



Small Business Advancement National Center  
University of Central Arkansas

# Your Plan

A Step-By-Step  
Start To Finish

**Business Plan** Guidebook

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# Purposes of a Business Plan

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**

Much money is made then lost because one area of a business failed and dragged the positive parts down with it.

Your plan helps you find hidden business flaws and makes you think carefully about each phase of your business. It is important that you write your business plan. Why?

1. It forces you to take an objective, critical, unemotional look at your business in its entirety.
2. The finished product, the business plan, is an operating tool which will help you to manage your business and work effectively toward its success.
3. It communicates your ideas to others and provides the basis for the financial proposal.
4. You will gain in-depth knowledge about your business which will make it easy to answer lenders' questions

The process of writing your business plan will show you what is involved in making your business work successfully. You will also save money. A business plan prepared by an accountant or attorney can cost you thousands of dollars.

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\*\*Examples of different parts of a business plan will appear throughout this plan. Sections of these forms will be numbered for your convenience with additional comments.

# Why Start a Business?

Starting and managing a business takes motivation, desire and talent. It also takes research and planning. Like a chess game, success in small business starts with decisive and correct opening moves. And although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well-thought-out business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business.

- Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:
  - You want to be your own boss.
  - You want financial independence.
  - You want creative freedom.
  - You want to fully use your skills and knowledge.
  
- Determine what business is right for you:
  - What do I like to do with my time?
  - What technical skills have I learned or developed?
  - What do others say I am good at?
  - Will I have the support of my family?
  - How much time do I have to run a successful business?
  - Do I have hobbies or interests that are marketable?
  
- Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions:
  - What business am I interested in starting?
  - What services or products will I sell?
  - Is my idea practical and will it fill a need?
  - What is my competition?
  - What is my business' advantage over existing firms?
  - Can I deliver a better quality service?
  - Can I create a demand for my business?
  
- The final step before developing your plan is the pre-business checklist. You should answer these questions:
  - What skills and experience do I bring to the business?
  - What will be my legal structure?
  - How will my company's business records be maintained?
  - What insurance coverage will be needed?
  - What equipment or supplies will I need?
  - How will I compensate myself?
  - What are my resources?
  - What financing will I need?
  - Where will my business be located?
  - What will I name my business?

Your answers will help you create a focused, well-researched business plan, which should serve as a blueprint. It should detail how the business will be operated, managed, and capitalized.

# 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?

## Lenders use the "Eight C's" rule:

- Credit (must be good)
- Capacity (ability to repay)
- Capital (money going into the business)
- Collateral (your assets that secure the loan)
- Character (you)
- Conditions (economy, finances, anything that will affect your business)
- Commitment (your willingness to succeed)
- Cash Flow (prove the business can support its debt and expense)

## Basic questions a lender will ask you:

- How much do you want?
- How will the loan be used?
- How long will it take to repay the loan?
- What collateral do you have to offer?
- How much are you investing in the business?

## Before meeting with a lender:

- Call the bank to find out the rules for business loans.
- Is the lender looking for loans of your size and type?
- Ask for a loan application to be sent to you.
- Make an appointment.
- Rehearse your presentation.
- Remember -- your first customer is the lender! Before you sell anything, you have to first convince the lender that your business concept has merit.

## Meeting with a lender:

- Dress properly and be on time.
- Bring your business plan, a completed loan application, and any other materials you need.
- Be strong and positive.
- The entire presentation should take 30 minutes. Give an overview or outline at the beginning. Know how you are going to end the presentation.
- Ask your lender to take a tour of your current proposed operation.
- Answer all negative questions with positive answers. Be willing to back up your answers and never lose your temper.
- Find out when you can expect an answer.
- Put any decisions or negotiations made on the telephone in writing.
- Follow up with a thank you letter and a telephone call.

## If you loan is rejected:

Ask these questions to the lender who rejected your plan.

- Why was I rejected? Ask them to put the reasons in writing.
- Does this mean I am turned down? Or can I correct the problems and re-submit the plan?
- Should I go to another bank or lending institution?

## **Business Loan Basics (cont.)**

- Should I seek alternative financing (Small Business Administration/SBA guarantee, state loan)?
  - Who should I ask for? Why?
  - Which alternative? Why?

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### **How Much Do You Want Your Banker to Know About You?**

Dr. Don B. Bradley III  
Professor of Marketing and Executive Director  
of The Small Business Advancement National Center,  
University of Central Arkansas

Not too long ago banking, as far as small business owners were concerned, was relatively simple and routine. Their bank was home-based, community oriented and in most cases, the small business owner had a direct personal relationship with the bank. Most decisions concerning banking services were made quickly and easily. Thus, a loan decision could be made very quickly without a lot of paperwork.

Today, the small business owner must keep in close contact with the bank and the loan officers that they are working with for many reasons. The following are just a few of these reasons.

1. The time to borrow money is when you don't need it, thus creating a line of credit that is not chargeable, as far as interest is concerned, until you need the money.
2. Keep your banker informed of changes within your company, as well as the industry.
3. Develop a relationship with the bank that encourages exchange of ideas. Hopefully, your banker becomes a springboard to bounce off new challenges and ideas.
4. If you anticipate cash-flow problems, work out your need for money as far in advance as possible. Do not wait until last minute.
5. Remember, when taking out a balloon loan, you may not be dealing with the same bank or individual when the note comes due. Always keep in mind that there is a possibility that the note will not be renewed because of the new credit policies of a bank that has been bought out, or if your loan officer decides to leave.
6. Do not play games with your loan officer. Always be truthful and as honest as possible. Not only share the good things, but be willing to let the loan officer know you understand the risks involved.
7. When filling out financial information, be sure to make it accurate and complete. Keep in mind that if you provide false information, you could end up in jail even if you repay the loan.
8. If you intend to make this banking relationship long-term, you must remember to pay your bills, especially to the bank, on time not abusing the grace periods that most banks allow. As a small businessperson, you do not like it when the people pay you late.

## **How Much Do You Want Your Banker to Know About You? (cont.)**

9. From time to time, drop in to see your loan officer just to give them an update or let them know how things are going. It is bad business just to visit the bank when you need something.
10. When your business wins an award, develops a new product, helps in the community, etc., let your banker know the good news. This is not bragging. This is just keeping your banker informed of your activities.
11. Another way to create goodwill is to tell new business or acquaintances about the good services that you received at the bank. This falls into the category of "you scratch my back and I'll scratch yours."
12. Never pressure your bank to make loans to your friends, relatives, or employees. It is one thing to direct a person to a bank for help, but it is another thing to pressure the bank to make a loan to someone with whom they normally would not have made a loan.

If you are a brand-new business, you should establish an ongoing relationship with a particular bank, even before you set up your business. It is best to establish a small line of credit with the bank even though the small business does not need the money immediately. Always keep in mind that the more knowledgeable and familiar the loan officer is with the borrower, the more likely the bank is to be understanding and accommodate individual needs later on. Advice on credit issues, as well as general business expertise, can be gained from most banks. It is in the banks' best interest for not only you to be successful, but when you are successful they are successful. Many small businesses see the bank or the banker as an adversary rather than a helpmate.

As a generalization, the smaller you are, the better off you are with a community bank that would understand your needs and with which you could develop an individual trust. A large bank can be a good source for a loan if your business has been operating successfully for a number of years (usually your loan needs would be greater than \$2 million). Also, larger banks are usually at the forefront of developing technology that will allow them to reduce the time and costs of their loan application process, as well as more sophisticated computer technology to help your small business. The secret to selecting the right bank has a lot to do with how you feel about your relationship with the bank and bankers. Please keep in mind that what may be a good bank for one person may be a bad bank for another. Shop around for your bank the same way you would when you shop for a car or truck. The closest bank may not be the best bank. Make sure you get the right products and services with which you feel comfortable. Do not wait until you are in extreme financial trouble to approach your bank. Many times by communicating with your banker, you can head-off problems before they become problems. In closing, keep in mind that the banker is your friend and is there to give you advice, but they can only help you if you keep them informed.

# Now, Let's Get Started!

Now you know where you want to go, you are ready to start.

*Answer all the questions in this guide on separate sheets of paper or enter the information directly into your word processing program.*

*First, break your plan down into parts. The length of answers you write will vary from one paragraph to a few pages. It's a good idea to get an expandable file holder or a large envelope. Fill it with file folders so you can divide your plan into sections and keep everything in place.*

*The second stage is editing. Have other people critique your plan. Once the questions are answered, have your plan typed (if you have not used a word processing program) and bound by a local printer or copy shop. If you use a word processing program, make sure the information is formatted neatly.*

*Make copies for your lender and all interested people. Number the copies and make a list of who has your plan. On the inside cover, state that its contents are confidential, and you do not want copies made.*

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## First Pages

### ➔ Title Page

On the very first page of your plan, the title page, place the name of your business with the business address underneath. Skip a couple of lines and write in all capital letters:

PRINCIPAL OWNER  
followed by your name (if you're the principal owner). For example:

**ABC ACTION**  
**1234 SW 5th Avenue,**  
**Anytown, USA 12345**

**PRINCIPAL OWNER: Jack Jones**

That's all you'll have on that page except the page number.

### ➔ Following the title page will be your "**STATEMENT OF PURPOSE.**"

The page title should be in all capital letters, centered across the top of the page. Skip a few lines and write the statement of purpose.

This should be a simple sentence or two summarizing your primary business function, such as: "We are a service business engaged in the direct marketing of business success manuals, books, audio, cassettes, and other information by mail." Make the statement direct, clear, and concise.

## First Pages (cont.)

- ➡ Next, skip several lines and flush with the left hand margin of the paper write out a subheading in all capital letters, such as:

### **EXPLANATION OF PURPOSE**

Beneath this subheading, explain your statement of purpose. Keep your "Explanation of Purpose" short -- no longer than one paragraph. Very few business purpose explanations are justifiably more than a half page long.

Example: "Our surveys have found most entrepreneurs to be sadly lacking in basic information that will enable them to achieve success. This market is estimated at more than 25 million, with at least half of these actively seeking sources that provide the information they need and want. Combining our business, advertising, and publishing experience, it is our goal to capture at least half of this market of information seekers by utilizing our publication *Entrepreneurs' Reports*. Our market research indicates we can achieve this goal and realize a profit of \$1,000,000 per year within five years."

- ➡ Now you will present the "**TABLE OF CONTENTS**."

