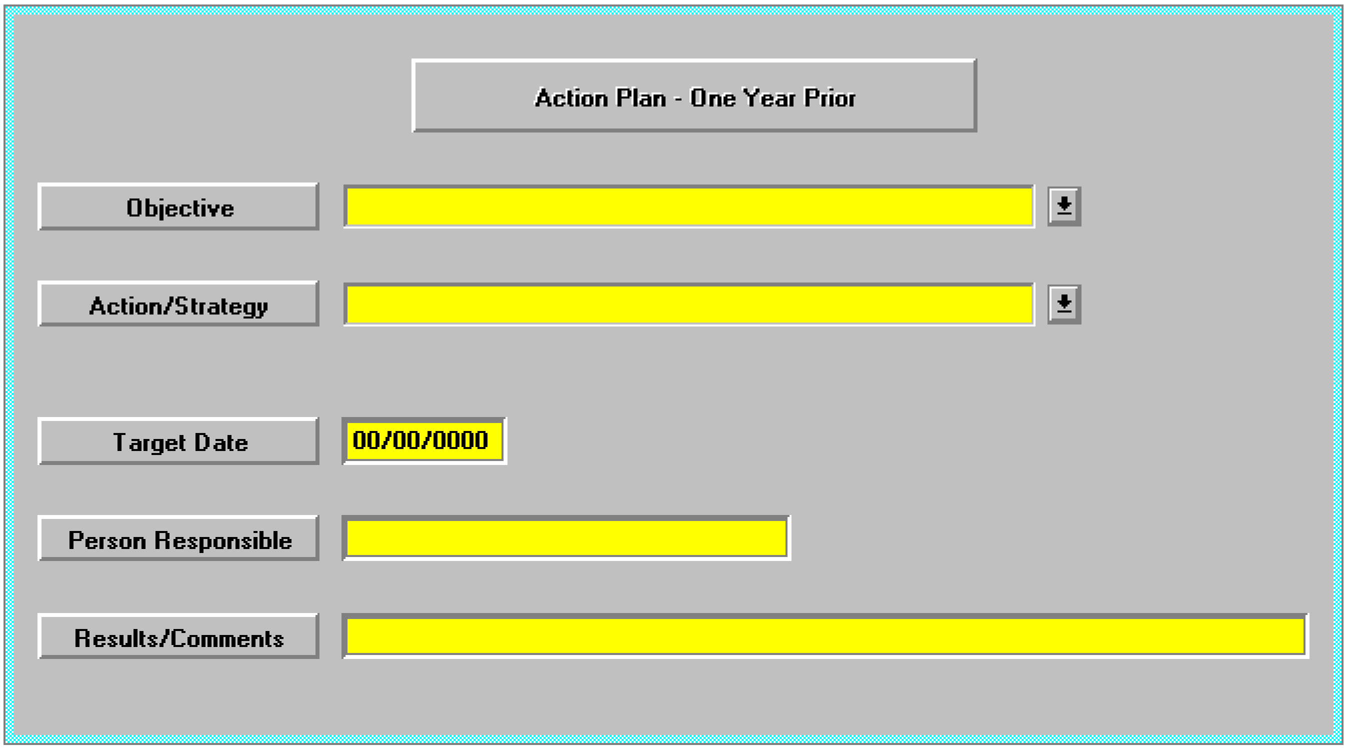
Action Plan for the Year Before You Start Up Your Business 1.1

During the year before you launch you new business, there are three important objectives you need to meet. First choose the right business for you. Second test your assumptions about why that is the right business. Finally, improve your personal business management skills. Within each of these objectives are a number of action steps you should complete. This action plan will help you complete each of these steps and reach the objectives.



Objective for 1.1

Click on the objective you are working on.

Start Up Tip #1
Start Up Tip #2
Start Up Tip #3

Start Up Tip #1:

As you decide what is the right business for you, consider these questions:

1. **How much money can I invest?**
2. **Can (and should) I attract other investors?**
3. **What do I do well?**
4. **What do I like to do?**
5. **What would I like to be doing five years from now?**
6. **What kind of return do I want?**
7. **How will I get out of this business?**

Start Up Tip #2:

As you assess the impact of the new business on your family and personal life, consider:
1. Income
2. Hours
3. Support level from family and friends (which can help avoid burnout)
4. Commitments to family, community and personal activities

Start Up Tip #3:

As you do your research, you can obtain “hot” information and “cool” information. Hot information sources include businesses in non-competitive locations, working in management in your chosen line of business, trade shows, consultants and federal, state and university programs. Cool information sources include trade or government publications as well as data base services.

2 Action/Strategy

Click on the appropriate action or strategy step that you will be doing.

3 Target Date

Enter the target completion date for the action or strategy step, using the format 9/12/99.

4 Person Responsible

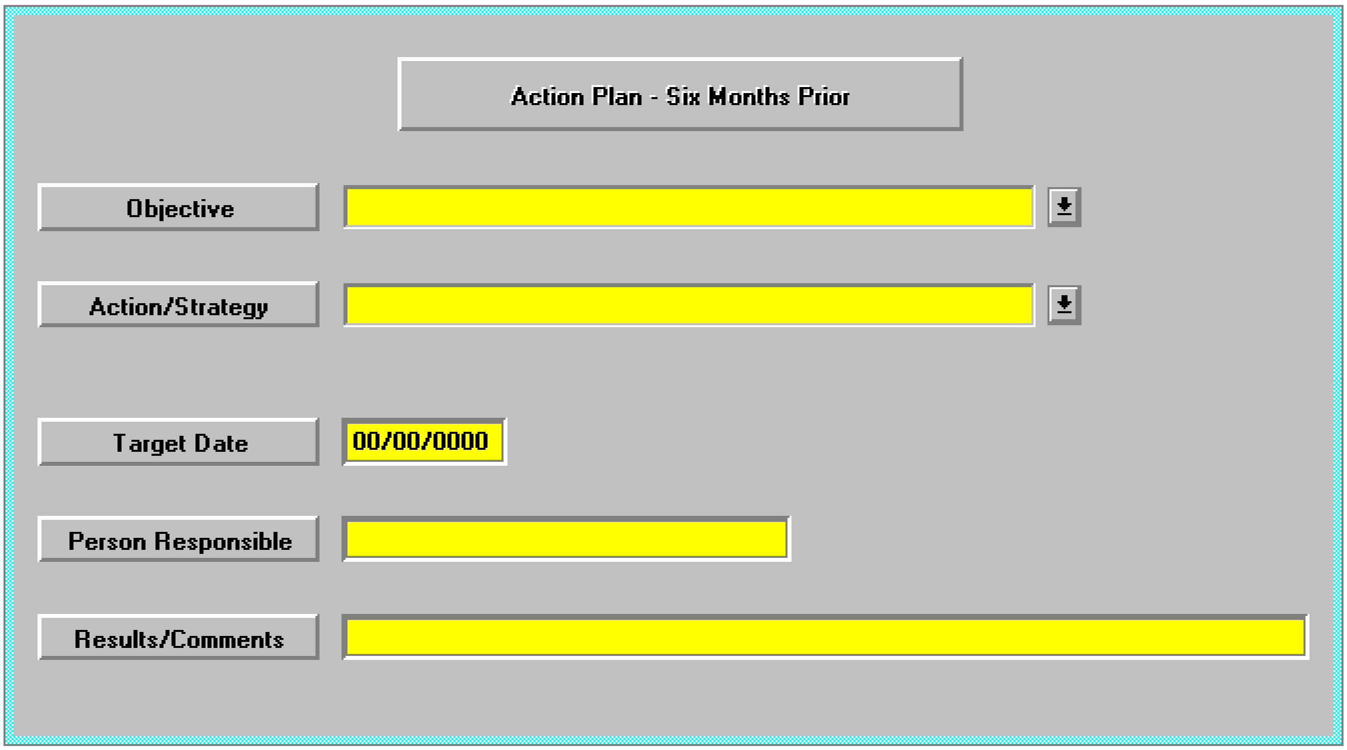
Enter the name of the person responsible for completing the action or strategy step.

