenance								
TOTAL CASH OUT FOR OPERATIONS								

Continued. . .

The Coffee Shop – Cash Flow Projection

Continued from previous slide	START-UP	April	May	June	July	August	Sept	Oct
NET CASH FROM OPERATIONS								
OTHER CASH IN								
Sales tax collected								
Owner contributions								
Loan from _____								
TOTAL OTHER CASH IN								
OTHER CASH OUT								
Sales tax paid								
TOTAL OTHER CASH OUT								
NET CHANGE IN CASH								
BEGINNING CASH								
ENDING CASH BALANCE								

The Napkin Test

Cash price of one candy bar	$1.00	100%
Cash to purchase one candy bar from vendor	$0.60	60%
Cash from sales	$0.40	40%
Gross cash margin percent		**40%**

The Napkin Test

If you want to take home $20,000, divide $20,000 by gross cash margin percent to discover how much you will need to sell in one year

$$\frac{\$20{,}000}{.40} = \$50{,}000 \text{ in sales in one year}$$

If you want to take home $20,000 plus hire two employees at $15,000 each per year:

$$\frac{\$50{,}000}{.40} = \$125{,}000 \text{ in sales in one year}$$

The Napkin Test

If you want to have a business site that rents for, say, $1,000 per month including utilities:

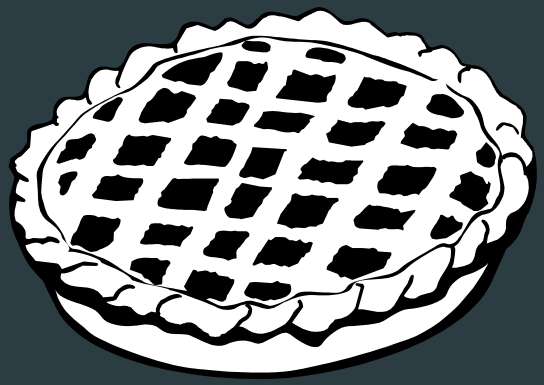
$1000 x 12 months = $12,000 plus your $20,000 owner draw plus your employees at $30,000 = **$62,000** cash out.

$$\frac{\$62,000}{.40} = \$155,000$$

$155,000 in sales in one year in order to pay your rent, you, your employees, and the candy bars you will sell

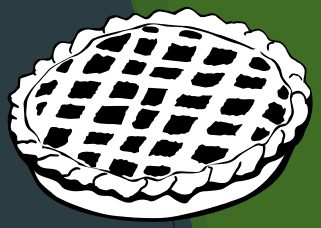
Pie Bakery

Let's Start a Pie Bakery!



$9.50 selling price
-$3.00 cost
$6.50 / $9.50 = 0.68 or **68%** =
GROSS PROFIT MARGIN

Pie Bakery



It will cost us $34,000 per year to operate our bakery. This includes our owner draw of $16,000.

Breakeven = $\frac{\$34,000}{.68}$ = **$50,000** annual sales

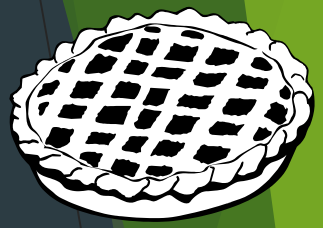
How many pies is that per year? Total sales of $50,000 divided by $9.50 per pie = **5,265 pies per year**.

How many pies is that per week? 5,265 divided by 52 weeks = **102 pies per week**.

How many pies is that per day? I only want to work 5 days a week. 102 pies per week divided by 5 days = **21 pies per day**.