Don't really worry about this one until you've got the entire plan completed and ready for final typing. It's a good idea, however, to list the subjects (chapter titles), and to check off each one as you complete that portion of your plan. By having a list of the points you want to cover, you'll be able to move around and work on each phase of your business plan as the ideas or interest in organizing that particular phase stimulate you. Thus, you will not have to make your thinking or your planning conform to the chronological order of the individual chapters of your business plan. *A Table of Contents shows the lender on which page each section can be found.*

# Executive Summary

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

## The Executive Summary should include:

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



August 10, 2005

**House Painters 'R' Us**  
1998 Painter Street -- Colour, USA

Dear Mr. Jackson:

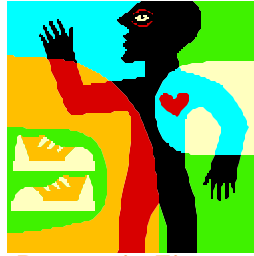
- 1 We are requesting a loan to start-up a residential landscaping business. George Painter and I, the two owners, have twenty years of painting experience in this industry.  
The market for house painting contracts is increasing in this area. The number of homes built in Colour increased by 30% over last year. This quarter, new home building permits are up 20% over last year. The target market is contractors and homeowners. Forty-three thousand homes exist now, 5,000 of which were built last year. We have relationships with many building contractors who will provide our company with business. We also plan to promote ourselves heavily via our website.
- 2 There are six local competitors; two have filed Chapter 11, and two are family-owned businesses that are vying for commercial painting contracts. Two are good competitors but lack our marketing and management skills.
- 3 We request a \$500,000 loan to start this house painting firm. We would like to repay your bank over five years. The source of repayment is from the cash flow of the business. Our secondary source of repayment is from collateralized equipment. Our homes and business assets are offered as collateral. Their equity value is \$500,000.
- 4 Attached is our business plan which backs up our request. If you have any questions, please call me at (123) 456-7890.
- 5 Respectfully,  
George Painter  
George Painter
- 6 *Brandon Smith*  
Brandon Smith

- 1 -- List the purpose of the loan (starting, buying, or expanding a business). Include owners' names and experience. Briefly mention your products and services.
- 2 -- List your markets (who your customers are).
- 3 -- Include key facts about your competition. "The Competition" section explains this detail.
- 4 -- Fill in how much money you are requesting and for how many years. List the source of re-payment (the loan is usually repaid by the cash flow of your business). List the secondary source of repayment. This is usually collateral which includes business and personal assets, stocks, savings bonds, and real estate. Also, fill in the equity value of these assets.
- 5 -- Tell the lender who should be contacted and list a telephone number.
- 6 -- Be sure to use signature(s) and typed name(s).

# Executive Summary: Business Description

## 1 General:

Name: Dynamic Fitness  
Address: 19 Timber Lane, June Bug, Texas, 37852  
Phone: 123.456.789 Fax: 198.654.3210  
Website: <http://www.dynamic>



## Owners :

- 2 Sandy Goodman: 20 Oak Street, June Bug, Texas, 37852  
Phone: 123.456.7890 Social Security #: 123.45.6789  
Over five years of experience in fitness management and ten years as a physical therapist. Worked for several companies in the fitness industry providing physical therapy services.

Charles Fit: 18 Pine Street, June Bug, Texas, 37852  
Phone: 123.456.7892 Social Security #: 189.26.5432  
Twenty-five years of experience as a manager/owner of large fitness establishment.

- 3 **Legal Status:** Partnership

- 4 **Purpose:** Provide superior fitness facilities with in-house physical therapy services.  
Status: Start-Up. Will open October 15, 2005

- 5 **Business Type:** Service

- 6 **Products/Services:** On-site, direct access physical therapy services. Fitness training, supervision, fitness classes and nutrition classes.

- 7 **Reasoning:** Both partners have 30 years of combined experience in fitness management. Physical therapy and fitness training/supervision will be provided by an experienced team of physical therapists and athletic trainers. A certified dietician will provide nutrition counseling and classes.

## 1 -- General:

List the business name, location, mailing address, telephone, and fax number.

## 2 -- Owners:

List each owner's name, business title, telephone number, and social security number. Include a brief description of owners and managers (experience and credentials in running the business).

## 3 -- Legal Business Description:

Sole proprietorship, partnership, S or C corporation, or limited liability corporation

## 4 -- Purpose:

Describe the intent of your business.

## 5 -- Type of Business:

Retail, wholesale, service, manufacturing, contracting, professional, importing/exporting

## 6 -- Products and Services

## 7 -- Reasoning:

List reasons for starting, buying, or expanding business.

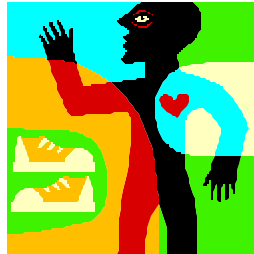
### SBANC Pointer: Include:

- **resumes for owners and managers;**
- **detailed industry information;**
- **and seasonal business information.**

# Executive Summary: Business Description

## 8 Goals:

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



Dynamic Fitness

**Long-Term:** In four years, we will have 3,000-4,000 clients. Hire administrative persons, etc...

**9 Industry:** Three fitness centers exist in our territory. One center will be a direct competitor, it being the only center to offer physical therapy in-house. We will be the only establishment to offer physical therapy on a direct access basis. We will also offer state-of-the-art fitness equipment by updating equipment on a quarterly basis.

**10 Business Schedule :** Monday-Friday: 5:00 a.m. - 12:00 p.m. Saturday: 6:00 a.m. - 10:00 p.m. and Sunday: 7:00 a.m. - 6:00 p.m. Closed on major holidays.

## 11 Professional Relationships

### 11 Accountant:

John Smithe, CPA, 234 Weeping Willow Lane, June Bug, Texas 37852  
Phone: 123.456.7893

### Attorney:

Sarah Law, Law & Order, 43 Holly Bush Blvd., June Bug, Texas, 37852  
Phone: 123.456.7894, Fax: 123.456.7895

### Banker:

John Cash, Bank Deluxe, 87 Crepe Myrtle Lane, June Bug, Texas, 37852  
Phone: 123.456.7896, Fax: 123.456.7897

### Insurance Agent:

Jessica Trouble, Fit Insurance Company, 432 Gardenia Street, June Bug, Texas, 37852  
Phone: 123.456.7898, Fax: 123.456.7899

### 8 -- Goals:

Include both current and long-term projections.

### 9 -- Industry:

Talk about what is going on in your industry, including economic trends, outlook, growth patterns and forecasts. Keep this section short. Explain more fully in the marketing section.

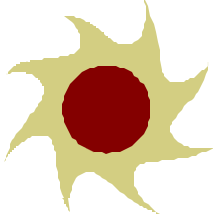
### 10 -- Business Schedule:

Months, days, and hours your business will be open in operation. Is the business seasonal? If so, show how you will adjust your time, schedule, inventory, and personnel.

### 11 -- Professional Relationships:

Include name, address, and telephone/fax numbers for you accountant, attorney, banker, and insurance agent.

# Management & Employees



## Day Wear, Inc.

### Owners:

Jayne Shine -- 15 years of experience in day wear manufacturing, Supervisor of Night Wear Company for 10 years. Jayne Shine will handle the operations of...

Austin Powers – 19 years of marketing and sales experience in the clothing industry. Austin Powers will be responsible for sales and marketing activities.

### Employees:

200 full-time labor assembly employees who are paid minimum wage. A two-day training program is required before joining the assembly line. They will receive personal health insurance, five paid sick days, two personal days, and two weeks of vacation. These benefits will cost...

Ten full-time customer service and two administrative employees who will be paid about \$25,000 each annually. They will receive personal health insurance, ten paid sick days, five personal days, and two weeks of vacation. These benefits will cost...

### ➔ Management

- Duties and responsibilities of each owner and manager. Include job descriptions and any related experience.
- Salaries and benefits for each of these positions.
- Describe any management resources which are available from outside the business. Specify where these resources will come from. Examples include business consultants and industry experts.
- Include who will manage the Sales, Marketing, Customer Service, and Administration departments. Who will manage the financial coordination, including internal records (bookkeeping) and external reporting (usually an accountant).

### ➔ Employees

- Are employees available? How will you find them?
- Do you need full-time or part time help? Include schedule of work hours.
- How much are you going to pay each position?
- What are the employee benefits? How much will they cost?
- What are your present and future personnel needs?
- What training do your employees need and how will you train them?

### ➔ Hiring Employees

Hiring employees has its own set of rules. Every payday, the business must provide its employees with a statement showing how many dollars were deducted from gross earnings for each legal/tax purpose. Your accountant can provide federal and state tax information including Social Security (FICA) and Federal Unemployment (FUTA).

*Note: Payroll service companies are available to make the calculations, pay the taxes (with your funds), and print paychecks. Look in your local telephone book for listings.*

### **SBANC Pointer: Include:**

- ➔ **managers' resumes,**
- ➔ **detailed operational information,**
- ➔ **benefits and their costs,**
- ➔ **and training information.**

# Management & Employees (cont.)

## Key Elements

People are your organization's greatest resource and you are responsible for making sure that they work as efficiently and effectively as possible. That will not happen by itself. You will have to plan and implement strategies that will improve their capabilities. You will have to motivate them to reach peak performance and you will have to ensure that there are systems in place to handle problems when they arise.

It is very important to recruit wisely because the people you will hire are likely to be around for a long time.

First you must carefully define what **characteristics** you need and then you must set up a process that will identify the individual that best fits those characteristics.

**Training and development** has long been recognized as a key area in motivating employees, but it can also be the source of much waste. You must make sure that your training and development programs have clear objectives and that they actually succeed in achieving them.

It's important for the organization that you **manage performance carefully**. Not only will that enable the organization to make a profit, it will also ensure that people will focus on the important areas of their work. This has the added benefit that it reduces the likelihood that problems will arise.

When problems do arise you should have systems in place to deal with them. In particular, you must have **grievance and disciplinary procedures** to ensure that areas of conflict are handled quickly and fairly.

## Recruitment

One of the most important management jobs is to select the right people. Despite this, many managers do not spend enough time on the selection process and they do not take the steps necessary to ensure that their decision is the best one.

Most managers use the interview to make their decision. However, research has shown that serious errors can occur during this process unless care is taken. The following problems (among others) have been identified:

- Interviewers often make inaccurate perceptual judgments
- Different interviewers form different opinions on the same interviewee
- Interviewers arrive at early impressions and tend to stick to them
- Negative information received later in the interview will have less effect than if received earlier

If you want to ensure that you have done everything possible to choose the best person to work for you then there are some critical steps that you should take:

First, you must develop a job description. This will describe the position you want to fill and it will also allow you to draw up a "person specification".

You may want to promote people internally -- and there are many advantages to this. However, sooner or later you will also need to find candidates from outside the organization. If you want to get the best choice of candidate you will probably need to advertise.