5 Results/Comments

Enter the results or any comments regarding the action or strategy step.

Action Plan for the Six Months Before You Start Up Your Business 1.2

During the six months before you start your business, there are five objectives you should satisfy. First, determine what business you'll be in. Then prepare financial statements. Third, decide who your customers should be. Fourth, research your industry thoroughly. Finally, find the best location for your business. For each of these objectives, there are a number of action steps you should complete. This action plan helps you complete each of these steps and reach the objectives.



Objective for 1.2

Click on the objective you are working on.

Start Up Tip #4
Start Up Tip #5
Start Up Tip #6

Start Up Tip #4:

Determining the focus of your business will influence all of your business plans and affect your perception of your market. You should be bale to define what business you are in, what you sell and to whom and what makes your business different. A good mission statement will answer these questions.

Start Up Tip #5:

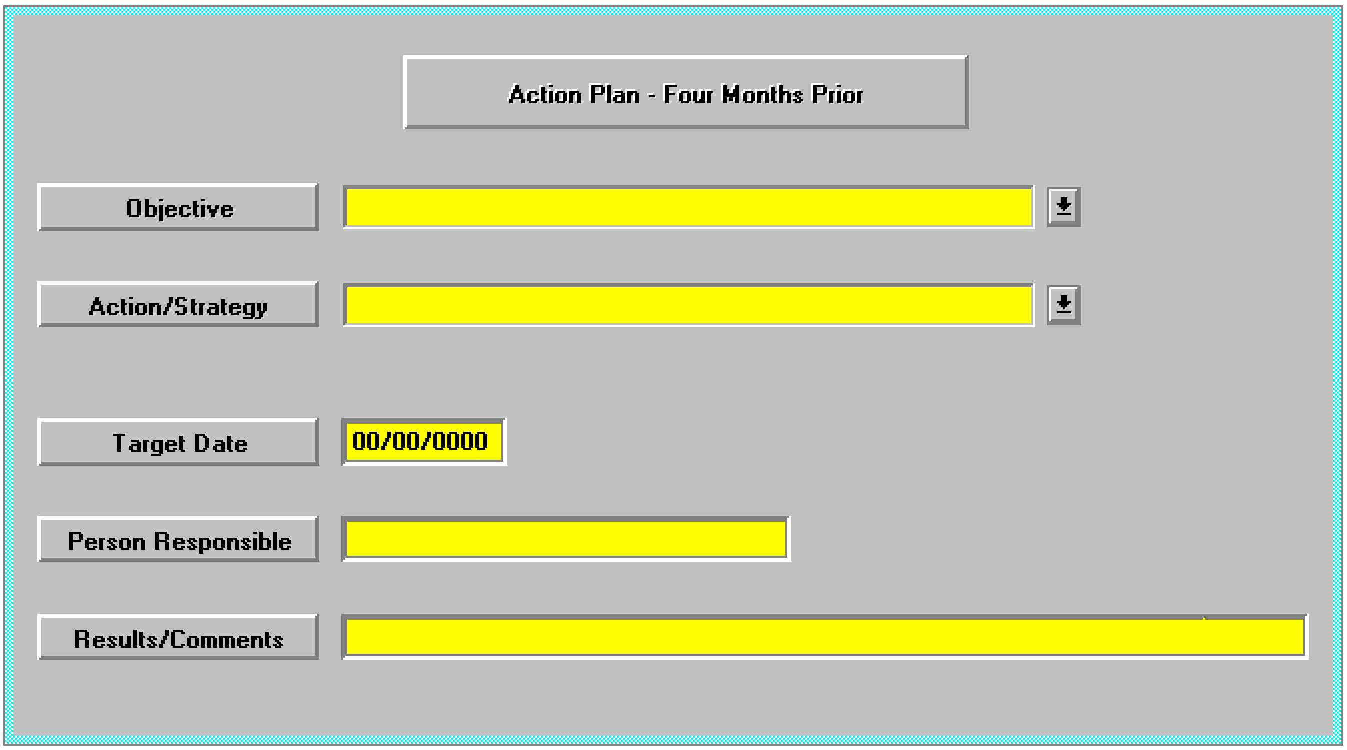
As you decide what will set you apart from your competitors, consider: quality, service, perceived value, convenience, reliability, price, familiarity, warranty, financing options, product range, native son or daughter, credentials, method of production, accessibility of purchase and specialization.

Start Up Tip #6:

You will need a personal financial statement to obtain financing and trade credit, to set your own compensation and for financial planning, in general.

Action Plan for the Four Months Before You Start Up Your Business 1.3

During the four months prior to the start of your business, you should focus on seven objectives: (1) selecting your business name; (2) securing the best location; (3) establishing business contacts; (4) expanding your information base; (5) choosing a business form; (6) establishing good information flow; and (7) obtaining demographic information. This action plan lists the steps for fulfilling these objectives.



Objective for 1.3

Click on the objective you are working on.

Start Up Tip #7
Start Up Tip #8
Start Up Tip #9

Start Up Tip #7:

As you look for demographic information, consider such sources as Small Business Institute programs, regional and local planning commissions, utility companies, real estate companies and brokers and demographic magazines available at your library.

Start Up Tip #8:

Your business' legal form is a very important decision. In making the selection, you should work with your attorney and accountant. Most small businesses are sole proprietorships, but here are some tax disadvantages to these. Partnerships are more complex legally, and corporations have decided tax advantages but much higher initial legal costs.