Pie Bakery – Sensitivity Analysis

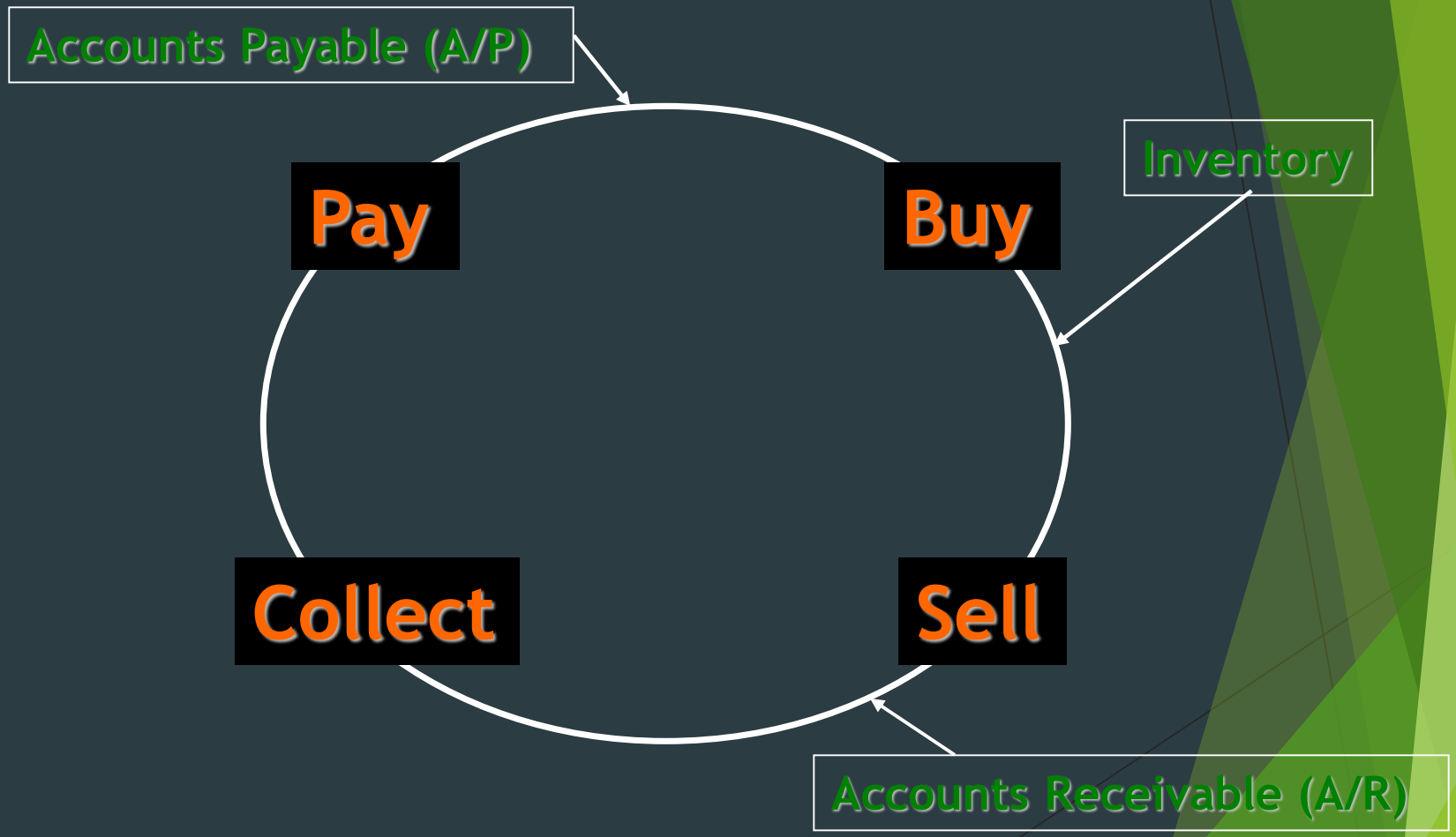
Sensitivity Analysis is asking questions:



1. Can we really sell 21 pies per day?
2. Can we really make 21 pies per day?
3. What if there is a pie glut in the marketplace and the selling price of pies drops to $6?
4. What is we don't sell 21 pies per day? What can we do?
5. What if we decide that making 21 pies, 5 days per week, 52 weeks per year doesn't sound like a good time?

What if… what if…what if?

Cash Management Cycle



BREAKEVEN POINT

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

NUMBERS USED IN THIS EXAMPLE COME FROM THE INCOME STATEMENT ON PAGE 24.

1	Determine your **Net Sales**	$900,000 NET SALES	100%
2	Total your **Variable Expenses** and divide them by the Net Sales to calculate the percentages they represent	$540,000 COST OF GOODS SOLD +$90,000 SELLING EXPENSES $630,000 TOTAL VARIABLE EXPENSE	60% (540K/900K) + 10% (90K/900K) 70% (630K/900K)
3	Subtract your Total Variable Expenses from your Net Sales to calculate the **Margin.**	$900,000 NET SALES -$630,000 TOTAL VARIABLE EXPENSE $270,000 MARGIN	100% - 70% 30% or .30
4	Divide your Fixed Expenses by the Margin and the answer is your **Breakeven Point**	$170,000 FIXED EXPENSES (this number comes from page 24 General & Administrative) ÷ .30 MARGIN $566,667 BREAKEVEN AMOUNT	

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

1-2-3 METHOD FOR LOAN DECISIONS

USE THE 1-2-3 METHOD TO PRE-QUALIFY AND CALCULATE YOUR MAXIMUM LOAN AMOUNT.

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

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

THE LOAN DECISION

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