You might also turn to recruitment agencies to help you locate the right people. These can be effective but only if you have done some preparation yourself.

The interview is normally regarded as an important element in the selection process, but you must have your preparation done beforehand.

The selection process is also important. Choosing the best candidate may not be easy and can be colored by personality factors. However, there are several ways to minimize these problems.

Once you have made your selection, you will want to offer the job to the chosen candidate. This must be done properly to minimize problems in the future.

The probation period is one way to make sure you have made the right choice. However, it should not be undertaken lightly -- there is too much at stake, both for the individual and the organization.

# Management & Employees (cont.)

## Advertising for Recruitment

There are several ways to let people know that you are looking for a recruit, but one of the most common ways is to place an advertisement in a newspaper. It is important that you select the right newspaper for your purposes.

Your choice of newspaper will be dictated by the type of job you are trying to fill. If you believe that the job will be easy to fill then you might use a small ad in a local newspaper. However, if it is a specialist position you may have to use a large advertisement in the national press. You might also consider using the internet.

There is little point in advertising in a particular paper if your target audience reads another one. You can find which is the best one by asking somebody in a similar job or by searching through the newspapers yourself for similar ads. Sometimes a particular day of the week is best, so you may have to look at all the papers for at least seven days.

### ➔ What will you put in the ad?

It is normal to put the name and the position, a short description of the duties and responsibilities, and the qualifications and other requirements that the candidates must possess. You will be able to use information from the job description and the person specification you prepared earlier.

However, you might also consider using the advertisement to sell your company. After all, you want to be able to get the best people so you should be willing to put some effort into attracting them. Why should they be interested in working for you?

Should you include salary details? That depends on several factors, including how competitive it is, how flexible it is, and what affect it will have on other people in the organization. If you have a choice, it may be better not to include it.

Do not forget to include your contact details. You could ask the candidates to send their resume to a box number. However, you are likely to get a better response if you give your company name and address. You could also give them your email address if you have one. Make sure you check the finished advertisement before sending it to the papers.

If you advertise in several papers, you can discover which one gives you the best response by making the addresses slightly different. For example, you could specify "department 1" in the first paper, "department 2" in the second, and so on. That will allow you to select the best one the next time you advertise.

If there are likely to be a large number of replies then you should get someone to pre-screen them for you. Give them a list of the minimum qualifications and experience that you require, and ask them to select only those resumes that meet the requirement. Make sure they write the others to thank them for applying for the position.

You may want to get the people who have been selected to fill in an application form. The advantage is that everyone's information is presented in a similar fashion.

## Training

Training is necessary if you want to develop a high performance organization. However, if the training you provide does not address the real needs of the organization, it will be wasted.

Before you undertake any training, you must identify the real needs of the organization. And, you must repeat this exercise periodically as they will change over time.

Next, a training plan must be prepared. As you start to prepare the plan you will identify gaps in the knowledge and skills required for the effective running of the organization. When the plan is complete it will show the training required to plug these gaps.

It is important to choose trainers who can provide the correct blend of theory and practice. They must also be able to establish a rapport with the students, and they must be willing to work with the weaker students so they are not left behind.

Sometimes several existing courses may be available, and you will have the option of choosing the most appropriate one for your needs. It is important that you choose carefully as students will become disillusioned if the course is inappropriate.

## Management & Employees (cont.)

Many people advocate on-the-job training, and there are certainly benefits to be obtained from this approach. However, there are also some dangers, and you must monitor it carefully; otherwise, the result may not be what you expected.

Training is expensive and must be managed carefully. Maintaining up-to-date training records is an essential part of this management. Much of the benefit from such programs can be lost if records are not available or not used properly.

While training is essential, it is not sufficient. You must spend time considering the career development of individuals in your organization; otherwise you will lose the brightest and most ambitious of them. If you do spend that time - and act on the results - you will retain many of them. You will also help develop a positive culture that will provide many hidden benefits to the organization.

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## Managing Performance

Each employee contributes to the overall goals of the organization. You must make sure that they are performing to an acceptable standard. If you fail in this duty, the performance level of an entire section or department may be affected.

People work best when they know that their contribution is valued by the organization. You have to have some way of knowing how they are performing if you are to offer them constructive feedback.

- ➔ The first stage is to measure performance.  
It may seem relatively easy to measure performance in some cases, but there may be unexpected behavior implications of the measurement system. These can be highly counter-productive.
- ➔ Should you set performance standards?  
There are pros and cons for setting such standards, and you should understand both sides of the argument before attempting to use them.  
The organization is likely to be more successful if the employees are highly motivated. Your own attitude will play an important part in achieving that, as will the design of the performance measurement system and the manner in which those systems are introduced. One way to affect an employee's motivation is to carry out a performance appraisal. If conducted properly, this can have a beneficial effect.

### Discipline

Sometimes it may become necessary to deal with employee problems in a way that you would prefer to avoid. If these are isolated incidences, then there may be little you can do about them. But, you should still try to handle them effectively and learn from the experience.

There are some things you can do to try to prevent problems from developing, but if they do develop, to handle them effectively:

- It is important that you have an adequate grievance procedure in place so that employees who you believe have a problem can get it sorted out in an efficient manner.
- You must also have disciplinary procedures in place. These must be followed carefully when the need arises.
- If you have to deal with redundancies, you should have procedures that handle them effectively. These must be fair, and they must also take into account the needs of the organization.

You must keep adequate records of all incidences if there is any possibility of a dispute. These records will help ensure that, even after some time has passed, people's recollections do not distort the facts. They may also be useful in helping to defuse sensitive situations.

## Management Performance (cont.)

If you have continuous problems with your employee relations then you are probably doing something wrong. It's possible that you believe that the employees are causing the problems. Nonetheless, you must take the lead in sorting things out and you should try to do it before it becomes necessary to use the procedures described above too often.

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## How to Motivate Employees

Some ways of improving motivation are: Quality circles, zero defect programs, job enrichment, management by objectives and variable work schedules. These techniques offer promise for motivating people, especially in small business.

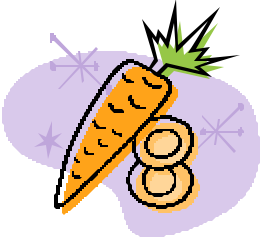

- ➔ **Quality Circles** are small, organized work groups that meet periodically to find ways to improve quality and output. They motivate by getting employees involved and taking advantage of their creativity and innovativeness.
- ➔ **The Zero-defect** approach is based on getting workers to do their work "right the first time" thus generating pride in workmanship. It assumes that employees want to do a good job and will do so if permitted to.
- ➔ **Job enrichment** emphasizes giving employees greater responsibility and authority over their job as the best way to motivate them. Employees are encouraged to learn new and related skills or even to trade jobs with each other as ways of making the job more interesting and therefore more productive.
- ➔ **Variable work schedules** permit employees to work at times other than the standard work week of five eight-hour days. Such schedules are being extensively used by small firms to motivate employees.  
Flexitime allows employees to schedule their own hours as long as they are present during certain required hours, called *core time*. This gives employees greater control over their time and activities.  
Job splitting is dividing a single full-time job into distinct parts and letting two or more employees do the different parts.  
In job sharing, a single full-time job is shared by two or more employees, with one worker performing all aspects of the job at one time and the other worker at another time.
- ➔ **Does money motivate?**  
Some studies have concluded that money doesn't motivate and that psychological rewards may be more significant than monetary rewards. But, most students say a good salary is the first thing they will be looking for in their first job. Also, several studies indicate that money does motivate.
- ➔ **Motivation is more than a mere technique**  
Successful motivation of employees is based more on a managerial philosophy than on using a given technique. Thus, you should try to create an environment in your firm in which employees can apply themselves willingly and wholeheartedly to the task of increasing productivity and quality.  
You may need an effective system of performance appraisal -- also called employee evaluation, or merit rating -- to help you answer the question: "How well are my people performing?"  
Under such a system, each employee's performance and progress are evaluated, and rewards are given for above-average performance.

# Marketing Plan

Marketing is the exchange of a product or service for money. A **market** is a group of people most likely to use your products or services. Before you can reach your markets, you must first identify them.

**Niche or target marketing** means slicing your markets into smaller groups, then selling to them. For example, a nature camp could mail a brochure to subscribers of an outdoor magazine.

**Research Libraries** have volumes of information about your target market(s). Study consumer and trade magazines, newspapers, books, trade reports, case studies and government statistics, as well as reference books. Ask the librarian to help you locate books or databases. For example, **Standard and Poors** and **Moody's** publish business information by industry.

	<h2>tHE VEGGIE cO.</h2>	
<b>Market(s):</b> <b>Geographic Scope:</b> locally <b>Size:</b> 60,000 consumers Market percentage we should gain: 60%		<b>Marketing Plan</b>
<b>Buyer Profile:</b> <ul style="list-style-type: none"><li>• Ages: 18-65</li><li>• Sex: Males and Females</li><li>• Incomes: \$15,000 and up</li><li>• Profession: Student to white collar</li><li>• Education: High School &amp; College graduates</li><li>• Family Size: Single, Couples, Families</li></ul>		<b>Price</b> <ul style="list-style-type: none"><li>• Wholesale: seasonal pricing</li><li>• Profit: 40%</li><li>• Competitive Prices: Similar</li></ul>
		<b>Product:</b> <b>Benefits:</b> <ul style="list-style-type: none"><li>• lasts 10% longer than competitive products</li><li>• completely certified "organic"</li><li>• competitively priced</li></ul>
		-Page 1-

## Markets/Customers

Who will buy your product or service? For each of your target markets, include:

- Geographic scope: Where are your customers located?
- Size: Show growth patterns. Can you meet demands if the market grows?
- Profile (Describe a typical buyer):

For consumers: Age, sex, income, profession, lifestyle, education, family size.

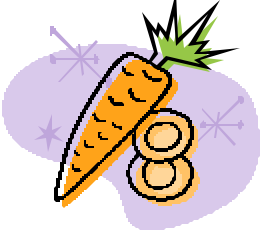

For businesses: Type of business, sales, size, number of employees, and number of years in business.

## Marketing Plan

### Price

- How will you price your service or product?
- Will these prices give you an adequate profit?