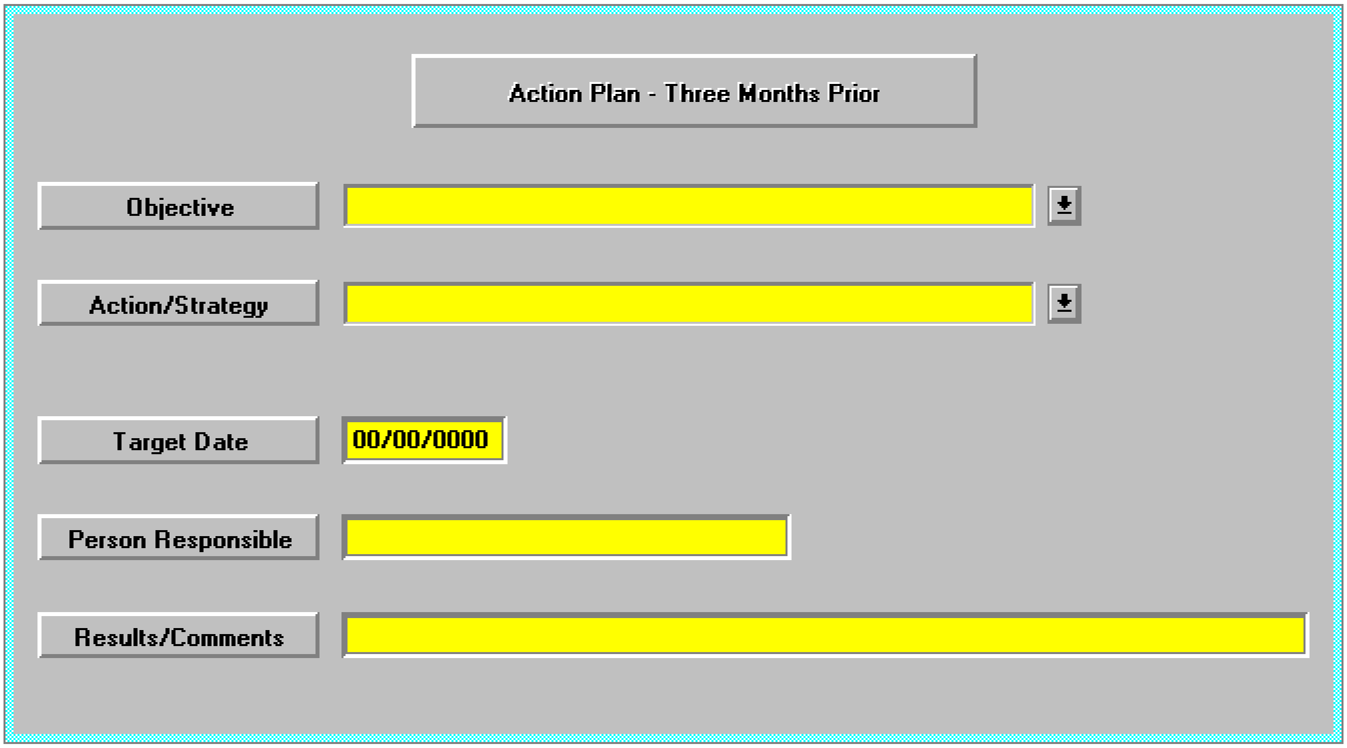
Start Up Tip #9:

As you select the name for your business, remember these tips:

1. **Keep the name straightforward and descriptive.**
2. **Make the name distinctive, if possible.**
3. **Avoid humor.**
4. **Shun grandiose descriptors.**
5. **Don’t pick the first name that comes to you.**
6. **Try the name out on some people who don’t know you and your business idea.**

Action Plan for the Three Months Before You Start Up Your Business 1.4

Your objectives for the three months prior to the start up of your business should include: (1) establishing rough financial objectives; (2) establishing pricing strategies; (3) establishing a national sales forecast; (4) establishing a personnel plan; and (5) determining capital needs. This action plan includes the steps to fulfill each of these objectives.



Objective for 1.4

Click on the objective you are working on.

Start Up Tip #10
Start Up Tip #11
Start Up Tip #12

Start Up Tip #10:

Forecasting sales is difficult, especially for a new business. It is best to use a three-column approach with a worse case/best case/most likely case scenario.

Start Up Tip #11:

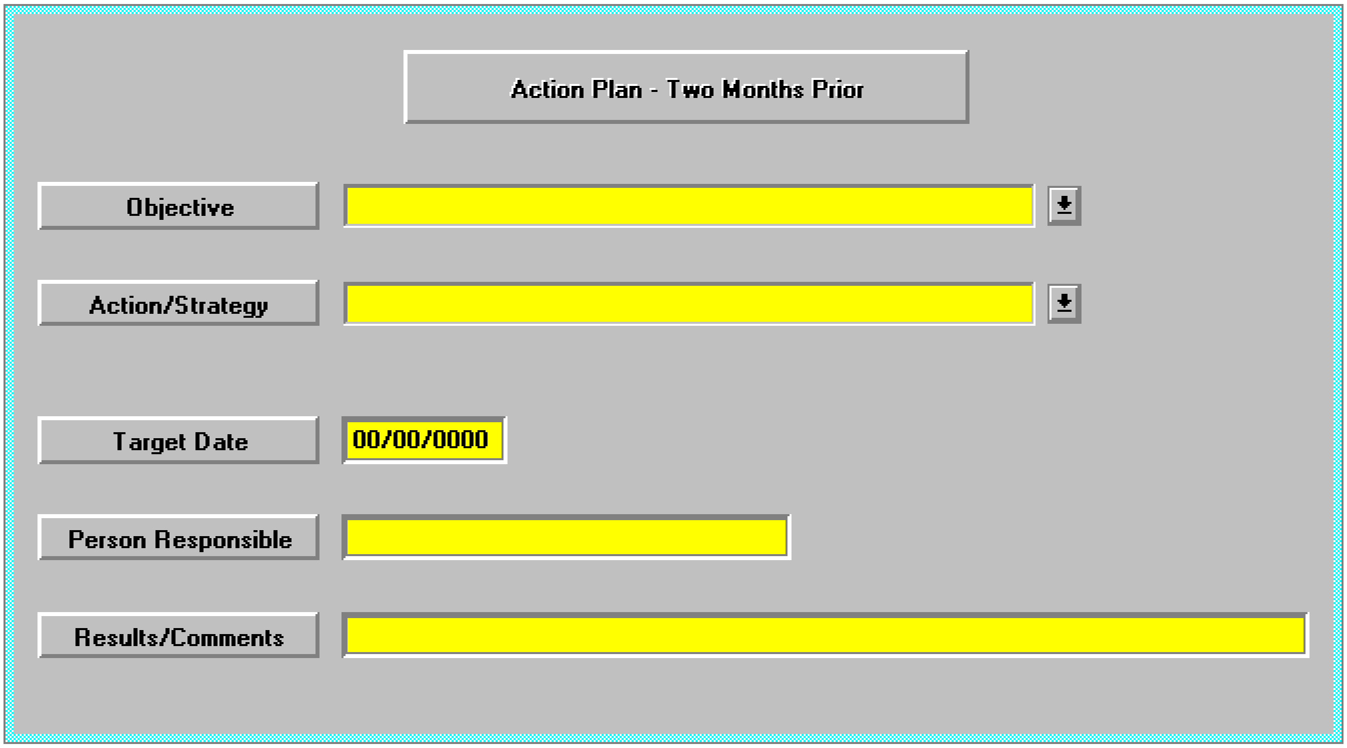
As you establish sales objectives, consider:
1. What range of sales do you think you'll attain during the first year?
2. What sales range do you want to hit in a few years?
Use this same thinking to set your profit objectives.

Start Up Tip #12:

Pricing is always frightening, particularly because to some extent it affects how the market perceives your company. Price = Costs + Service + Image + Profit Set sensible prices, remembering that low prices can actually deter some prospects.

