

BUSINESS PLAN FOR START-UPS AND SMALL BUSINESSES

Your business plan will be your blueprint to think through what you have to do. You will need it for any loan, but most important you will need it for yourself. Your business plan should not be long and involved. It does have to get all your ideas on paper where you can analyze and discuss them. Make your mistakes on paper. You know what you would like to do. SCORE can help you refine and direct your thinking once you have given us the design.

The key elements of any plan are:

The Idea – Does it make sense?

The People – Do you have the necessary experience? Are you a good moral risk?

The Financials – When will you make a profit? Can you support a loan?

Your cover sheet should show your full legal company name, your address, your telephone number, your FAX number, your email address and the date. If your personal address and numbers are different, you should include them as well.

If your plan is longer you will want an Executive Summary and a Table of Contents. Many plans do not have to be long. Usually brief is better. A lender will look at the three key elements listed above. He or she does not need a lot of fluff and repetition. The Idea is sections A and B, the People is section C and the Financial is section D.

The sections of a business plan are:

- A. Statement of Purpose
- B. Market, Competition, and Your Niche in that market
- C. Operations and Management
- D. Financial Data
- E. Long Term Directions
- F. Appendices

In developing your plan, use the following as a guide and pick what applies to you.

A. Statement of Purpose: This section should be only a few lines long and describe your goals for the business and how you will try to achieve them. Write this last, after you have thought through the rest of the plan. If your plan is longer and/or you plan to borrow money, the Statement should be replaced by an Executive Summary which will include your purpose and a very short summary of the other sections of your plan including financial needs. The Executive Summary should be written last.

B. Market, Competition and Your Niche: This section should explain your business and have at least one paragraph on each of these subjects.

C. Operations and Management: Describe your legal company structure.

Sole Proprietor

Partnership

LLC (Limited Liability Company)

“S” Corporation

“C” Corporation

If you have existing operations and facilities, you should briefly describe them here. Also if you have a pending lease, the terms and location should be shown here.

Studies have shown that 98% of failures stem from managerial weakness. This includes incompetence (45%), inexperience (27%) and unbalanced expertise ((20%). This section therefore should also contain at least a paragraph each about yourself, other principals and any key people. It should include any relevant job and educational experience. Experience can also be relevant out of this business area if it provided knowledge and tools to help manage and operate a business. It should present enough background to show you know about this business and are capable of successfully running it. If you have advisors (including SCORE counselors) who can provide some of your missing expertise, include this information. Lenders will look for both general business experience and specific knowledge of this business.

D. Financial Data: It is understood that projections involve a considerable amount of guesswork. Nevertheless, it is necessary for you to provide this information based on the best information you can obtain. You need these figures to control your business and the dollar figures will have to make sense to a lender if you are applying for a loan. The following pages explain what is needed and how to do a cash flow projection.

E. Long Term Directions: It is important to stay focused on what you want to accomplish as you start your business. But there may be valid additional ideas and directions you would like to adopt when you are profitable and growing. Put them in this section. You don't want to think about them now but you also don't want to forget them.

F. Appendices: At the end of your plan add anything you think is helpful. Examples are:

A Brochure

A Sample Menu

Detailed explanation of how you arrived at your sales and cost figures

Contracts, Leases

Letters of recommendation

A more detailed description of your product line

As you consider the items above, don't be concerned with your writing ability. SCORE can help you put your plan into final shape.

Financial Data

Adequate accounting records are essential to your business. If you do not know and control your receipts and expenses, you will likely fail. Your financial statements should provide you with the information you need. But you must keep them current, regularly read them and compare them to your projection and budget. The time to make corrections is sooner when you can make changes rather than later when you are failing.

The most important document you will need is a cash flow projection. This can later serve as your budget. You should review it monthly or quarterly depending on the importance of each item. You should review your receipts, purchases and labor costs weekly or sometimes daily. You will need to prepare a cash flow projection for 3 years, the first year monthly and totaled for the year, the second and third years annually. You will need enough initial cash to cover the following:

Equipment

Deposits

Space Build Out

Working Capital

Working Capital consists of cash, accounts receivable (if you give credit) and inventory. You will also need cash to cover your losses and debt repayment until you break even and make a profit.

Some of this cash will come from you. If you apply to borrow the balance, you should indicate what the proceeds of the loan will be used for.

Start by realistically projecting your sales monthly and for the year. Start low and “grow” the figures. Your sales toward the end of the year should relate to what will be happening at the beginning of the next year. Even though in the second and third year you will only show one annual figure, you should develop this figure by projecting each month and reaching a total. Be prepared to justify these numbers so there is a solid basis for your figures. Note that if you give credit terms, your cash receipts will lag your sales and you must have the capital to cover this lag.

Then project your expenses monthly and for the year. Be sure to pay yourself. If the expense for the year is small, you should show 1/12 each month and the total. If the expense is larger, try to be more specific. For example, if sales increase labor will likely increase. So will purchases and manufacturing costs. You will probably “pay” yourself on the low side initially and increase your draw when profits allow. If your business is seasonal some expenses will vary. Marketing expenses may be higher initially.

If you borrowed money you have to include a monthly payment for interest and debt amortization.

Your cash flow in the first month will then be as in the following example:

Initial cash	\$50,000
Minus Initial expenses	30,000
Plus sales	40,000
Minus total expenses	45,000
Cash available before interest and debt amortization	15,000
Minus Interest and amortization	3,000
Cash available end of month	12,000

In the second month and thereafter, your starting cash will be what was available at the end of the previous month.

Don't be surprised to have losses when you start. As the business grows, the losses should decline until you reach profitability. Every business has certain fixed expenses like rent and insurance and some salaries that have to be paid whether or not your sales have grown enough to cover the costs.

Remember, you must have enough capital, yours and borrowed, to not only cover your initial expenses but to cover your monthly shortfalls until you become profitable.

SCORE can help you analyze your figures and help you present them properly.

If you are now in business you will also need the following:

- Last 3 years of your actual profit and loss (P & L) statements if available
- 3 years of profit and loss projections (1st year monthly, 2nd and 3rd years quarterly)
- 3 years of cash flow projections (1st year monthly, 2nd and 3rd years quarterly)
- Last 3 years of your actual balance sheets
- Copy of your lease

Some banks may differ on these requirements but in general this is what is needed.

If you plan to borrow money, your Statement of Purpose on Page 1 should include a short paragraph that provides answers to the following questions:

Who is asking for money, you or your company?

What is the form of your business (sole proprietorship, LLC, Corporation, etc.)?

How much money are you seeking?

What is the money needed for?

How will the funds help the business?

Why does the loan make business sense?

How will the loan be repaid?

Example: The Norwalk Company, LLC is seeking to borrow \$60,000. The money is needed to renovate our store and purchase inventory. This will enable us to increase sales and take advantage of new opportunities. The resulting growth of our business will increase our cash flow and make it possible to repay the loan within two years.

You will likely also need to supply the following information to the bank:

Personal tax returns for the last three years

Personal balance sheet showing your assets and liabilities

Personal cost of living budget

Finally, you should practice how you will make your presentation to the bank. You want to anticipate questions and be prepared with answers and justifications. Bankers are in business to lend money but they are also cautious about the risk involved. Your job is to show why your business will be successful and therefore why the bank's loan will be repaid. Practice your approach on your SCORE counselor. He or she can ask the tough questions and make you more comfortable with how you answer them.