## Marketing Plan (cont.)

	<p>tHE VEGGIE cO.</p>	
<p><b>Differentiation:</b> Products have a longer shelf life than competitive products</p> <p><b>Research and Development:</b> \$200,000 required to develop an irrigation system for the greenhouse</p> <p><b>Licensing:</b> All organically grown vegetables must be certified</p> <p><b>Promotion</b> Personal Communications: Met with local grocery and</p>	<p>local grocery and specialty food shops. Fifteen orders promised from buyers.</p> <p><b>Mass Communications:</b></p> <ul style="list-style-type: none"><li>• Advertising:</li><li>• Public Relations:</li><li>• Trade Shows:</li><li>• Marketing Materials:</li></ul> <p><b>Distribution</b> Products are sold to local retailers in a 100 mile radius</p> <p>Vendors:</p>	

-Page 2-

### Price (cont.)

- Are your prices competitive? Show comparisons.
- Are cheaper products available?
- What percentage of the market do you need to gain?
- Will you accept credit cards?
- Will you offer your customers credit?
- How will you handle slow-paying customers?

### Product

- Benefits of your product or service.
- How is your product or service different from current products/services? Explain details in the Competition section.
- Is obsolescence possible (product/service is no longer useful)?
- Will you need research and development? How will it be done? What will it cost?
- Are there licensing requirements?
- Are there industry restrictions and regulations? Must you register with any government agencies? Do legal or governmental policies affect your business?
- Are your products or services protected by any patents, copyrights, or trademarks?

### Promotion

- How will you promote your product?  
Personal Communications: Who will sell your products? How? This includes meetings or telephone calls by a sales force or representatives.  
Mass Communications: Includes advertising (TV, radio, print, and direct mail), public relations and trade shows.
- Why did you select these media? Include an advertising schedule.
- What marketing materials will you develop (brochures, catalogs)? Who will help with them? List costs.

# Marketing Plan (cont.)

## Advertising and Public Relations

How you advertise and promote your goods and services may make or break your business. Having a good product or service and not advertising and promoting it is like not having a business at all. Many business owners operate under the mistaken concept that the business will promote itself and channel money that should be used for advertising and promotions to other areas of the business. Advertising and promotions, however, are the life line of a business and should be treated as such.

Devise a plan that uses advertising and networking as a means to promote your business. Develop a short, descriptive copy (text material) that clearly identifies your goods or services, its location and price. Use catchy phrases to arouse the interest of your readers, listeners or viewers. In the case of a franchise, the franchisor will provide advertising and promotional materials as part of the franchise package; you may need approval to use any materials that you and your staff develop. Whether or not this is the case, as a courtesy, allow the franchisor the opportunity to review, comment on and, if required, approve these materials before using them. Make sure the advertisements you create are consistent with the image the franchisor is trying to project. Remember the more care and attention you devote to your marketing program, the more successful your business will be.

## Distribution

- ➔ How will your products or services be made available?
- ➔ List outlets: Retail, wholesale, phone or mail orders, telemarketing.
- ➔ How much will packaging, materials handling and transportation cost?

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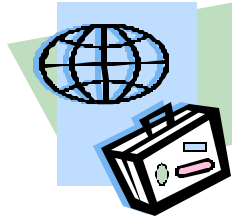
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### **SBANC Pointer: Include:**

- ➔ **logos, business materials (letterhead, business cards), advertisements, advertising budgets and schedules, patents, trademarks, industry information, brochures, catalogs and other marketing material.**

# The Competition

*Knowing your competition is extremely important. Investors want to be assured that you know and understand your competitors. Plus, most start-up companies underestimate the power of their competition and over-estimate the ability to “steal” customers (or market share) from them. You must determine why someone should buy from your company rather than one of your competitors.*



## **Competition: World Tours**

### **Differentiation:**

World Tours offers superior travel accommodations world-wide; we offer more locations than any other travel company.

Our Competitors have information for some of the same sites, but none can offer the superior accommodations or price due to special agreements with the locations.

We offer superior accommodations (five star) at the same price that our competitors offer travel class accommodations (three star).

### **Competition:**

Travelogue: accommodations retail for \$450-600 per package. Most accommodations are at two star accommodations.

Trips 'R' Us: accommodations retail for \$400-900 per package. Accommodations are at four star accommodations.

## **Differentiation**

- How is your business different from your competitors?
- How is your business the same as your competitors?
- What makes you better?
- Is it your quality?
- Is your service better? Are you more responsive to customers?
- Do you offer an innovative technology?
- Are you more creative?
- Are you more flexible or adaptable than your competitors?
- Does prestige (being the most exclusive) differentiate you?
- Are you offering the lowest price?
- Do you offer the best value (best performance for the price)?

## **Competition**

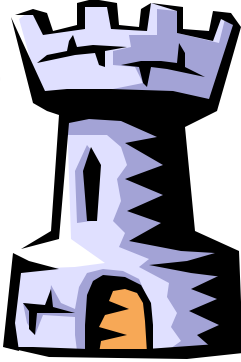
Your competitors can provide valuable information. Buy their products. Compare prices and values. Study their advertisements. Competitors may resist giving you information directly.

### **Try to list as many of your closest competitors as possible:**

- How are their businesses doing? Good? Bad? Why?
- Where are they strong and weak? Why?
- What have you learned from watching and researching them?
- What is their percentage of the market? How will you take a piece of the market(s) away from them?

# Your Business Location

Dream Castles, Inc.



Location: Dream Castles, Inc.

Our research indicates that we require 5,000 square feet of retail space. Highest visibility is on a one-mile stretch between East Front Street and Oak Street. In this area, we have agreed to lease a 5,500 square foot store in a shopping center with ample parking and high visibility. The lease is for 3 years with 3, 1-year renewal options. The rent is \$15 per square foot or \$8,250 per year (\$680 per month). All utilities, taxes, and insurance are included. A copy of the lease is included. There are many other businesses in the area that will draw customers to the business. It is zoned commercial and retail.

## Location Selection

- Describe your business' location including the building, physical features, and a floor plan.
- Why did you choose this location?
- Why is it the right building/office for you? Is your building owned by you or leased? If leased, what are the terms, conditions, length, and cost?
- Are any renovations necessary? Get several quotes.
- Does your business comply with zoning laws?
- What effect does this location have on your costs?

### For retailers:

- Research and show traffic patterns. What are the other businesses in the area? Are they good or bad for your business?

### For wholesalers, manufacturers, and other businesses:

- Are you close to your customer?
- Do you have easy access to major highways, railways, and airports?

### SBANC Pointer: Include:

- **a floor plan, copy of the lease/title, and renovation plans (also known as leasehold improvements and contractor quotes).**

# Operations & Suppliers

## Manufacturing Operations

We will manufacture 75% of the product, and subcontract 25%. Final assembly will be done in our plant. Employees must inspect and approve their work and indicate their approval or rejection of an inspection tag.

Our leased facility provides 7,700 square feet of manufacturing space, which is adequate. If sales growth increases, we will subcontract more product or look for a new plant. We feel this decision will not have to be made for three to five years.

Equipment will be leased from suppliers. A list is included.

Our Chief Financial Officer tracks inventory electronically, from the beginning shipment to customer. Goods are shipped per our customer's interactions.

## Suppliers

Suppliers will provide the raw materials. A list of the suppliers, their terms, and quotes are included.

Our suppliers are willing to provide financial assistance by extending terms to 6 months, at 1.5% interest per month, on the unpaid balance. They will also provide management assistance with sales and technical training.

Our subcontractors will manufacture 25% of our products. A list is included.

## Operations

- How will the product be manufactured or produced?
- What facilities are required? Investors usually prefer leased properties because it is less of a cash flow drain.
- What equipment is needed? Will it be bought, leased, or rented?
- How will you handle material processing and inventory control?
- How does the product get from your company to the buyers?

## Suppliers

- Who are your suppliers and what will they supply to your business? List names, addresses, goods supplied, terms of sales.
- Is trade credit available?
- Include a summary of the supplier's quotes.
- Include detailed quotes.
- Have you requested financial, managerial, or technical assistance from your suppliers?
- List the subcontractors, the work they will perform for you, and their terms. Investors prefer to see a company purchase or subcontract most of its manufacturing process, at least in the beginning.

### **SBANC Pointer: Include:**

- **plans, specifications, suppliers, detailed quotes, subcontractor's terms.**

# Loan Request

<h2>Flight Deck Restaurant</h2>		
<b>Loan Request</b>		
• Amount Requested		140,000
• Owner's Investment		20,000
• Other Investors		<u>20,000</u>
Total		\$180,000
<b>Use of Funds</b>		
• Working Capital		25,000
• Equipment & Machinery		100,000
• Furniture & Fixtures		25,000
• Office Equipment & Computer		<u>30,000</u>
Total		\$180,000
<b>Repayment</b>		
• Period: Five years		
• Source: Business Cash Flow		
• Collateral:		
– Equipment & Machinery		100,000
– Furniture & Fixtures		25,000
– Office Equipment & Computer		30,000
– Equity in Real Estate		<u>70,000</u>
Total		\$225,000

## How much will you need?

20-25% of your money must be invested. (How much [if any] you have borrowed from investors, and the amount you are requesting from the lender.)

## 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 limit. When you need money, you call the bank. LOC's can be used for Working Capital (start-up costs) and time notes of 30, 60, or 90 days.
- **Intermediate Term** (1-10 years): Like a car loan, payments are monthly. Use these loans for buying the business, equipment, or for long-term working capital.
- **Long Term** (10 years or more): Like a mortgage, these loans are used to buy commercial real estate, commercial boats, and heavy equipments.
- **Note: *Small Business Administration (SBA)***  
These loans may be for any term. Money is supplied by the lender, but a percentage is guaranteed by the SBA. Look in your phonebook for the nearest SBA office.

# Loan Request (cont.)

## How will the money be used?

Uses include working capital, inventory, equipment or machinery, furniture and fixtures, construction, repairs, expansion, or improvements. Also, for paying off loans or buying a business. Give amounts for each category, and a grand total.

## How will the loan be repaid?

Pay the loan with money from selling an asset, an outside investor, or from business revenue/cash flow. This information should be detailed in your Financial section.

## What collateral do you have to offer?

Collateral consists of assets the bank will take if you cannot repay the loan. It can be personal (savings, stocks, or real estate), or business (receivables, inventory, equipment, or real estate). Be aware that lenders require appraisals, and they discount values. Inventory is discounted 20-30%. Fixed assets are usually 50%. Be sure the total collateral equals the total loan request.

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### **SBANC Pointer: Include:**

- ➡ **detailed collateral/assets information**

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## Financials

### Accounting Methods: Cash vs. Accrual

There are two ways to handle your accounting -- **cash** and **accrual**.

1. The **cash** method means you do not record a sale until you collect money and you do not 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."

## Financials (cont.)

Assets (like equipment) are depreciated (allocating the cost) over their lifetime.

Net Income does not always mean cash since money is tied up in accounts receivable and inventory.