Action Plan for the Two Months Before You Start Up Your Business 1.5

In the two months before you launch your business, you should meet five objectives: (1) prepare a marketing plan; (2) prepare a balance sheet; (3) establish bank relationships and secure financing; (4) prepare for the opening; and (5) begin hiring the right people. This action plan has the steps needed to reach these objectives.


Action Plan - Two Months Prior

Objective

Action/Strategy

Target Date 00/00/0000

Person Responsible

Results/Comments

Objective for 1.5

Click on the objective you are working on.

Start Up Tip #13
Start Up Tip #14
Start Up Tip #15
Start Up Tip #16

Start Up Tip #13:

As you prepare your marketing plan, answer these questions about your customers, and as your business grows, keep asking them:

1. How old?
2. Male or female?
3. What educational level?
4. What income?
5. What occupation?
6. What buying preferences in my kind of business?
7. What products, services and benefits might they buy from me?
8. What are their buying patterns?
9. How can I profitably reach them?
10. How can I find more people like them?

Start Up Tip #14:

Hiring the right employees is simpler than hiring the wrong employees and then trying to change them. As you start the hiring process consider:

1. What types of employees do your markets expect?
2. What employees does the competition hire?
3. What is customary?
4. What educational level is required?
5. How should employees dress?
6. How important is grooming and appearance to the function of the job?
7. What training would help differentiate your employees from everyone else's?
8. Should your employees be local, or doesn't it matter?

Start Up Tip #15:

A written job description is invaluable as it helps you pay attention to the job and avoid the pitfalls of discrimination legalities.

Start Up Tip #:16

A well-prepared balance sheet is mandatory. It weighs what you own (assets) against what you owe (liabilities). The difference is the net worth. Once you have been in business for a while, looking for changes in your balance sheet can be instructive.

Business Plan Summary Checklist 2.1

The importance of planning cannot be overemphasized. By taking an objective look at your business you can identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot opportunities early, and begin planning how you can best achieve your business goals. Your business plan also helps you see problems before they grow large and helps you identify their source - thus suggesting ways to solve them. Your business plan will even help you avoid some problems altogether.

Business Outline Checklist

	Completed
Description of Business	☐
Product or Service	☐
The Market	☐
Location of Business	☐
The Competition	☐
Management	☐
Personnel	☐
Application & Expected Effect of Loan (Investment)	☐

Description of Business

The objective of this section is to explain: What your business is; How you are going to run it; and Why you think your business will succeed. Deciding what your business is - and what it will be in five years - is the most important single decision you have to make.

Product/Service

Most businesses are built around products and/or services that already are available. If your products or services are unique, state-of-the-art or otherwise noteworthy, take advantage of it. Such differentiation is valuable, tends to be fleeting, and attracts imitators.

The Market

Two important maxims to keep in mind throughout this section are: 1. Minimize opportunities for customer dissatisfaction; and 2. Marketing wars are never won - they are always lost. In this section you will develop a marketing strategy, a plan within a plan. You want to make sure you don't lose the marketing war by making avoidable mistakes. Your business succeeds or fails according to how well you satisfy your market's perceptions, wants and expectations. This means that you have no option but to learn who your customers and prospects are, why they buy from you or from someone else, and what you can do about getting more customers.

Location of Business

Proper site location can help your business make money. If you are going into business, first try to locate the ideal site, then figure out how close you can come to it. Remember: Rent = The Costs of Space + Advertising. Do not go into business in a given spot simply because the price is low. Rent and purchase prices are fixed by market forces, and a low price usually reflects low desirability. Although for some operations this doesn’t matter, for others - merchandising and restaurant businesses in particular - the three most important success factors are said to be location, location and location.

Competition

If you have decided on your target markets and found that they are large enough to be profitable and contain reasonable expansion possibilities, the next step is to check out your competition, both direct (those operations similar to yours) and indirect. This ongoing monitoring of the competition is an inexpensive form of preventive maintenance, and is your best strategy for protecting your customer base. While forestalling competition and insuring your survival is very important, being in a position to recognize and take advantage of new opportunities is even more important. Constant monitoring of the market will allow you to keep ahead of your competition, whether new or old.

Management

According to various studies of factors involved in small business failures, 98% of the failures stem from managerial weakness. Two percent of the failures are due to factors beyond control of the persons involved. Your business plan must take this into account. If you are preparing a financing proposal you should make sure that your prospective financing source is aware of what steps you have taken or are taking to correct any weakness in your managerial staff (yourself and any other managerial persons involved); if you are to use your business plan to its fullest, you should use this segment to highlight both strengths and weaknesses of management for your own sake.

Personnel

Personnel management is a major stumbling block for small business owners. Personnel management is a demanding profession that few people learn; the assumption that "I can manage people because I've been around" is dangerous. You may find it valuable to hire a consultant to set up your personnel systems, help in hiring and training, and educate you in personnel management. While the cost may seem high initially, the cost of a poor hiring process can be catastrophic. Businesses stand or fall on the strength of their personnel. Good employees can make a marginal deal go; poor employees can destroy the best business.

Financing

This section is important whether you are seeking a loan, outside equity or planning to finance your deal yourself. In determining how much money you'll need and for what purposes it will be used, do not rely on guesses when exact prices or firm estimates are available. If you must make an estimate, specify how you arrived at your figures.

Description of Business 2.2

The objective of this section is to explain: What your business is; How you are going to run it; and Why you think your business will succeed. Deciding what your business is—and what it will be in five years—is the most important single decision you have to make.

Description of Business

1. What business are you in?

2. What is the status of the business?

3. What's the business form?

4. Why is your business going to be profitable?

5. When will (did) your business open?

6. What hours of the day and days of the week will you be in operation?

7. Is your business seasonal?

1. What

In describing your business idea, aim for clarity and simplicity. A rule of thumb: If you can’t describe your idea clearly and simply, you haven’t thought it through.

3. Business Form

Sole proprietorship, partnership, corporation? (Your attorney's advice is essential if you are starting up a business. Use the sample partnership agreement and corporate checklist in this kit as a guideline

4. Why is it profitable

You will not yet have a complete answer to Question 4 since it will be partially answered in the financial projections you make later. Keep in mind that the answers will come out as your business plan progresses.

Questions 5, 6 and 7 are particularly important for merchandising and service businesses. These are marketing questions that will be addressed later in the plan.

Products And Services 2.3

Most businesses are built around products and/or services that already are available. If your products or services are unique, state-of-the-art or otherwise noteworthy, take advantage of it. Such differentiation is valuable, tends to be fleeting, and attracts imitators.

Description of Product or Service

1. What are you selling?

2. What are the benefits of what you are selling?

3. How do your products/services differ from the competition?

4. If your product is new or unique, what makes it different? Desirable?

5. If your product or service is not special, why should people buy?

Question 1

You may think you're selling hardware in your hardware store, that is, hammers and saws and nails and buckets of paint. Your customers, on the other hand, think they're buying (along with the hammers, saws, nails, paint) savings, improved homes, fulfillment of a do-it-yourself ethic—and they choose your hardware store because it's convenient, clean, staffed with polite clerks, has good parking, and so on.

Question 3

Customers buy benefits. Features make those benefits possible
Other stores offer other benefits—more convenient locations, proven reputation (habit is powerful), long-term vendor relationships with wholesale markets.

Question 4

Educating a market to a new product is fraught with danger and unexpectedly high costs.

Question 5

Convenience? A wide product line? Special knowledge of how to use the products you sell? Business success comes from satisfying market needs. In only a very few businesses does that edge come from product superiority or high tech. Most business—whether retail, wholesale or service—is pretty mundane.

Markets 2.4

Two important maxims to keep in mind throughout this section are: 1. Minimize opportunities for customer dissatisfaction; and 2. Marketing wars are never won—they are always lost. In this section you will develop a marketing strategy, a plan within a plan. You want to make sure you don't lose the marketing war by making avoidable mistakes. Your business succeeds or fails according to how well you satisfy your market's perceptions, wants and expectations. This means that you have no option but to learn who your customers and prospects are, why they buy from you or from someone else, and what you can do about getting more customers.

What

Look at your mission statement again. Your mission statement helps you position your business in the marketplace. What makes your business unique? The concept of positioning is critical to your promotional and advertising efforts and will be considered below. What do you want your business to become?

Benefits

You can't serve everyone. There used to be a store near Keene, New Hampshire, that proudly boasted "We have Everything for Everybody!" Not even the largest international corporation can claim everyone as their prospect. The focus implied by target marketing ripples over into finding ways to limit your markets because you have only so many hours and so many dollars to find and satisfy your customers and prospects. Who is your ideal customer?

Differenation

You want to be able to identify your best (most profitable to you) prospects and understand them well enough to be able to satisfy their perceived needs. If you are marketing primarily to businesses, this process has a few added dimensions: First identify the kind of company you are successfully selling to, then find the persons within those businesses who influence or make the buying decision, and then find out more about these individuals. People make decisions to buy products—even if their title is "Purchasing Agent" or "Restaurant Owner."

Unique

If you know who your best prospects are, then you can find out what they want and use their point of view to guide all of your business activities. There is no other way to put the customer first or focus on the customer. If you do not know who your customers are (or will be), there is no way to find out what they want. You can't advertise effectively; you can't develop products or services that meet their needs; you can't get ahead of your competitors. What you can do—if you think that you know it all already and so don't have to go to the effort of analyzing and understanding your markets—is trust to dumb luck and correct your inevitable blunders by following behind the market leader, thus relegating your business to (at best) an also-ran position.

Description of Market

1. What are your markets?

2. Which ones are buying from you now?

3. What products/services are they buying?

4. Who are the people who are buying from you?

5. How would you characterize your markets?

6. Why do these people buy from my company?

7. Why do they buy from us and not the competition?

8. What are they buying from us? On what cycle?

9. How can we find more people (business, buyers) like these?

Question 6 & 7

Unless you know who your customers, prospects and competition are you can't even begin to ask these questions. You can get help with marketing surveys from Small Business Development Centers, Small Business Institutes, marketing courses at local business schools, and from your trade association. Surveys can be tricky. Customers don't always give straight answers to direct questions, and interpreting the data can be a challenge, so use whatever help you can get.

Question 8

On the surface, they buy the things you sell them - hours of a service, a bed for the night, two pounds of haddock. Service businesses have non-tangible inventories, which presents a problem. An airplane seat is either sold for this flight or it is not; a hotel room is either booked for the night or not; a hairdresser either is booked this half-hour or not. They still have to manage their inventories carefully - and this comes from knowing when people are most apt to schedule a flight, visit a hotel, patronize the beauty shop. The buying cycle of their customers affects their scheduling.

Question 9

It is always easier to sell to current customers than to new ones, but you have to constantly look for more customers to replace those you lose through normal attrition and to competitors, to say nothing of the new customers you need to grow more profitable

Location 2.5

Proper site location can help your business make money. If you are going into business, first try to locate the ideal site, then figure out how close you can come to it. Remember: Rent = The Costs of Space + Advertising. Do not go into business in a given spot simply because the price is low. Rent and purchase prices are fixed by market forces, and a low price usually reflects low desirability. Although for some operations this doesn't matter, for others—merchandising and restaurant businesses in particular—the three most important success factors are said to be location, location and location.

Location of Business

1. What is your business address?

2. What are the physical features of your building?

3. Do you lease or own your space?

4. What renovations are needed, and how much will they cost?

5. Does zoning permit your kind of business in the neighborhood?

6. What other businesses (kinds of businesses) are in the area?

7. Why did you pick this site?

8. Why is this the right location for your business?

9. Why will the choice of location affect your operating costs?

Question 4 for Location

Get written quotes from more than one contractor. Include these as supporting documents

Question 6 for Location

For example, car dealers tend to cluster. So do art businesses, restaurants (especially fast-food restaurants), jewelry stores and financial businesses.

Question 9 for Location

A bad site can put you out of business, while a good site will increase your profits. Choose wisely

Competition 2.6

If you have decided on your target markets and found that they are large enough to be profitable and contain reasonable expansion possibilities, the next step is to check out your competition, both direct (those operations similar to yours) and indirect. This ongoing monitoring of the competition is an inexpensive form of preventive maintenance, and is your best strategy for protecting your customer base. While forestalling competition and insuring your survival is very important, being in a position to recognize and take advantage of new opportunities is even more important. Constant monitoring of the market will allow you to keep ahead of your competition, whether new or old.

Description of Competition

1. Who are your five nearest competitors?

2. How is their business--steady, increasing or decreasing?

3. How are their operations similar and dissimilar to yours?

4. What have you learned from watching their operations? What works and does not?

5. How will your operation be better than theirs?

Questions 1-4

To make gathering this information easy, set up Competitor Files, simple manila folders into which you put any scrap of information about your competitors. You will be surprised how quickly you gain a clear picture of what your competition is up to. Collect and date their ads, brochures, trade show handouts and any other printed material. Jot down their radio jingles. Put in notes of rumors about their financial condition, want ads, activities in the community. Anything that helps you form a clear picture of their plans is germane.

Question 5 for Competition

How should you compete? Knowledgeably. There are many alternatives to price competition, for example, that small business owners could profitably use. These are based on knowing how your business compares to competing businesses.

Management 2.7

According to various studies of factors involved in small business failures, 98% of the failures stem from managerial weakness. Two percent of the failures are due to factors beyond control of the persons involved. Your business plan must take this into account. If you are preparing a financing proposal you should make sure that your prospective financing source is aware of what steps you have taken or are taking to correct any weakness in your managerial staff (yourself and any other managerial persons involved); if you are to use your business plan to its fullest, you should use this segment to highlight both strengths and weaknesses of management for your own sake.