### Four Financial Statements Must Be Included in this Section:

1. **Balance Sheet:** This is a snapshot of your business. A moment frozen in time.
2. **Operating Statement:** Think of this as your business "report card."
3. **Personal Financial Statement:** Your own personal financial health will be carefully **examined by the lender**.
4. **Cash Flow Statement:** This will show how much money comes in and how much goes out.

### Hints for Developing Financials:

Make realistic assumptions. Do not be afraid to address risks and weaknesses as long as you explain how they will be handled. Lenders know there are risks. They like to see business owners who recognize and solve them. Show reasonable links between past (if buying a business), actual, and future projections.

### Watch for these Common Financial Problems:

- **Limited Capital**  
Capital is just another word for money, and if there is not enough of it, it can lead to insufficient working capital (money for day-to-day activities). Do not try to make money stretch too far. Ask for more loan money, or cut down on liabilities and expenses.
- **Little or no record keeping**  
You must keep meticulous records for yourself, the IRS, and your lender.
- **Failure to seek outside help**  
Consult an accountant and business advisor including the Service Corps of Retired Executives (SCORE), the Small Business Advancement National Center (SBANC), the Small Business Administration (SBA), Small Business Development Centers (SBDC), and your state's Department of Economic Development. Listings for SCORE, SBA, SBDC's, and economic development departments can be found in the telephone book. Your advisors' input is valuable, but do not be totally dependent on them. Educate yourself. You should have basic understanding of your company's finances. Know how to read your own financial statements and reports.
- **Poor management**  
A business needs a good financial manager (within the company or an outside advisor). It is your money, so be very self-disciplined.
- **Reluctance to invest in the business**  
Why should the lender stand behind you if you will not invest any of your own money? You must put about 25% of your own money into the company.

# 1. The Balance Sheet

*The Balance Sheet is a snapshot of your business. The numbers change every single day.*

## **Your Balance Sheet Must List the Following:**

**ASSETS:** What the company owns

**Current Assets:** Can be converted into cash in one year

**Cash**

**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 (*cash, accounts receivable, and inventory*)

**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 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** (*Current Assets plus Non-Current Assets*)

**LIABILITIES:** How much the company owes

**Current (Short Term) Liabilities** (*liabilities due within one year*)

**Current Portion of Long-Term Debt** (*one year's worth of loan payments*)

**Notes Payable** (*due within one year*)

**Accounts Payable (A/P)** (*purchases not paid for*)

**Total Current Liabilities** (*total all the Short-Term Liabilities*)

**Long-Term Liabilities** (*due for more than one year*)

**Loan Payable** (*due after one year's worth of payments*)

**Total Long-Term Liabilities** (*total all the Long-Term Liabilities*)

**Total Liabilities** (*add the Long-Term and Short-Term Liabilities*)

**CAPITAL OR NET WORTH:** The business' equity

**Owners Investment** (*amount of money owners have invested*)

**Retained Earnings** (*income earned and kept in the business*)

**Total Capital** (*add Owners Investment and Retained Earnings*)

**Total Liabilities & Capital** (*add Liabilities and Capital. This figure must equal the dollar amount shown on the Total Assets line*)

*(See next page for an example of a Balance Sheet.)*

# 1. The Balance Sheet (cont.)

Tomahawk Company			
1.	Balance Sheet October 20, 2004		
	<b>Current Assets</b>		
	Cash	10,000	
	Accounts Receivable	75,000	
	Inventory	<u>85,000</u>	
	Total Current Assets		170,000
	<b>Non-current Assets</b>		
	Fixed Assets	140,000	
2.	Less Depreciation	<u>-25,000</u>	
	Fixed Assets (net)	115,000	
	Advances to Owner	<u>6,000</u>	
	Total Non-current Assets		121,000
**	<b>Total Assets</b>		<u><b>291,000</b></u>
	<b>Liabilities</b>		
	<b>Current Liabilities</b>		
	Current Portion of Long-term Debt	6,000	
	Notes Payable	100,000	
	Accrued Taxes	3,000	
	Accounts Payable (A/P)	<u>41,000</u>	
	<b>Total Current Liabilities</b>		150,000
	<b>Long-term Liabilities</b>		
	Loan Payable	54,000	
	Total L.T. Liabilities		<u>54,000</u>
	<b>Total Liabilities</b>		<u><b>204,000</b></u>
	<b>Capital</b>		
	Owner's Investment		20,000
3.	Retained Earnings		<u>67,000</u>
	Total Capital		<u>87,000</u>
**	<b>Total Liabilities &amp; Capital</b>		<u><b>291,000</b></u>

1. **Date:** The Balance Sheet should not be more than three months old when applying for a loan.
  2. **Depreciation:** Except for land, assets wear out. The value goes down and can be deducted. Values for assets are presented via a reserve for depreciation. Market value, or the price you could sell it for, will differ from this figure.
  3. **Retained Earnings:** (Also called capital or common stock in a corporation.) Not an asset. Net profits accumulated through the company's life.
- \*\* **Total Assets** and **Total Liabilities & Capital** should be the same number.

## 2. Operating Statement

The Operating Statement is your company's report card. Expenses are subtracted from income, which gives you the business' financial performance or net profit/loss over a period of time. Other names for the Income/Expense Statement, Earnings Statement, or Profit and Loss Statement.

### Your Operating Statement Must List The Following:

**GROSS SALES:** Revenue or income from sales

**Less Cost of Goods Sold:** (cost to make products including materials and labor)

**Beginning Inventory** (the number used in the sample was pulled from the Balance Sheet)

**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:** (the number used in the sample above was pulled from the Balance Sheet)

**Total Cost of Goods Sold** (add up the Cost of Goods sold)

**GROSS PROFIT:** Sales less cost of goods sold. This is your mark-up or profit margin

**OPERATING EXPENSES:**

**Selling Expense** (salaries and expenses related to sales only)

**General & Administrative** (all other expenses used to run the company)

**Operating Income (or loss)** (shows how the business performed)

**Net Profit before taxes**

**Less: Income Taxes** (tax rates depend on your business' legal status)

**Net Profit**

## 2. Operating Statement (cont.)

Tomahawk Company		
1.	Operating Statement October 20, 2004	
	<b>Gross Sales</b>	<b>900,000</b>
	Less Cost of Goods Sold:	
	Beginning Inventory	75,000
	Purchases	350,000
	Labor	<u>200,000</u>
	Total	<u>625,000</u>
	Less: Ending Inventory	<u>-85,000</u>
2.	Cost of Goods Sold	<u>540,000</u>
	<b>Gross Profit</b>	<b>360,000</b>
	Operating Expenses:	
	Selling Expenses	90,000
	General & Administrative	<u>170,000</u>
	Total Expenses	<u>260,000</u>
	Operating Income	100,000
	Interest Expense	<u>20,000</u>
	Net Profit Before Taxes	80,000
	Less: All Income Taxes	<u>27,000</u>
3.	<b>Net Profit</b>	<b>53,000</b>

1. **Date:** Represents activity for an entire period, at the end of that time period.
2. **Operating Income:** Gross Profit less Selling Expenses and General/Administrative Expenses.
3. **Important Note:** Compare numbers in the current year's Operating Statement with the previous year. You need to know if income/profits and expenses are going up or down (using percentages) for control purposes.

## 3. Personal Financial Statement

Personal financial health is carefully examined by the lender or investor.

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

**Note:** Most lenders will supply you with their "personal financial statement" form, but the information they usually request is shown in this sample.

### Tomahawk Company

#### Personal Financial Statement

Ronald Rueben  
12 Landsdowne Street  
Tomahawk, MA 12378

#### Assets & Liabilities

<b>1.</b>	<b>Assets</b>	10,000
	Cash	10,000
	Savings Accounts	10,000
	Retirement Accounts	20,000
	Accounts & Notes Receivable	5,000
	Life Insurance, cash value	5,000
	Stocks & Bonds, market value	10,000
	Real Estate, equity value	150,000
	Automobiles, equity value	10,000
	Other Property	5,000
	Other Assets	1,000
	<b>Total</b>	<b>226,000</b>
<b>2.</b>	<b>Liabilities</b>	
	Investment Mortgage, amount owed	80,000
	Investment Mortgage	0
	Other loans	20,000
	Unpaid taxes	5,000
	Other accounts and bills due	5,000
	<b>Total</b>	<b>110,000</b>
<b>3.</b>	<b>Net Worth</b>	<b>116,000</b>
	<b>Total Liabilities + Net Worth</b>	<b>226,000</b>

- 1. Assets:** What you own
- 2. Liabilities:** What you owe
- 3. Net Worth:** Assets less liabilities

Include your name, social security number, date of birth, home phone number, and home address.

Also list your current and previous employer(s), length of employment, employer's address and telephone number plus a person to contact.

### 3. Personal Financial Statement (cont.)

#### Tomahawk Company

##### Income & Expenses

##### Annual Income:

<b>Salary, Bonuses, and Commissions</b>	60,000
Dividends & Interest	1,200
Real Estate Income	0
Other Income	5,000

1.

##### Annual Expenses:

Mortgage/Rental Payments	10,000
Taxes: Federal, State, Local, Property	15,000
Insurance Premiums	1,000
Other Loans	3,000
Alimony and Child Support	0
Tuition	0
Medical Expenses/Health Insurance	2,000
<b>Notes Payable</b>	1,000

2.

Contingent Liabilities	3,000
Other Debt or Liabilities	1,000
<b>Total</b>	<b>36,000</b>

3.

I hereby certify this statement is true and accurate. I authorize any inquires necessary to verify the statement's accuracy.

\_\_\_\_\_ (Ronald Reuben) Date: \_\_\_\_\_

1. Annual Income: Multiply monthly expenses by 12.
2. Contingent Liabilities: Endorser, co-maker, guarantee of loans or a result of legal actions or contested taxes.
3. End the statement with this sentence and your signature.

#### **SBANC Pointer: Include:**

- **stocks and bonds, real estate, notes payable, contingent liabilities, assets and mortgages.**

## 4. Cash Flow Statement

*The Cash Flow Statement shows money that comes into the business and what money goes out. Profits do not guarantee positive cash flow. Cash must be available to pay for bills and day-to-day activities. It will also show an important figure, the breakeven point. The breakeven point is when cash income equals the cash outflow.*

*This statement must show the company has the cash to pay debts on time. You need to know or estimate income and expenses based on the direct and variable costs of your product or service.*

### Tips for Preparing Cash Flow Statements:

- Begin with revenue/income at the top, followed by expenses and repayment of the loan (not vice versa).
- Round off numbers. Do not use cents.
- Show realistic assumptions. If sales are projected to increase by 80% every year, the lender may be skeptical. Prove assumptions and attach to this statement.
- Cover the downside. Identify weaknesses.
- Cash jumps up from Year 1 to Year 2 because set-up or start-up costs are large in the first year.
- Negative or "Pull down" balances are common in the first year. Deficiencies must be covered by providing more cash (loans or owners investments) or reducing expenses.
- Increased sales normally cause a drain on the working capital (due to increased purchases of raw goods or labor). Show how you will overcome this.