Personnel

Description of Management and Personnel

1. What is your business background?

2. What management experience have you had?

3. What education has a bearing on your managerial abilities?

4. What is your age(s), special abilities and interests, reasons for going into business?

5. Are you physically up to the job?

6. Why are you going to be successful in this venture?

7. What is your personal financial status?

8. What is your direct operational experience in this kind of business?

9. What is your managerial experience in this kind of business?

10. What kind of managerial experience have you had?

11. What are your personnel needs now? In the near future? In five years?

12. What skills will your business need?

13. Are the people with those skills available? Where?

Questions 1-3

There is no known cure for incompetence—but there are two very direct cures for inexperience and/or unbalanced experience: Get the necessary experience yourself; get a partner or employee who has the requisite experience.

Question 4 for Management

The personal data needn't be a confession, but it should reflect where your motivation comes from. Without a lot of motivation, your chances of success are slight. It pays to be ruthlessly honest with yourself—even if you don't put the results on paper.

Question 5 for Management

Stamina counts

Question 6 for Management

Keep in mind that your family will be affected by your decision to go into business. Try to assess the potential fallout—while your family may be supportive now, will they continue to be when you're putting in 80-hour weeks for very little money?

Question 7 for Management

A personal balance sheet must be included as a supporting document in your business plan if the plan is to double as a financing proposal. Bankers and other providers of capital want to see as much collateral as possible to secure their investment. There are no small business loans; there are only loans to small business owners, and under most circumstances the personal creditworthiness of the principals will be the major factor in your banker's decision.

Questions 8-10

Many managerial skills are transferable. Others are not—but the more evidence and analysis of your managerial experience you can show, the better. You'll be able to use this to plug managerial gaps. Unbalanced managerial experience can cause serious problems. For example, the talents required of a financial specialist are quite different from those of a used car salesman. Combination of both sets of talent in one individual is rare.

Personnel Questions

Personnel management is a major stumbling block for small business owners. Personnel management is a demanding profession that few people learn; the assumption that “I can manage people because I’ve been around” is dangerous. You may find it valuable to hire a consultant to set up your personnel systems, help in hiring and training, and educate you in personnel management. While the cost may seem high initially, the cost of a poor hiring process can be catastrophic. Businesses stand or fall on the strength of their personnel. Good employees can make a marginal deal go; poor employees can destroy the best business.

Questions 11-17

Hire people only when it will result in added profitability for your business, and think before hiring whether the job is really necessary. If it is, then careful selection of the right person for that job will pay off. Salaries are a fixed expense, and you want to be sure that the expense is really necessary.

Question 18

Be careful. Training can be a hidden cost that you didn’t expect.

Financing 2.8

This section is important whether you are seeking a loan, outside equity or planning to finance your deal yourself. In determining how much money you'll need and for what purposes it will be used, do not rely on guesses when exact prices or firm estimates are available. If you must make an estimate, specify how you arrived at your figures.

Effect of Financing

1. How is the loan or investment to be spent?

2. What items will be purchased?

3. Who is the supplier?

4. What is the price?

5. What is the specific model name or number of your purchase?

6. How much did you (will you) pay in sales tax, installation, freight and delivery fees?

7. How will the loan make your business more profitable?

Question 1 for Financing

This can be fairly general (working capital and new equipment, inventory, supplies, and so on).

Questions 2-6

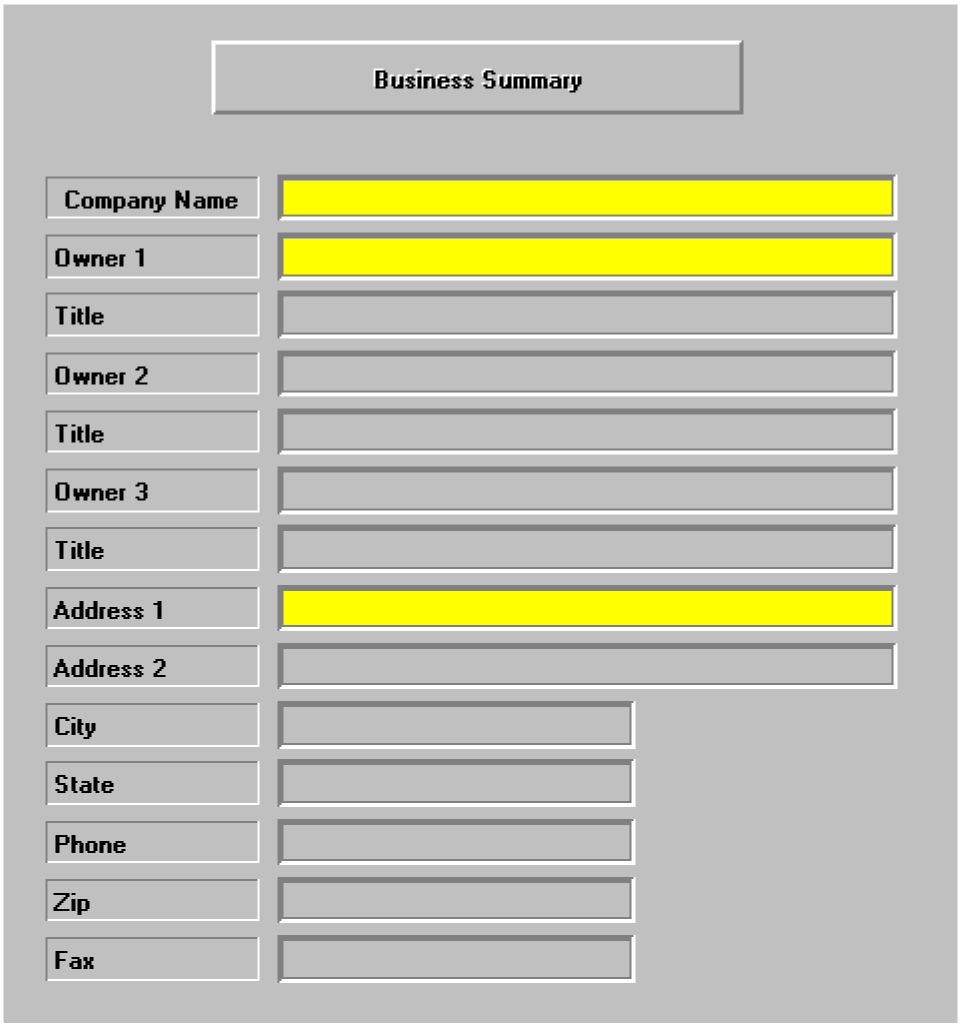
Your banker may be interested in using whatever it is you are buying as collateral for the loan. By having a list, your loan can be processed faster.

Question 7 for Financing

Interest is an expense that directly reduces profits. If you propose borrowing money or investing your own, you must know how well that money will work for you. Make sure the loan earns more than it costs.

Business Summary Form 3.0

Use this form to provide information about your business; the location and telephone numbers of the business and the name and titles of the principals and where they can be reached.



Business Summary

Company Name	
Owner 1	
Title	
Owner 2	
Title	
Owner 3	
Title	
Address 1	
Address 2	
City	
State	
Phone	
Zip	
Fax	

Company Name

Fill in the name of your company. This name will be automatically entered in each of the forms following this summary.

Owner 1

This is likely you. Enter your name and title. Fill in the names and titles of other officers or associates of the company in the following spaces.

Address

Enter the address and phone numbers of your business, or a location and phone/fax where you can be reached.

Balance Sheet 3.1

The balance sheet records what the cash position (liquidity) of the business is and what the owner's equity is at a given point in time. These are directly affected by the cash flow and income statement, which themselves are the records of how the business operates over time. Balance sheets are designed to show how the assets, liabilities and net worth of a company are distributed at a given point in time. The format is standardized to facilitate analysis and comparison—do not deviate from it.

Start Up Tip

Balance Sheet

Company name	
Date	00/00/0000

Current Assets	
Cash	$0.00
Accounts Receivable	$0.00
Inventory	$0.00
Supplies	$0.00
Pre-paid Expenses	$0.00
Other Current Assets	$0.00
Total Current Assets	$0.00

Fixed Assets	
Fixtures & Improvements	$0.00
Building	$0.00
Equipment	$0.00
Vehicles/Trucks	$0.00
Land	$0.00
Total Gross Fixed Assets	$0.00
Other Assets	$0.00
Depreciation	$0.00
Total Net Fixed Assets	$0.00
Total Assets	$0.00

Current Liabilities	
Notes Payable	$0.00
Accounts Payable	$0.00
Accrued Wages	$0.00
Accrued Taxes	$0.00
Current Portion of Long Term Debt	$0.00
Total Current Liabilities	$0.00

Long Term Liabilites	
Long Term Note Payable	$0.00
Bank Loan Payable	$0.00
Equity Loan Payable	$0.00
Total Long Term Liabilities	$0.00
Total Liabilities	$0.00

Net Worth	
Net Worth	$0.00
Retained Earnings	$0.00
Owner's Equity	$0.00
Total Claims	$0.00

Start Up Tip ##: Financing Sources

Some financing sources (banks or other investors) may want to see balance sheets projected for each quarter for the first year of operation and annually for the next two. This would quickly show changes in debt, net worth, and the general condition of the business, and could be another helpful control document.

Current Assets:

Cash, government securities, marketable securities, notes receivable (other than from officers or employees), accounts receivable, inventories, prepaid expenses, any other item that will or could be converted to cash in the normal course of business within one year.

Business Planning Tip

Business Planning Tip: Current Ratio.

This measures the liquidity of the company, its ability to meet current obligations (those coming due during the current year). It is calculated by dividing current assets by current liabilities.

Fixed Assets:

Land, plant, equipment, leasehold improvements, other items that have an expected useful business life measured in years. Depreciation is applied to those fixed assets that (unlike land) will wear out. The fixed asset value of a depreciable item is shown as the net of cost minus accumulated depreciation.

Current Liabilities:

Accounts payable, notes payable, accrued expenses (wages, salaries, withholding tax, FICA), taxes payable, current portion of long-term debt, other obligations coming due within one year.

Start Up Tip: Working Capital

Start Up Tip: Working Capital.

Working capital is calculated by subtracting current liabilities from current assets. Cash is only a portion of working capital.

Long-Term Liabilities:

Mortgages, trust deeds, intermediate and long-term bank loans, equipment loans (all of these net of the current portion of long-term debt, which appears as a current liability).

Net Worth:

Owner’s equity, retained earnings, other equity.

Accrued Wages.

Accrued wages are wages that have been earned, but have not yet been paid.

Prepaid Expenses.

Prepaid expenses include paid insurance premiums and any deposits made for services to be rendered within one year.

Current Portion Long-term Debt.

The current portion is that amount of principal that will be paid in the next 12 months.

Fixtures & Improvements.

Include all improvements to office and building space, whether leased or owned.

Retained Earnings.

Retained earnings are earnings from a prior income period that have not been distributed to the shareholders.

Depreciation.

Depreciation is applied to fixed assets that (unlike land) will wear out. Accumulated depreciation is the amount of depreciation expense that has been charged to income during any prior period. Include only depreciation expenses for assets included under the fixed assets section.

Other Assets.

Other assets include rent deposits held by landlords, noncompete agreements, copyrights, patents, exclusive use contracts and notes receivable from officers and employees.

Profit & Loss Income Projection Summary 3.2

This form allows you to fine tune your income forecasting plan on a monthly basis. You may also use this form to record actual income and expenses monthly as your business' operations begin.
Planning Tip

Profit & Loss by Month

Company		Choose Date	1900

Sales	Month	YTD
Wholesale	$0.00	$0.00
Retail	$0.00	$0.00
Total Sales	$0.00	$0.00

Cost of Goods Sold		
Cost of Materials	$0.00	$0.00
Variable Labor	$0.00	$0.00
Total Cost of Goods Sold	$0.00	$0.00
Gross Margin	$0.00	$0.00

Interest Expenses		
Mortgage	$0.00	$0.00
Term Loan	$0.00	$0.00
Credit Line	$0.00	$0.00
Total Interest Expense	$0.00	$0.00

Operating Expenses	Month	YTD
Utilities	$0.00	$0.00
Salaries	$0.00	$0.00
Payroll Taxes and Benefits	$0.00	$0.00
Advertising	$0.00	$0.00
Office Supplies	$0.00	$0.00
Insurance	$0.00	$0.00
Maintenance and Cleaning	$0.00	$0.00
Legal and Accounting	$0.00	$0.00
Delivery Expenses	$0.00	$0.00
Licenses	$0.00	$0.00
Boxes, Paper, etc.	$0.00	$0.00
Telephone	$0.00	$0.00
Depreciation	$0.00	$0.00
Miscellaneous	$0.00	$0.00
Rent	$0.00	$0.00
Total Operating Expenses	$0.00	$0.00
Total Expenses	$0.00	$0.00
Net Profit (loss) Pre-Tax	$0.00	$0.00
Cumulative Profit	$0.00	$0.00

Planning Tip:

It is better to exceed a conservative budget than to fall below optimistic projections. However, being too far under can also create problems—such as not having enough capital to finance growth. Basing income projections on hopes or unjustified fears is hazardous to your business' health. Be realistic; your budget is an extension of your forecasts.

Gross Margin:

Net Sales minus Cost of Goods Sold. Represents the gross profit on sales without taking indirect costs into account.

Operating Expenses.

These are (by and large) the fixed expenses, those that don't vary directly with sales levels. Keeping control of operating expenses is immensely important and easily overlooked, perhaps because so much emphasis is placed on generating sales. A profitable business needs to control costs and maintain (or increase) sales.

Planning Tip 2

Planning Tip: 2

These are the costs that, together with Other Expenses, must be met no matter what the sales level may be. The order in which they are stated isn't important. Thoroughness is. If some costs are trivial, lump them together under a heading of "miscellaneous," but be prepared to break them out if the miscellaneous totals more than an arbitrary 1% of Net Sales.

Other Expenses:

These are non-operating expenses. The most common is interest expense. It is helpful to display your interest expense in some detail to both highlight the cost of money and to provide easy access to information used for ratio analysis.

Net Profit (Loss).

On this statement (and the other projections) a tax liability should be imputed. We left that liability off as it will vary from one state to another and with the legal structure of your business. Make sure to check with your accountant to arrive at a true net profit (loss) figure. As one banker puts it, "There is no such thing as a pre-tax profit."