### Example: Cash Flow Statement

You should project revenue and expenses for three years. Put one year's worth month-by-month on a page. Fill in the blanks for items (A-H) listed on the "down the side" data information.

		ACROSS THE TOP							
		Pre-Start-Up		Month 1		Month 2		Month 3	
		Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
DOWN THE SIDE	A. Cash on Hand								
	B. Cash Receipts								
	1. Cash Sales								
	2. Credit Account								
	3. Loans								
	C. Total Cash Receipts								
	D. Total Cash Available								
	E. Cash Paid Out								
	1. Purchases								
	2. Gross Wages								
	3. Payroll Expenses								
	4. Outside Service								

## 4. Cash Flow Statement (cont.)

### Across the Top

Pre-Start-Up		Month 1		Month 2		Month 3	
Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual

Data for months of the year in the Cash Flow Statement, shown above.

Show monthly figures in the first year, quarterly figures in the second year, and a lump sum or one figure in the third year.

Use the estimated column when constructing this statement. If the exact amount is known, use the Actual column. Estimates may need to be adjusted in the future as you gain more knowledge and real figures.

A. Cash on Hand
B. Cash Receipts
1. Cash Sales
2. Credit Account
3. Loans
C. Total Cash Receipts
D. Total Cash Available
E. Cash Paid Out
1. Purchases
2. Gross Wages
3. Payroll Expenses
4. Outside Service

### Down the Side

Data for items A-H in the Cash Flow Statement:

- A. Cash on hand.** After 1 Month, this figure comes from the Cash Position (Item G) of the previous month.
- B. Cash Receipts.** This is the business' Sales Volume. Include realistic figures based on your facility size, employee output, and realistic sales.
1. Cash Sales. *Omit credit sales unless cash is received.*
  2. Credit Accounts Collections or Accounts Receivable (A/R) *is the income expected from all credit accounts. Note: Bad Debt should be subtracted from Accounts Receivable in the month anticipated.*
  3. Loans. *Or other Cash Injections. Specify.*
- C. Total Cash Receipts** (B.1 + B.2 + B.3).
- D. Total Cash Available.** Before cash paid out (A + C).
- E. Cash Paid Out**
1. Purchases. *Merchandise for re-sale or for use in product (paid in current month).*
  2. Gross Wages. *Base pay plus any overtime. Excludes withdrawals.*
  3. Payroll Expenses. *Include paid vacations, paid sick leave, health insurance, unemployment insurance.*
  4. Outside Services. *Include outside labor and/or material for specialized work.*
  5. Supplies. *Items purchased for business use (office operating,) not for re-sale.*
  6. Repairs and Maintenance. *Painting, decorating, etc.*
  7. Advertising. *Amount should be adequate to maintain sales volume.*
  8. Car, Delivery, and Travel. *Personal car use including parking fees.*
  9. Professional Services. *Include bookkeeping, accounting, and legal.*
  10. Rent. *Real estate only. See E.16 (below) for other rentals.*
  11. Telephone.
  12. Utilities. *Water, heat, electricity.*
  13. Insurance. *Coverage on business property and products.*
  14. Taxes. *Real estate, inventory, sales, and excise taxes.*
  15. Interest. *Add interest on loan as if it was injected. See B.3.*
  16. Other Expenses. *Specify. Unexpected Expenditures. Equipment expenses including leases and rentals.*
  17. Miscellaneous. *Small Expenditures.*
  18. Subtotal of operating costs.
- F. Other Operating Costs**
1. Loan Principal Payment. *Payments on all loans including vehicle and equipment purchases.*

## 4. Cash Flow Statement (cont.)

2. Capital Purchases. *Non-expensed (depreciable) expenses such as equipment, building, vehicles, and leasehold agreements.*
  3. Other Start-up Costs. *Expenses incurred prior to first month projection and paid for after the start-up position.*
  4. Reserve and/or Escrow. *Insurance, tax, or equipment escrow to reduce impact of large periodic payments.*
  5. Owner's Withdrawal. *Include payment for owner's income tax, social security, health insurance.*
- G. Total Cash Paid Out** (E plus F).
- H. Cash Position** (End of month) (D minus G). *This becomes the "Cash on Hand" (Item A) figure for the next month.*

### Essential Operating Data

These non-cash flow items can be kept separately or included at the bottom of your monthly cash flow projections under the heading "Essential Operating Data." They are important planning and cash flow projection tools.

- ➔ **Inventory on Hand** (end of month).  
Last month's inventory, plus merchandise received and/or manufactured current month, minus amount sold current month. This relates to section E.1.
- ➔ **Accounts Receivable** (end of month).  
Previous unpaid credit sales, plus current month's credit sales, minus amounts received (Section B.2).
- ➔ **Bad Debt** (end of month).  
Should be deducted from the month anticipated. This figure is based on past history or industry standards.
- ➔ **Accounts Payable** (end of month).  
Previous month's payable, plus current month's payable, minus amount paid during month. Total cash paid out for expenses (E and F).
- ➔ **Depreciation**  
Assets wear out and lose value. Established by your accountant, as allowed by the IRS.

# Ratios

Ratios are your business' scores. Lenders will compare your ratios to others in your industry in order to make decisions about your business and loan request.

## Asset Management Ratios

### Accounts Receivable Turnover

Formula:

$(\text{Accounts Receivable} \times 365 \text{ days}) / \text{Net Sales Figure} = \text{Days to collect bills}$

Note: *Accounts Receivable* is from the Balance Sheet. *Net Sales Figure* is from the Operating Statement. Accounts Receivable Turnover shows how many days it takes to collect money owed to you. **Lower answers are better.**

### Inventory Turnover

Formula:

$(\text{Inventory Figure} \times 365 \text{ days}) / \text{Cost of Goods Sold} = \text{Days to turnover or sell of the inventory}$

Note: *Inventory Figure* is from the Balance Sheet. *Cost of Goods Sold* is from the Operating Statement. Inventory Turnover shows how many days it takes you to turnover (or sell) your inventory. **Lower answers are better**

## Liquidity Ratios

How "cash rich" is a company?

Liquidity ratios show a company's ability to turn an asset into cash.

### Working Capital

Formula:

$\text{Current Assets} - \text{Current Liabilities} = \text{Working Capital}$

Note: Working Capital shows if a company has enough cash to pay bills. The answer must be positive. More money is needed to meet expenses if the answer is a negative number.

### Quick Test or Acid Test Ratio

Formula:

$(\text{Total Current Assets} - \text{Inventory}) / \text{Total Current Liabilities} = \text{How many times assets cover liabilities. This number should be compared with the industry average.}$

Note: The answer should be 1 or more. The company could not pay all its current liabilities without selling some inventory if the number is below 1.

### Current Ratio

Formula:

$\text{Total Current Assets} / \text{Total Current Liabilities} = \text{Ability to pay short term liabilities}$

Note: Tests a company's short-term debt paying ability. The formula gives the amount in cash and current assets available to pay every \$1 of current liabilities.

## Ratios (cont.)

### Debt Management Ratios

#### Leverage (or Debt to Worth) Ratio

Formula:

$\text{Total Liabilities} / \text{Total Capital} = \text{The amount by which the company is leveraged}$

Note: *Total Liabilities* and *Total Capital* are from the Balance Sheet. Lower answers are better; lenders prefer this ratio to be 3 or lower.

#### Accounts Payable Turnover

Formula:

$\text{Accounts Payable} / \text{Purchases} = \text{Amount of days in which accounts payable are paid}$

Note: *Accounts Payable* is from the Balance Sheet. *Purchases* is from the Operating Statement. Accounts Payable Turnover shows how quickly a company pays its suppliers.

### Profitability Ratios

#### Profit Margin or Sales

Formula:

$\text{Total Liabilities} / \text{Total Capital} = \text{The amount by which the company is leveraged}$

Note: *Total Liabilities* and *Total Capital* are from the Balance Sheet. The Profit Margin shows the percentage of net profit for every \$1 of sales. If the Profit Margin is too low: (1) the prices are too low; (2) the cost of goods is too high; or (3) expenses are too high.

#### Cash Flow to Current Maturities (Debt Service) Ratio

Formula:

$(\text{Net Profit} + \text{Depreciation}) / \text{Current Portion of Long Term Debt} = \text{Dollar amount available to make payments on debts}$

Note: Net Profit & Depreciation are found on the Operating Statement. Long Term Debt is from the Balance Sheet. The Cash Flow to Current Maturities (Debt Service) Ratio shows your ability to pay term debts after owner(s) withdrawals. For new businesses, use one year's worth of loan payments.

## Ratios (cont.)

### Breakeven Point

#### It is important to determine your Breakeven Point

Formula:

Gross Sales / Revenue [from Operating Statement]  
- Variable Expenses [from Operating Statement]  
- Fixed Expenses [from Operating Statement]

=====  
BREAKEVEN POINT

Note:

**Variable Expenses** Cost of Goods Sold and Selling Expenses from the Operating Statement

**Fixed Expenses** General and Administrative expenses from the Operating Statement

When a company has neither a profit nor a loss (when the answer is zero), it is the breakeven point. One dollar more and the company has a profit; one dollar less and the company shows a loss.

### Points to Remember about Ratios

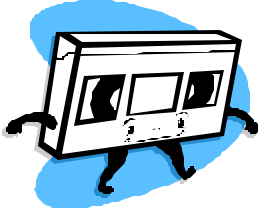
There are hundreds of ratios. This guidebook includes the most common ones, grouped into four categories. Ratios are not included in your business plan, but you should calculate them in order to see which areas of your business differ from industry standards.

- ➔ Ratios come from the Income Statement and Balance Sheet, not the Cash Flow Statement.
- ➔ A ratio of 38% compared to an industry average of 39% seems like a small 1% difference. If sales are \$4 million, 1% is \$40,000. If net profits are \$1,000,000 then the \$40,000 is very important.
- ➔ Compare your ratios to industry averages. Lenders and investors compare your ratios to their acceptable ranges, or to a (existing) company's prior years, or to business history to see trends.
- ➔ Industry ratios are averages. Some firms are above and some firms are below these numbers. Differences are due to how old a company is, locations, managers, and operations, to name a few.
- ➔ Industry standards can be found in reference books at a library. Companies are grouped by "SIC" code (Standard Industrial Classification). Study the data carefully and decide which ratio resources are the best for your business.

References include:

- Robert Morris Association Annual Studies (RMA)  
These studies are considered the standard, and all commercial lenders use them. Ask your lender for a copy of the standards for your business.
- Almanac of Business and Industrial Financial Ratios  
Gathered from the U.S. Treasury and IRS information
- Dunn and Bradstreet
- Trade Associations & Trade Periodicals (magazines and newspapers specifically written for your industry)
- Small Business Administration (SBA)

# Buying a Business



V i d e o T e c h I n c o r p o r a t e d  
21 C u t t e r S t r e e t - S t C h a r l e s , N B 1 2 3 4 5

**VIDEO TECH INCORPORATED** started operation in July 1982 by Sandy Timber, the present CEO. Ms. Timber no longer desires to run the business and has no living relatives to inherit the operation. The selling price is \$278,000. \$200,000 is for the assets and \$78,000 for the goodwill which Ms. Timber will finance. An asset list with values is included.

Sales grew 10-28% over the past 5 years. Sales have been flat in the last year due to Ms. Timber's lack of interest in the business. Our marketing plan shows how we will increase current sales and also includes a sales forecast for the next 4 years. Returns for the last 3 years are shown in the financial section.

## Questions to Ask

- Who started the business? When?
- Why is the business for sale?
- What is the price?
- How was the price determined?
- What are you buying (building, inventory, equipment)?
- Are there patents or trademarks?
- What is the amount of goodwill? (Goodwill is the difference between the value of the hard assets and the business' purchase price, commonly referred to as "Blue Sky". This is where the owner wants money for the intangible parts of the business, such as customer base.)  
Note: Sellers are often willing to finance part of the business in the form of a loan, especially the goodwill. If you agree to this, include the loan terms.
- What documentation have you seen showing the trend of sales?
- If sales are down, how will you turn them up?
- What will your management do to make this take-over successful?
- Should employees leaving the company sign non-compete clauses?

## Before Signing the Dotted Line, Make Sure You Have...

- Evaluated, priced, and determined the age of the inventory
- Checked the quality and the age of accounts receivable
- Found out the age, condition, and cost of fixing or replacing machinery
- Checked business debt. Do you inherit liabilities?
- Taken pictures of the operation/location.
- Received appraisals on all the assets and compared the value to the purchase price.
- Talked to the business' customers and suppliers.

# Frequently Asked Questions

## **1. DO I HAVE WHAT IT TAKES TO OWN/MANAGE A SMALL BUSINESS?**

You will be your own most important employee, so an objective appraisal of your strengths and weaknesses is essential. Some questions to ask yourself are:

- Am I a self starter?
- How well do I get along with a variety of personalities?
- How good am I at making decisions?
- Do I have the physical and emotional stamina to run a business?
- How well do I plan and organize?
- Are my attitudes and drive strong enough to maintain motivation?
- How will the business affect my family?

## **2. WHAT BUSINESS SHOULD I CHOOSE?**

Usually, the best business for you is the one in which you are most skilled and interested. As you review your options, you may wish to consult local experts and businesspersons about the growth potential of various businesses in your area. Matching your background with the local market will increase your chance of success.

## **3. WHAT IS A BUSINESS PLAN AND WHY DO I NEED ONE?**

A business plan precisely defines your business, identifies your goals and serves as your firm's resume. Its basic components include a current and performance balance sheet, an income statement and a cash flow analysis. It helps you allocate resources properly, handle unforeseen complications, and make the right decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan package. Additionally, it can tell your sales personnel, suppliers and others about your operations and goals.

## **4. WHY DO I NEED TO DEFINE MY BUSINESS IN DETAIL?**

It may seem silly to ask yourself, "What business am I really in," but some owner-managers have gone broke because they never answered that question. One watch store owner realized that most of his time was spent repairing watches while most of his money was spent selling them. He finally decided he was in the repair business and discontinued the sales operations. His profits improved dramatically.

## **5. WHAT LEGAL ASPECTS DO I NEED TO CONSIDER?**

Licenses required, zoning laws and other regulations vary from business to business and from state to state. Your local Small Business Administration (SBA) office and/or chamber of commerce will provide you with general information, but you will need to consult your attorney for advice specific to your enterprise and area. You also must decide about your form of organization (corporation, partnership or sole proprietorship) or tax status (e.g., should you opt for a Subchapter S status?).

## **6. WHAT DO I NEED TO SUCCEED IN A BUSINESS?**

There are four basics of success in small business:

- Sound management practices.
- Industry experience.
- Technical support.
- Planning ability.

Few people start a business with all of these bases covered. Honestly assess your own experience and skills; then look for partners or key employees to compensate for your deficiencies.

## **7. WOULD A PARTNER(S) MAKE IT EASIER TO BE SUCCESSFUL?**

A business partner does not guarantee success. If you require additional management skills or start-up capital, engaging a partner may be your best decision. Personality and character, as well

# Frequently Asked Questions

as ability to give technical or financial assistance, determine the ultimate success of a partnership.

## **8. HOW CAN I FIND QUALIFIED EMPLOYEES?**

Choose your employees carefully. Decide before hand what you want them to do. Be specific. You may need flexible employees who can shift from task to task as required. Interview and screen applicants with care. Remember, good questions lead to good answers--the more you learn about each applicant's experience and skills, the better prepared you are to make your decision.

## **9. HOW DO I SET WAGE LEVELS?**

Wage levels are calculated using position importance and skill required as criteria. Consult your trade association and accountant to learn the most current practices, cost ratios and profit margins in your business field. While there is a minimum wage set by federal law for most jobs, the actual wage paid is entirely between you and your prospective employee.

## **10. WHAT OTHER FINANCIAL RESPONSIBILITIES DO I HAVE FOR EMPLOYEES?**

You must withhold federal and state income taxes, contribute to unemployment and workers compensation systems, and match Social Security holdings. You may also wish to inquire about key employee life or disability insurance. Laws on these matters vary from state to state.

## **11. WHAT KIND OF SECURITY MEASURES MUST I TAKE?**

Crimes ranging from armed robbery to embezzlement can destroy even the best businesses. You should install a good physical security system. Just as important, you must establish policies and safeguards to ensure awareness and honesty among your personnel. Because computer systems can be used to defraud as well as keep records, you should check into a computer security program. Consider taking seminars on how to spot and deter shoplifting and how to handle cash and merchandise; it is time and money well spent. Finally, careful screening when hiring can be your best ally against crime.

## **12. SHOULD I HIRE FAMILY MEMBERS TO WORK FOR ME?**

Frequently, family members of the owner "help out in the business." For some small business owners it is a rewarding experience; for others it can cause irreparable damage. Carefully consider their loyalty and respect for you as the owner-manager. Can you keep your family and business decisions separate?

## **13. DO I NEED A COMPUTER?**

Small business today faces growing inventory requirements, increased customer expectations, rising costs and intense competition. Computers can provide information that leads to better returns on investment. At the same time, they help you cope with the many other pressures of your business. Computers are not cure alls, however, and considerable care should be given to:

- (1) deciding if you need one, and
- (2) selecting the best system (or personal computer) for your business.

## **14. WHAT ABOUT TELECOMMUNICATIONS?**

All small businesses share some common functions: sales, purchasing, financing, operations and administration. Depending on your individual business, telecommunications can support your objectives in any or all of these areas. In its basic form, the telephone (the terminal) and the network (local or long distance) make up the basic components of telecommunications. It is an effective tool that can easily change with seasonality and growth. How you use telecommunications can affect how efficiently and profitably your company grows in the future.

## **15. HOW MUCH MONEY DO I NEED TO GET STARTED?**

Once you have taken care of your building and equipment needs you also must have enough money on hand to cover operating expenses for at least a year. These expenses include your salary as the owner and money to repay your loans. One of the leading causes of business failure

# Frequently Asked Questions

is insufficient start-up capital. Consequently, you should work closely with your accountant to estimate your cash flow needs.

## **16. WHAT ARE THE ALTERNATIVES IN FINANCING A BUSINESS?**

Committing your own funds is often the first financing step. It is certainly the best indicator of how serious you are about your business. Risking your own money gives confidence for others to invest in your business. You may want to consider a partner for additional financing. Banks are an obvious source of funds. Other loan sources include commercial finance companies, venture capital firms, local development companies and life insurance companies. Trade credit, selling stock and equipment leasing offer alternatives to borrowing. Leasing, for example, can be an advantage because it does not tie up your cash.

## **17. WHAT DO I HAVE TO DO TO GET A LOAN?**

Initially, the lender will ask three questions:

- How will you use the loan?
- How much do you need to borrow?
- How will you repay the loan?

When you apply for the loan, you must provide projected financial statements and a cohesive, clear business plan which supplies the name of the firm, location, production facilities, legal structure and business goals. A clear description of your experience and management capabilities, as well as the expertise of other key personnel, will also be needed.

## **18. WHAT KIND OF PROFITS CAN I EXPECT?**

Not an easy question. However, there are standards of comparison called "industry ratios" which can help you estimate your profits. Return on Investment (ROI), for example, estimates the amount of profit gained on a given number of dollars invested in the business. These ratios are broken down by Standard Industrial Classification (SIC) code and size, so you can look up your type of business to see what the industry averages are. These figures are published by several groups, and can be found at your library. Help is also available through the SBA and the trade associations that serve your industry.

## **19. WHAT SHOULD I KNOW ABOUT ACCOUNTING AND BOOKKEEPING?**

The importance of keeping adequate records cannot be stressed too much. Without records, you cannot see how well your business is doing and where it is going. At a minimum, records are needed to substantiate:

1. Your tax returns under Federal and State laws, including income tax and Social Security laws;
2. Your request for credit from vendors or a loan from a bank;
3. Your claims about the business, should you wish to sell it.

But most important, you need them to run your business successfully and to increase your profits.

## **20. HOW DO I SET UP THE RIGHT RECORD KEEPING SYSTEM FOR MY BUSINESS?**

The kind of records and how many you need depend on your particular operation. An accountant can provide you with many options. When deciding what is and is not necessary, keep in mind the following questions:

1. How will this record be used?
2. How important is this information likely to be?
3. Is the information available elsewhere in an equally accessible form?

## **21. WHAT FINANCIAL STATEMENTS WILL I NEED?**

You should prepare and understand two basic financial statements:

- (1) the balance sheet, which is a record of assets, liabilities and capital; and
- (2) the income (profit and-loss) statement, a summary of your earnings and expenses over a given period of time.