Planning Tip 3

Planning Tip: 3

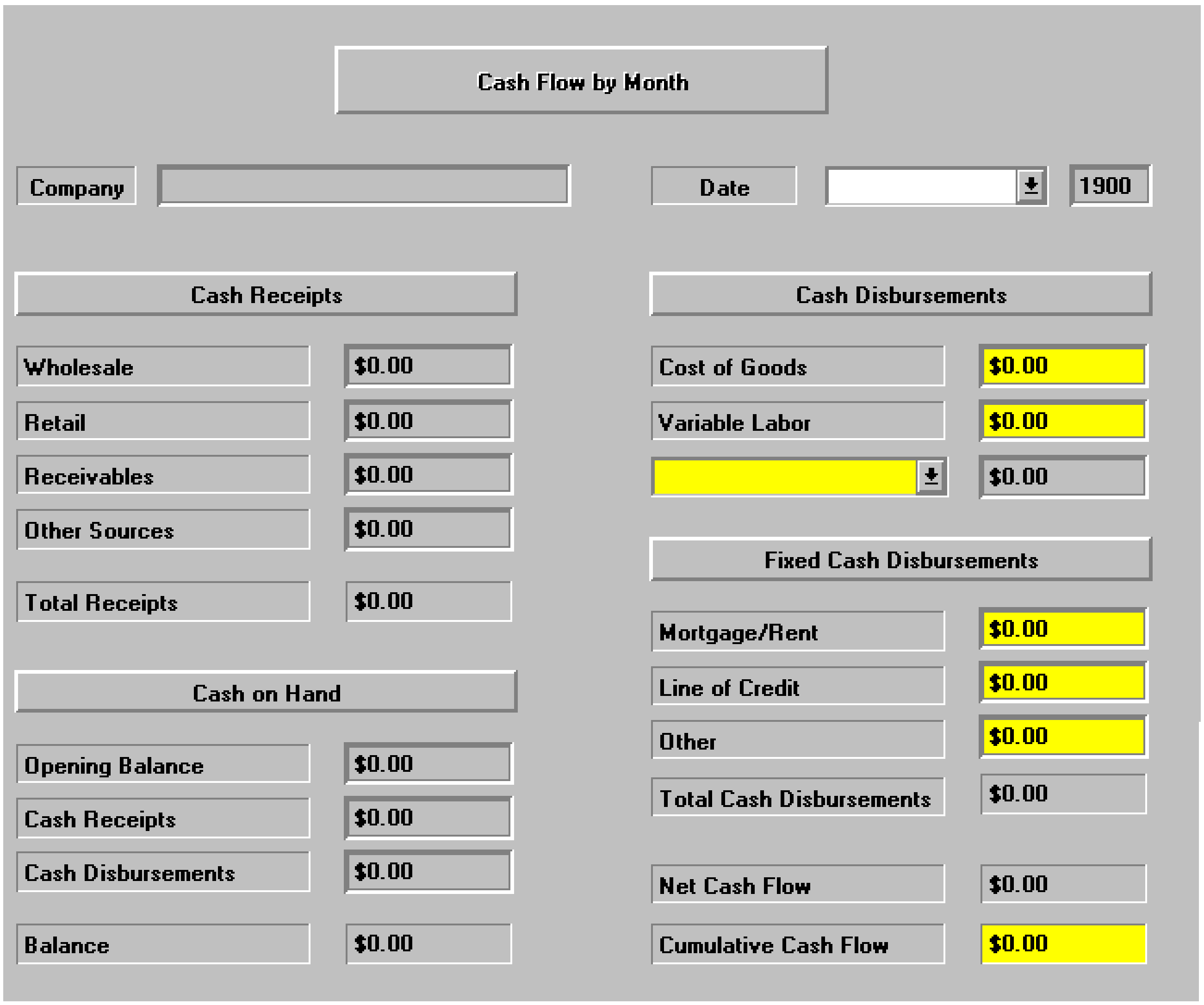
This represents the success or lack thereof for your business. There are three ways to make this figure more positive: increase gross margin, decrease total expenses, or both.

Cash Flow 3.3

The cash flow projection is designed to show how well your company is managing its cash (liquidity) by subtracting disbursements (actual cash outlays) from cash received. The balance between profitability and liquidity can be hard to maintain. Fast growth (with high profits) can deplete cash, causing illiquidity. Companies have been known to fail even while they are profitable. The role of projected income and cash flow statements is to help you spot these kinds of severe problems in time to do something to forestall them , such as raise new capital or arrange for the right kind of financing. Your banker will be helpful here; ask.

Planning Tip 4

Planning Tip 5



Planning Tip 4

The cash flow projection is the most important financial planning tool available to you. If you were limited to one financial statement (which fortunately isn't the case), the Cash Flow Projection would be the one to choose. For a new or growing business, the cash flow projection can make the difference between success and failure. For an ongoing business, it can make the difference between growth and stagnation.

Planning Tip 5

Your Cash Flow analysis will: 1.Show you how much cash your business will need; 2. When it will be needed; 3. Whether you should look for equity, debt, operating profits, or sale of fixed assets; and 4. Where the cash will come from.

Cash

Generated primarily by sales. However, not all sales are cash sales. Perhaps your business is all cash—but if you offer any credit (charge accounts, term payments, trade credit) to your customers, you need to have a means of telling when those credit sales will turn into cash-in-hand. This is blurred in the income statement but made very clear by the cash flow. Your business may be subject to seasonal bills, and again, a cash flow makes the liquidity problems attending such large, occasional expenses clear.

Sales Receivable.

Sales are generally cash. However, if you provide terms for credit, cash flow could be significantly altered. For example, if you offer terms of 10 days net for sales, your cash flow needs to reflect the lag in receipt of that cash. If sales in September were $6,400, $2,000 (10/30 of September sales) turns to cash in October based on the terms offered in this example.

Cash Disbursements.

These are the disbursements that will be made in cash (including checks) during the normal course of business plus any major anticipated cash outlays.

Cost of Goods.

From Income Projection

Variable Labor.

From Income Projection

Drop Down Box Items

Advertising
Allows you to add variances for major campaigns or marketing expenditures.

Insurance
Generally payable (cash out) in periods other than monthly, such as quarterly or semi-annually.

Legal and Accounting
Generally payable (cash out) in periods other than monthly, such as, on a per use basis (variable) or quarterly or semi-annually.

Delivery Expenses
Varies with volume of wholesale sales.

Fixed Cash Disbursements.

These are relatively independent of sales, so they are allocated evenly throughout the year. If salaries fluctuate widely, break them out as a separate item with the other disbursements. For example, if you meet your payroll every other week, two months of the year will have three paydays rather than two, which can make those months look alarmingly costly.

Mortgage (rent).

Generally a fixed item, from Income Statement

Line of Credit.

Generally a fixed item, from Income Statement

Other.

Items could be infrequent expenditures, such as, purchase a building, equipment purchases and building improvements to be paid in full.

Cumulative Cash Flow.

This sums up the net cash flow on a monthly basis, adding the present month's net cash flow to last month's cumulative cash flow. This is useful on a periodic basis (monthly or quarterly). Over a longer time, it's of academic interest only.