# Frequently Asked Questions

## **22. WHAT DOES MARKETING INVOLVE?**

Marketing is your most important organizing tool. There are four basic aspects of marketing, often called the “four P’s”:

\*Product: The item or service you sell.

\*Price: The amount you charge for your product or service.

\*Promotion: The ways you inform your market as to who, what and where you are.

\*Place: Having the right product, at the right place, at the right time.

As you can see, marketing encompasses much more than just advertising or selling. For example, a major part of marketing involves researching your customers: What do they want? What can they afford? What do they think? Your understanding and application of the answers to such questions play a major role in the success or failure of your business.

## **24. WHAT ABOUT ADVERTISING?**

Your business growth will be influenced by how well you plan and execute an advertising program. Because it is one of the main creators of your business’ image, it must be well planned and well-budgeted. Contact local advertising agencies or a local SBA office to assist you in devising an effective advertising strategy.

## **25. HOW DO I SET PRICE LEVELS?**

The price of a service or item is based on three basic production costs: Direct materials, Labor and Overhead. After these costs are determined, a price is then selected that will be both profitable and competitive. Because pricing can be a complicated process, you may wish to seek help from an expert.

## **26. ARE SOME LOCATIONS BETTER THAN OTHERS?**

Time and effort devoted to selecting where to locate your business can mean the difference between success and failure. The kind of business you are in, the potential market, availability of employees and the number of competitive establishments all determine where you should put your business.

## **27. IS IT BETTER TO LEASE OR BUY THE STORE (PLANT) AND EQUIPMENT?**

This is a good question and needs to be considered carefully. Leasing does not tie up your cash; a disadvantage is that the item then has no resale or salvage value since you do not own it. Careful weighing of alternatives and a cost analysis will help you make the best decision.

## **28. CAN I OPERATE A BUSINESS FROM MY HOME?**

Yes. In fact, experts estimate that as many as 20 percent of new small business enterprises are operated out of the owner’s home. Local SBA offices and state chambers of commerce can provide pertinent information on how to manage a home-based business.

## **29. HOW DO I FIND OUT ABOUT SUPPLIERS/MANUFACTURERS/ DISTRIBUTORS?**

Most suppliers want new accounts. A prime source for finding suppliers is the Thomas Register, which lists manufacturers by categories and geographic area. Most libraries have a directory of manufacturers listed by state. If you know the product line manufacturers, a letter or phone call to the companies will get you the local distributor-wholesaler. In some lines, trade shows are good sources of getting suppliers and looking over competing products.

Source: <http://www.sba.gov>

# Glossary

**Accounts receivable** are current assets resulting from selling a product on credit.

**Acid Test Ratio** : Current Assets/Current Liabilities. Current assets (cash + other assets that can be immediately converted to cash) should equal or exceed current liabilities, i.e. acid test > 1.

This ratio is frequently asked by lenders and it will be compared with industry average.

**Amortization** : This is the process of gradually paying off a liability over a period of time, to liquidate on an installment basis. For example, a mortgage is amortized by periodically paying off part of the face amount of the mortgage.

**Assets** : The things the business owns. For accounting purposes, they are divided into current and fixed assets.

**Benchmarking** : setting up standards and then measuring performance against them. For example, using the 10 best businesses in your industry as a reference.

**Capital** : Capital funds are those funds that are needed for the base of the business. Usually, they are put into the business in a fairly permanent form such as in fixed assets, plant and equipment, or are used in other ways that are not recoverable in the short run unless the entire business is sold.

**Cash Flow** : The actual movement of cash within a business : cash inflow minus cash outflow. A term used to designate the reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization and extraordinary charges to reserves, which are bookkeeping deductions and not actually paid out in cash. Used to offer a better indication of the ability of a firm to meet its own obligations and to pay dividends, rather than the conventional net income figure.

**Collateral** : An asset pledged to a lender in order to support the loan.

**Debt** : Debt refers to borrowed funds, whether from your own coffers or from other individuals, banks or institutions.

**Distribution Channel** : The chain of intermediaries linking the producer of a good to the consumer.

**Equity** : This is the owner's investment in the business. Unlike capital, equity is what remains after the liabilities of the company are subtracted from the assets - thus it may be greater than or less than the capital invested in the business.

**Fixed Assets** are relatively permanent items the business needs for its continued operations.

**Gross Profit** : Net sales minus the cost of goods sold.

**Guaranty** : A pledge by a third party to repay a loan in the event that the borrower cannot.

# Glossary

**Inventory** : The materials owned and held by a business firm, including new materials, intermediate products and parts work in-process and finished goods, intended either for internal consumption or for sale.

**Liabilities** are the financial obligations of a business, all the business owes.

**Liquidity** : The ability of a firm to meet maturing debt obligations by having adequate working capital available.

**Loan agreement** : A document that states what a business can or cannot do as long as it owes money to (usually) a bank. A loan agreement may place restrictions on the owner's salary, or dividends, on amount of other debt, on working capital limits, on sales or on the number of additional personnel.

**ProForma** : A projection or an estimate of what may result in the future from actions in the present. A pro forma financial statement is one that shows how the actual operations of a business will turn out if certain assumptions are realized.

**Profit** : The excess of the selling price over all costs and expenses incurred in making a sale. Also, the reward to the entrepreneur for the risks assumed by him or her in the establishment operations and management of a given enterprise or undertaking.

**Sole Proprietorship** : A business owned and operated by one person. Legally, the owner is the business and personal assets are typically exposed to liabilities of the business.

**S Corporation or Tax Option Corporation** : A corporation that has elected under Sub Chapter S of the IRS Tax Code not to pay any corporate tax on its income and, instead, to have the shareholders pay taxes on it, even though it is not distributed.

**Takeover** : Acquisition of one company by another company.

**Target Market** : The specific individuals, distinguished by socioeconomic, demographic and/or interest characteristics, who are the most likely potential customers for the goods or services of the business.

**Term Loans** : Either secured or unsecured, usually for periods of more than a year to as many as ten. Term loans are paid off like a mortgage : so many dollars per month for so many years. The most common uses of term loans are for equipment and other fixed assets purposes, for working capital and for real estate.

**Working Capital** : The difference between current assets and current liabilities. Working capital cycles through your business in a variety of forms: inventories, accounts and notes receivables, cash and securities.

# Small Business Advancement National Center

## Purpose and Heritage

What is SBANC and Who Does It Benefit?

Located on the scenic University of Central Arkansas campus in Conway, Arkansas, the Small Business Advancement National Center (SBANC) is an organization that was founded in 1990. SBANC was conceived from a concept developed by Dr. Don B. Bradley III, Executive Director of the Center and Professor of Marketing at UCA. Since its inception as the Small Business Institute Directors' Association National Center, it has evolved into a multi-faceted small business counseling and electronic resource information center.

Now a leading-edge facility, SBANC offers small businesses some of the newest, freshest information on advances in today's small business technology.

SBANC's purpose is to provide the necessary resources to further business and economic efforts and goals to the following:

- small businesses
- economic development
- entrepreneurs
- governmental agencies
- educators
- small business counselors
- students
- international trade development officers
- lawyers
- state and federal legislatures

One main focus of the Center's activities is the promotion of the entrepreneurial spirit. This is accomplished through consulting, educating, and training Center constituents. These activities are provided locally, statewide, nationally, and internationally for those interested in small business and entrepreneurship using the following methods:

- Internet
- Conferences
- Distance learning
- Newsletters
- Seminars
- Counseling sessions
- Camps
- Research
- International exchanges
- Internships

The Center's mission is part of the broader mission of the University of Central Arkansas and College of Business Administration, which is built on teaching, research, and service.

## SBANC Staff and Office Hours

The Small Business Advancement National Center is comprised of a highly qualified, motivated staff who provides clients with a diversity of expertise in all areas of the small

# Small Business Advancement National Center

business world. The Center's staff has expertise in the areas of small business counseling/consulting; training and education; entrepreneurship; international programs; the Internet; electronic commerce; publications; and more. In addition, student workers and interns who are eager to help provide small businesses with needed assistance, will have the opportunities to provide fresh ideas and learn while they are working on real business problems.

SBANC office hours are 8 a.m. to 4:30 p.m. (Central Time) Monday through Friday. Center staff can also be reached through email at [sbanc@uca.edu](mailto:sbanc@uca.edu)

## Online Resources

### ***The Small Business Advancement Electronic Resource (SBAER)***

**Instant up-to-the-moment electronic small business information is provided to small business clients through our Small Business Advancement Electronic Resource. This connection serves as an extensive electronic link among small business owners, entrepreneurs, foundations, educational institutions, associations, international partners, and local, state, and federal government. The World Wide Web site offers an endless supply of valuable information that is geared towards helping both already established businesses as well as those just beginning. At the present time, the electronic resource is servicing the United States and its protectorates as well as over seventy nations worldwide. Examples of information provided include industry profiles, business plans, research articles, international and domestic contact databases, and loan information. Check out the Electronic Resource at the following address:**

**<http://www.sbaer.uca.edu>**

The Small Business Advancement Electronic Resource:

- Houses research information on all aspects of small business and entrepreneurship, including articles from conferences proceedings, industry profiles, and publications from other pertinent sources.
- Has software that will produce cash flow reports, profit/loss statements, a business plan, and provide a user with the probability of obtaining a loan.
- Provides a means for electronic consulting and training.
- Provides on-line databases that can be queried on programs such as Service Core of Retired Executives, Small Business Institute, international small business contacts, Small Business Development Centers, Small Business Institute Directors Association, congressional contacts, Small Business Administration, and International Council for Small Business
- Offers a weekly electronic newsletter to provide "helpful hints" to small businesses and entrepreneurs.
- Serves as a source for important news and information concerning small business such as conferences, educational resources, government programs and issues, and small business programs.
- Provides links of other small business and entrepreneur sites on the World Wide Web.
- Serves as a clearinghouse for small business advocacy information.
- Provides a Web server that is accessible through the Internet with any Web client software: <http://www.sbaer.uca.edu>

# Credits

## References

- ➔ Megginson, Byrd, Scott, Megginson,  
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IRWIN, 1997
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Beach Press, 1990
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***The Business Planning Guide***, 6th edition, Upstart publishing, 1992
- ➔ John W. Nelson III, with Karen Couto  
***The Plan, Business Plan Guidebook***, Newground Publications, 1995

## Websites

- ➔ Small Business Advancement National Center Website:  
<http://www.sbaer.uca.edu>
- ➔ I.R.S. Site  
<http://www.irs.ustreas.gov>
- ➔ U.S. Small Business Administration site:  
<http://www.sba.gov>
- ➔ <http://www.lowe.org>
- ➔ <http://www.success.org>
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